

People's Dossier: FERC's Abuses of Power and Law

→ Budget Issues

FERC Bias is Emboldened by Its Ballooning Budget and Lack of Oversight

Per federal law, FERC relies on the industry it regulates for its entire budget. (*42 U.S. Code § 7178(a)(1)*)¹. This funding structure means that FERC is vulnerable to the whims and wishes of the very industry it's charged with overseeing. Nowhere is this more true than in the case of pipelines and related infrastructure including LNG facilities and compressors. The lack of oversight by other branches of government or watchdog agency helps to perpetuate FERC's biased decision making.

FERC's Funding Structure Leads to Bias in Fact

FERC issues a volume based per-unit charge on natural gas pipelines to cover the agency's costs. This means that the more pipelines, gas delivery, and LNG facilities FERC approves the more fees it is able to collect for its self-inflating, FERC-created budget.

As a result of this funding structure, FERC is all but compelled to decide in favor of pipeline companies. The record of pipeline project approvals by FERC Commissioners demonstrates a clear bias in FERC decision-making; in the last thirty years, FERC's Commissioners have denied only *one* pipeline project brought before them for approval, and that denial happened relatively recently, on March 11, 2016. Up until this time, FERC had a 100% approval rating for all natural gas pipeline projects brought before its Commissioners for a vote. Interestingly, FERC's singular denial came just one week after a challenge was filed against FERC's pipeline program in which its then-100% approval rate was cited as a key piece of evidence. There is not a single other federal agency that has this exceptionally high rate of approvals for applicants seeking an authorization or certification.

FERC is Insulated from Oversight

This industry-financing mechanism not only encourages the biased approval process for proposed projects, but it also provides FERC with a significant degree of insulation from the legislative branch of government. FERC is simultaneously free from the oversight of the executive branch because of the limitation of the President's power to remove FERC Commissioners. The "for-cause" limitation on the removal of FERC's Commissioners only allows the removal of Commissioners under a very narrow set of circumstances, i.e. "inefficiency, neglect of duty, or malfeasance." (*42 U.S. Code § 7171(b)(1)*).

¹ See Federal User Fees: Budgetary Treatment, Status, and Emerging Management Issues, U.S. Government Accountability Office (GAO) Report to the Chairman, Committee on the Budget, House of Representatives, GAO/AIMD-98-11 (Identifying 27 agencies that rely on federal user fees for a significant portion of their budget, none of which are fully funded or nearly fully funded like FERC, are independent executive entities, presently exist, are independent executive agencies, and conduct direct adjudications that affect its finances) (December 19, 1997).

In fact, FERC brags about the lack of oversight it receives. According to FERC:

“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.”²

While FERC asserts the lack of oversight is beneficial for decisionmaking, the reality is actually quite different; FERC’s independence from the oversight of both the executive and legislative branches of government leaves FERC especially vulnerable to the undue influence of the industry that funds its budget. This is particularly true because FERC itself operates without the scrutiny of any type of regulatory oversight or regulatory board, i.e. a watchdog responsible for overseeing regulatory quality.

FERC’s Budget Outpaces Other Agencies - Including its Parent the DOE

FERC’s ability to secure funding from the regulated industry has resulted in a budget that has grown appreciably faster than its parent government agency, the Department of Energy, as well as the Federal government as a whole. In fact, over the past decade, FERC has seen its annual budget grow by more than 60-percent - rocketing from sub-\$200 Million in 2004 to more than \$346 Million projected for 2017. A substantial portion of this boom occurred during a recessionary period that left other independent agencies reeling from budget slashes in the hundreds of millions of dollars.

The fiscal year 2017 budget request for FERC seeks a 3% increase in base operating costs and includes a “building modernization project” for FERC offices, the cost of which has nearly doubled from \$40 million dollars to \$79 million dollars.³

FERC’s growing budget demands are sustained by the Agency’s approval of an increasing number of infrastructure projects.

Attachments:

Budget Issues Attachment 1, Congressional Performance Budget Request, Fiscal Year 2014, pg. 5.

Budget Issues Attachment 2, Congressional Performance Budget Request, Fiscal Year 2017, pgs. ii-iii.

Complete People's Dossier: FERC's Abuses of Power and Law

available at <http://bit.ly/DossierofFERCAbuse>

² See Budget Issues Attachment 1, Congressional Performance Budget Request, Fiscal Year 2014, pg. 5.

³ See Budget Issues Attachment 2, Congressional Performance Budget Request, Fiscal Year 2017, pgs. ii-iii.

**People's Dossier: FERC's Abuses of Power and Law
→ Budget Issues**

**Budget Issues Attachment 1, Congressional
Performance Budget Request, Fiscal Year 2014, pg. 5.**



FEDERAL ENERGY REGULATORY COMMISSION

FY 2014 Congressional
Performance Budget Request

*Chairman Jon
Wellinghoff*

April 2013

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THE FEDERAL ENERGY REGULATORY COMMISSION'S MISSION

Reliable, Efficient, and Sustainable Energy for Consumers

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

Fulfilling this mission involves pursuing two primary goals:

- 1. Ensure that rates, terms and conditions are just, reasonable and not unduly discriminatory or preferential.**
- 2. Promote the development of safe, reliable and efficient energy infrastructure that serves the public interest.**



Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

Proposed Appropriation Language

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

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

Full Cost Recovery

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

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

Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

FY 2014 Request Summary

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

Resources by Strategic Goals and Objective

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

Resources by Industry

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

Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

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

**Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget**

OVERVIEW OF THE FEDERAL ENERGY REGULATORY COMMISSION

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

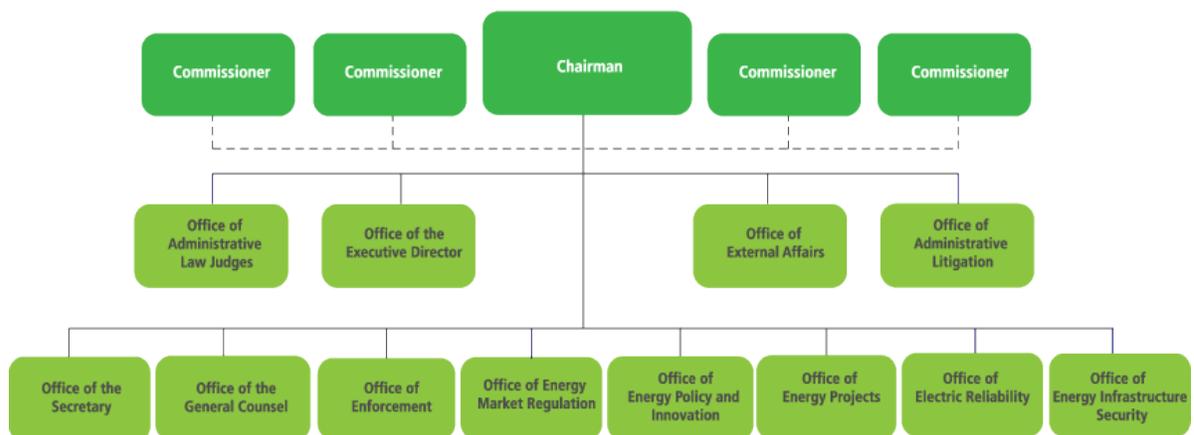
The Commission was created through the Department of Energy Organization Act on October 1, 1977. At that time, the Federal Power Commission (FPC), the Commission's predecessor that was established in 1920, was abolished and the Commission inherited most of the FPC's regulatory mission. As authorized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

FERC is composed of up to five commissioners who are appointed by the

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

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

Federal Energy Regulatory Commission



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Office of Administrative Law Judges (ALJ)

Resolves contested cases as directed by the Commission either through impartial hearing and decision or through negotiated settlement, ensuring that the rights of all parties are preserved.

Office of Administrative Litigation (OAL)

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

Office of Electric Reliability (OER)

Oversees the development and review of mandatory reliability and security standards; ensures compliance with the approved mandatory standards by the users, owners, and operators of the bulk power system.

Office of Energy Infrastructure Security (OEIS)

Provides leadership, expertise and assistance to the Commission to identify, communicate and seek comprehensive solutions to potential risks to FERC-jurisdictional facilities from cyber attacks and physical threats.

Office of Energy Market Regulation (OEMR)

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

Office of Energy Policy and Innovation (OEPI)

Issues, coordinates, and develops proposed policy reforms to address emerging issues affecting wholesale and interstate energy markets, including such areas as climate change, the

integration of renewable resources, and the deployment of demand response.

Office of Energy Projects (OEP)

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

Office of Enforcement (OE)

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

Office of External Affairs (OEA)

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

Office of the Executive Director (OED)

Provides administrative support services to the Commission including human resources (HR), acquisition, information technology (IT), organizational management, financial, and logistic functions.

Office of the General Counsel (OGC)

Provides legal services to the Commission. Represents the Commission before the courts and Congress and is responsible for the legal aspects of the Commission's activities.

Office of the Secretary (OSEC)

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

Federal Energy Regulatory Commission
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THE CURRENT CHAIRMAN and COMMISSIONERS



Chairman Jon Wellinghoff

Sworn In: July 31, 2006

Term Expires: June 30, 2013



**Commissioner
Tony Clark**

Sworn In: June 15, 2012

Term Expires: June 30, 2016



**Commissioner
Cheryl A. LaFleur**

Sworn In: July 13, 2010

Term Expires: June 30, 2014



**Commissioner
Philip D. Moeller**

Sworn In: July 24, 2006

Term Expires: June 30, 2015



**Commissioner
John R. Norris**

Sworn In: June 18, 2012

Term Expires: June 30, 2017

REGULATORY AUTHORITY HISTORY AND OVERVIEW

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

Hydropower

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

Electric

Since 1935, the Commission has regulated certain electric industry activities under Part II of the FPA. Under FPA sections 205 and 206,

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

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

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

Federal Energy Regulatory Commission
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coordination, and integration of the federal government's diverse activities related to smart grid technologies and practices.

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

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

Natural Gas and Liquefied Natural Gas

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

Under section 7 of the NGA, the Commission issues certificates of public convenience and necessity for the construction and operation of interstate natural gas pipelines and storage facilities. FERC is also responsible for conducting compliance inspections of the natural gas pipelines and storage facilities

during construction. Although the Commission does not have any jurisdiction over the safety or security of natural gas pipelines or storage facilities once they are in service, it actively works with other agencies with these responsibilities, most notably the Pipeline and Hazardous Materials Safety Administration of the Department of Transportation.

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

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

Oil

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

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Oversight and Enforcement

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

1. Congress expanded the Commission's FPA civil penalty authority to cover violations of any provision of Part II of the FPA, as well as of any rule or order issued there under.
2. Congress extended the Commission's civil penalty authority to cover violations of the NGA or any rule, regulation, restriction, condition, or order made or imposed by the Commission under NGA authority.
3. Congress established the maximum civil penalty the Commission may assess under the NGA, NGPA, or Part II of the FPA as \$1,000,000 per violation for each day that it continues.

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

GOAL 1: JUST AND REASONABLE RATES, TERMS AND CONDITIONS

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

Introduction

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

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

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

OBJECTIVE 1.1: REGULATORY AND MARKET MEANS

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

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

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

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

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

STRATEGY 1

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

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

demand response, renewable energy, and electric energy storage.

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

Demand-Side Resources.

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

Barriers to Demand Resources.

In order to overcome barriers to the development of demand response resources and in compliance with Congressional mandates, FERC staff published a National Action Plan on Demand Response¹ that, among other things, identifies requirements for technical assistance and a national communications program, and develops or identifies tools and other materials to support the development of demand response. Subsequently, FERC staff, in a joint effort with staff from DOE, submitted to Congress a proposal for implementing the National Action Plan on Demand Response.²

¹ National Action Plan on Demand Response, June 2010

<http://www.ferc.gov/legal/staff-reports/06-17-10-demand-response.pdf>

² Implementation Proposal for the National Action Plan on Demand Response, July 2011

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

Demand Response Compensation.

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

Additional Market Reform Efforts.

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

<http://www.ferc.gov/legal/staff-reports/07-11-dr-action-plan.pdf>

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properly credit demand response and energy efficiency for their services.

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

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

Renewable Resources.

Renewable energy resources have the potential to be a cost-effective means to diversify fuels used for electric generation. The Commission has been responsive to requests for flexibility in how it approaches transmission rate design, recognizing that renewable resources are often "location-constrained," and do not have the flexibility to locate near existing transmission lines. For example, in May 2012, the Commission approved Rock Island Clean Line LLC's proposal to allocate ownership rights and to offer capacity at negotiated rates for the transmission of 3,500 megawatts of renewable location-constrained generation resources in South Dakota and nearby portions of other Midwestern states with markets and customers in Illinois. In April 2012, the Commission approved the Zephyr Power Transmission, LLC and Pathfinder Power Transmission, LLC petition for declaratory order requesting to transfer negotiated rate authority and the confirmation of capacity rights in the Zephyr merchant

transmission project to Duke-American Transmission Company, LLC. The project is a 1,100 mile, 500 kV high voltage transmission line originating in southeast Wyoming and terminating south of Las Vegas, Nevada. The project is expected to be capable of delivering approximately 3,000 megawatts of generation to the southwestern United States. In June 2012, the Commission approved a proposal by PJM for accounting and billing revisions related to the recovery of lost opportunity costs for wind units. Also, in September 2012, the Commission approved negotiated rate authority for the 750-mile 600 kV high voltage direct current transmission Plains and Eastern Clean Line project. This project would be capable of delivering up to 3,500 megawatts from western Oklahoma, southwestern Kansas, and the Texas Panhandle to Memphis, Tennessee.

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

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

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

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

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

Resource Capacity.

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

capacity deficient and fail to cure the deficiency through purchases of capacity through bilateral contracts or voluntary action are assessed financial penalties.

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

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

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

Ancillary Services.

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

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

In June 2012, the Commission proposed revisions to its pricing policies governing the

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

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

STRATEGY 2

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

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

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

STRATEGY 3

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

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

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

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

dimensions: market benefits, organizational effectiveness, and reliability.

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

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

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

STRATEGY 4

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

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

Settlements, Litigation and ADR.

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

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

The trial staff, settlement judges and dispute resolution staff play a pivotal role in structuring these settlements, which

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

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

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

CORE FUNCTIONS

Execute additional statutory requirements to advance strategic goals and objectives

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

The Commission reviews applications for market-based rate authorizations for the sale for resale of electricity, capacity, or ancillary services by public utilities, for storage services provided by natural gas companies; and for transportation services provided by oil pipelines. The Commission grants market-based rate authorization where the ability to exercise market power either is not present or

has been mitigated and where other conditions are met. Public utilities with market-based rate authority must submit Electric Quarterly Reports in order to maintain this authority.

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

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

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

Rate and Tariff Filings by Industry

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

Estimates are based on historical data and expected filings.

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PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 1.1

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

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

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

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

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

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

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

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

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

OBJECTIVE 1.2: OVERSIGHT AND ENFORCEMENT

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

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

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

The Commission also ensures that rates are just and reasonable and not unduly discriminatory or preferential by requiring that

financial and market information is recorded in a useful form, is transparent, and is in compliance with the Commission's accounting regulations. The Commission also improves competitiveness in wholesale electric markets by preventing the accumulation and exercise of market power as it reviews proposed mergers, dispositions, and acquisitions, thereby ensuring that all such transactions are consistent with the public interest.

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

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

Strategy 1: Promote internal compliance programs and self-reporting of violations

Strategy 2: Use a risk-based approach to plan and prioritize audits of jurisdictional companies' operations

STRATEGY 1

Promote internal compliance programs and self-reporting of violations

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

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

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

should follow to establish effective compliance programs.⁵

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

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

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

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

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

STRATEGY 2

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

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

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

In FY 2012, the Commission completed 44 audits of public utilities, natural gas pipelines, and storage companies. These audits resulted in 99 recommendations for corrective actions. In many cases, the recommended corrective actions improve and strengthen

jurisdictional companies' compliance programs. The topic areas of the Commission's FY 2013 audits and those anticipated for FY 2014 include: transmission incentives, demand response, capacity markets, energy trading, market-based rates, formula rates, open access transmission tariffs, mergers and acquisitions, and gas tariffs.

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

CORE FUNCTIONS

Execute additional statutory requirements to advance strategic goals and objectives

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

General Oversight and Enforcement

Accounting.

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

Commission of, emerging accounting issues that affect jurisdictional industries.

Market Oversight.

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

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

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Market Monitoring and Surveillance.

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

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

Outreach and Communication.

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

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

Transparency.

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

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

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

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

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

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

Corporate Activities and Mergers.

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

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

Investigations and Enforcement.

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

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

Conduct involving fraud and market manipulation poses a significant threat to the markets overseen by the Commission and, therefore, to Commission's efforts to provide for energy services at a reasonable cost. Further, anticompetitive conduct and behavior that threatens market transparency undermine the confidence that market participants and consumers have in the energy markets.

While many market participants act in good faith and observe the relevant rules and regulations, there are instances in which some participants engage in manipulative behavior or violate known requirements when it is in their economic interest to do so. When such instances are suspected or identified, the Commission conducts an investigation.

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

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

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

Pursuant to its anti-manipulation authority, the Commission has investigated the energy commodities trading of banks and energy marketers that affect jurisdictional transactions. In FY 2012, the Commission approved settlements of nine investigations, totaling \$148 million in civil penalties and \$119 million in disgorged unjust profits. One significant settlement involved Constellation Energy Commodities Group, Inc., which paid a civil penalty and disgorgement of unjust profits totaling \$235 million. Also in FY 2012, Commission staff issued notices of alleged violations concerning conduct by Deutsche Bank Energy Trading, LLC and Barclays Bank, PLC. The Commission approved a settlement with Deutsche Bank in January 2013 – one of eleven settlements approved by the Commission in the first two quarters of FY 2013 (through March 31, 2013), which involve

a total of \$17 million in assessed civil penalties and \$6 million in disgorged unjust profits. The Commission continues to bring subpoena enforcement actions in district court, when appropriate, against entities who do not comply with investigation requests. Pursuant to the civil penalty authority granted by EAct 2005, Commission-assessed penalties have returned almost \$290 million in civil penalties to the US Treasury. Commission enforcement actions have also resulted in disgorgement of over \$160 million in unjust profits.

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

Enforcement Hotline.

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

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PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 1.2

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

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

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

GOAL 2: INFRASTRUCTURE

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

Introduction.

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

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

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

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

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

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OEIS was established to focus on cyber and other security matters in each of the Commission's areas of jurisdiction, the transmission system, oil and natural gas pipelines, liquefied natural gas terminals, and hydropower infrastructure. Beyond the threats of cyber to the critical energy sectors, OEIS also provides expertise in physical threats. OEIS will not require mandatory actions and does not have enforcement or compliance authorities. Rather, OEIS engages with stakeholders to openly share information on threats, vulnerabilities, and mitigation efforts. Engaging with the regulated community outside of standards and compliance processes and expanding

reliability monitoring efforts to all sectors under the Commission's authority accommodates the necessary and timely exchange of information and subsequent implementation of protective measures. In addition to working directly with the stakeholders, OEIS partners with other agencies, the Intelligence Community, national laboratories, vendors and universities to aid in identifying, communicating, and validating mitigating alternatives for cyber and physical security threats to Commission jurisdictional energy infrastructure.

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

OBJECTIVE 2.1: INFRASTRUCTURE DEVELOPMENT AND SITING

Increase efficient infrastructure consistent with demand.

The Commission will promote the development of efficient energy infrastructure in several ways, including encouraging the use of advanced technologies in developing infrastructure, providing incentive rates for new transmission projects where appropriate, and promoting

transmission planning processes that address all stakeholders' needs and result in the development of a more efficient transmission system. In addition to its core infrastructure authorities, the Commission will focus on three strategies to achieve this objective.

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

STRATEGY 1

Encourage new electric transmission facilities that advance efficient transmission system operation

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

Smart Grid.

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

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

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

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

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

Incentive Rates.

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

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

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

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

Non-traditional Business Models Supporting New Transmission Investment.

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

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

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received, the Commission issued a final policy statement in January 2013. The Commission

will continue to evaluate its policies in FYs 2013 and 2014.

STRATEGY 2

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

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

Following an extensive rulemaking process, the Commission issued Order No. 1000 in July 2011, Order No. 1000-A in May 2012, and 1000-B in October 2012. This rulemaking was designed to correct deficiencies in the current transmission planning processes and ensure the rates for transmission service are just and reasonable. Specifically, Order No. 1000 requires public utility transmission providers to improve transmission planning processes and allocate costs for new transmission facilities to beneficiaries of those facilities, thereby aligning transmission planning and cost allocation. Order No. 1000 also enhanced the Commission's transmission planning requirements by directing public utility transmission providers to participate in regional transmission planning processes that produce regional transmission plans, provide for consideration of transmission

needs driven by public policy requirements established by local, state or federal laws or regulations, and enable coordination between pairs of neighboring transmission planning regions. The rule also promotes competition in regional transmission planning processes by removing from Commission-approved tariffs and agreements a federal right of first refusal for transmission facilities selected in a regional transmission plan for purposes of cost allocation, subject to certain limitations.

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

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

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

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

STRATEGY 3

Promote efficient design and operation of natural gas facilities

The Commission continues its efforts to explore ways to improve the efficiency in the design and operation of jurisdictional natural gas facilities. In FYs 2010, 2011 and 2012, Commission staff examined 60 percent of the Commission's jurisdictional natural gas companies for feasibility of installing waste heat recovery systems. By the end of FY 2012, 22 jurisdictional pipelines have identified 64 stations that meet the initial requirements for feasibility. Commission staff will continue conducting quarterly reviews of Electronic Bulletin Boards⁷ to gauge participation across the industry. Staff will also review the FERC Form 567, annual flow diagrams, to identify which companies have facilities that may be candidates for waste heat recovery efforts. By the end of FY 2014, Commission staff will have examined 100 percent of the Commission's jurisdictional natural gas companies for feasibility of installing waste heat recovery systems.

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

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

CORE FUNCTIONS

Execute additional statutory requirements to advance strategic goals and objectives

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

Hydropower.

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

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

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

Pre-Filing.

The pre-filing process typically begins three years prior to the filing of a license application.⁹ Throughout this process, Commission staff will meet with stakeholders

⁸The Commission's dam safety program is detailed in Objective 2.2: Safety.

⁹A relicense application must be filed with the Commission no later than two years before the license expires.

to develop study plans and ensure that the licensing proposal will be considered "complete" by the time the application is filed. The Commission anticipates processing 59 pre-filing applications in FY 2014. To process these pre-filing applications, the Commission expects its staff to attend 47 scoping and study plan meetings, and to participate in numerous tribal consultations.

Applications.

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

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

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

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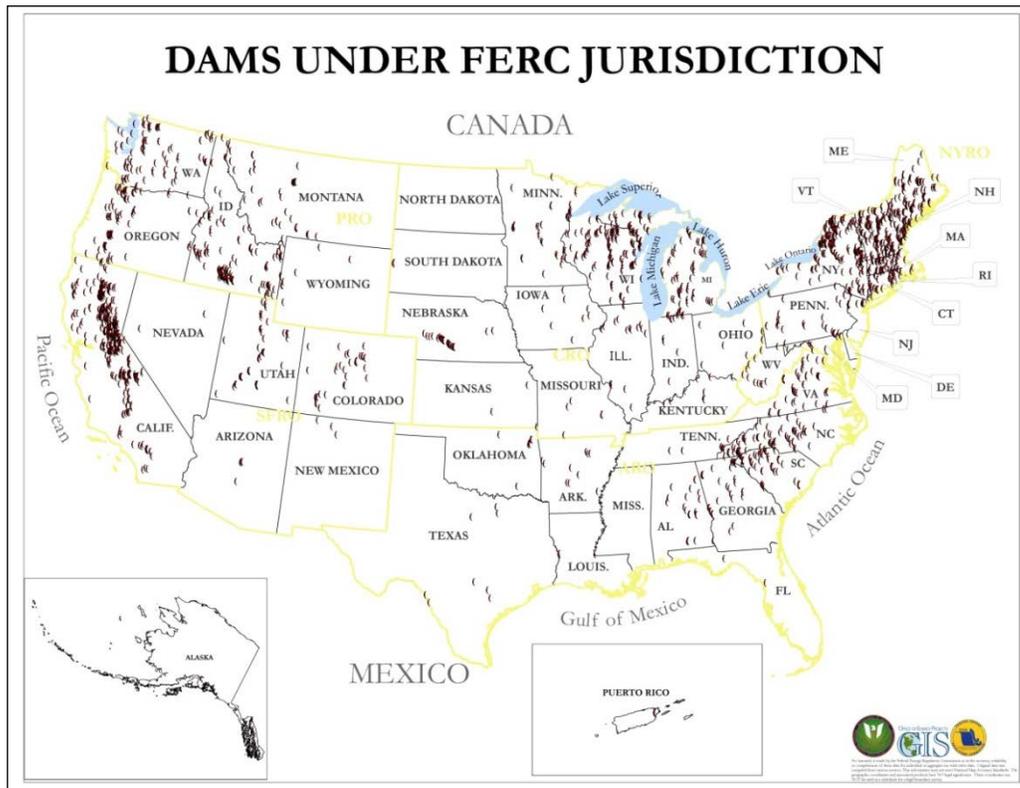
complexity and number of permit applications has dramatically increased over the past several years. In FY 2012, there were over 400 permits in effect. The increase in the number of these applications can be attributed to the current and near-term interest in retrofitting existing dams with hydropower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

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

As specified by the issued license, licensees are required to implement specific environmental and operational measures, generally after filing detailed plans, proposals and reports regarding the implementation of

the measures. In addition, licensees proposing to undertake certain activities not already authorized by the project license must file amendment applications.

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



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Shoreline Management, Recreation, and Outreach.

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

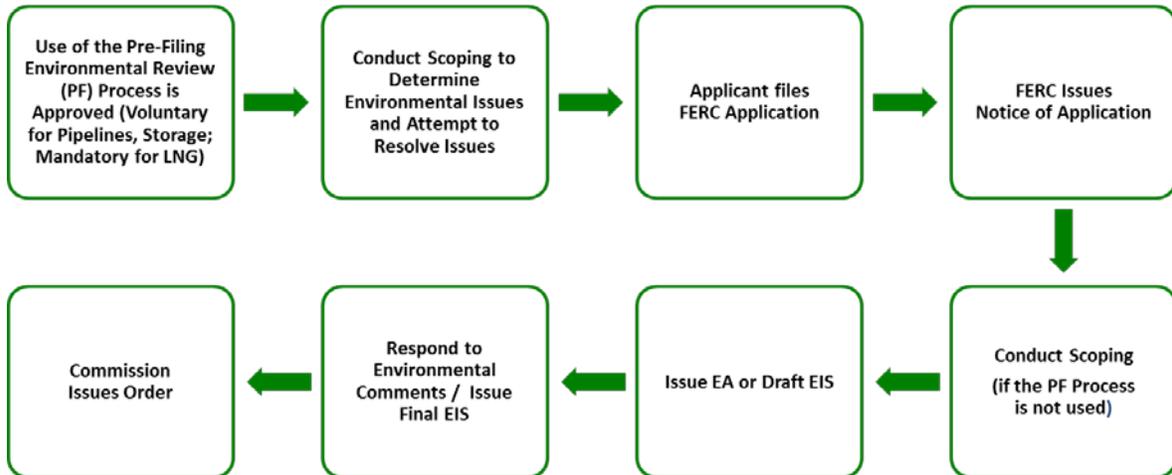
In order to ensure that licensees properly manage licensee-owned lakeshore lands, some licensees prepare and file shoreline management plans. A shoreline management plan is essentially a land use plan, in which a licensee, in consultation with stakeholders and subject to Commission approval, determines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

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

Environmental Inspections.

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

Process for Natural Gas Certificates



Natural Gas Pipelines & Storage Projects.

The Commission is responsible for reviewing applications for the construction and operation of natural gas pipelines and other related facilities.¹⁰ To meet the growing demand for natural gas, the Commission must respond to these applications in a timely manner. As in hydropower siting, the pre-filing process engages stakeholders in the identification and resolution of concerns prior to a company filing a certificate application with the Commission. The Commission staff's participation and initiative in these efforts allows for the filing of more complete certificate applications and enables more efficient and expeditious determination by the Commission. As part of the natural gas pipeline certificate application process, the Commission reviews applications to ensure that the proposals are in the public interest. Among other things, the Commission reviews each application to establish initial recourse rates as well as to ensure that the proposed tariff complies with

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

the Commission's policies and regulations. The Commission also assesses applications for embedded accounting issues in pipeline construction, acquisition purchase, and abandonment transactions. Commission staff will identify deficiencies in proposed accounting practices and will recommend appropriate corrective action. These accounting reviews in certificate filings provide greater certainty to pipelines by providing upfront guidance on accounting entries prior to the pipeline seeking formal Commission approval.

Applications.

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

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

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

Alaska Natural Gas Pipeline Project.

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

Environmental Inspections.

The Commission includes environmental protection, mitigation, and enhancement measures in authorizations for natural gas pipelines and storage facilities. While major pipeline facilities are under construction,

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

Commission staff conducts inspections at least once every 28 days to ensure adherence to the prescribed environmental measures. In FY 2012, 313 natural gas facility compliance inspections were completed at pipeline, storage, and LNG project sites. The Commission expects to complete a similar number in each of FYs 2013 and 2014.

Outreach.

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

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

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

LNG Facilities.

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

Pre-Filing & Applications.

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

Based upon industry filings with the Department of Energy, the Commission

expects 16 LNG terminal applications (15 export and one import) to be under review by the Commission through FY 2014.

Electric Transmission Siting.

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

Gas-Electric Coordination.

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

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PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 2.1

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

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

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

OBJECTIVE 2.2: SAFETY

Minimize risk to the public.

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

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

ensure or enhance operational reliability of the LNG terminals.

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

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

STRATEGY 1

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

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

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

Commission, developed policies and procedures to guide their use of RIDM.

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

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

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FY 2014 to incorporate RIDM into the Commission's dam safety program. As a result of performing a Screening Level Portfolio Risk Assessment of the Commission's dams in FY 2012, a determination was reached that RIDM could be incorporated into the Commission's dam safety program. During FY 2014, the Commission will continue the effort to develop the necessary risk assessment guidelines, procedures and policies, and train Commission staff, dam owners and

consultants in the risk assessment procedures, methodologies and tools. Development of the guidelines and procedures will be done in an open, collaborative process with representatives of the hydropower industry, including FERC-regulated licensees. All current Commission dam safety program components will continue as scheduled during this entire development period.

PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 2.2

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

CORE FUNCTIONS

Execute additional statutory requirements to advance strategic goals and objectives

Hydropower Facilities.

Dam Safety Program.

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

In addition to conducting inspections, the Commission's dam safety program includes other components to minimize risk to the public. Dam safety engineering guidelines are published to provide guidance to licensee- or consultant-conducted inspections and analyses. The guidelines include the procedures and criteria for the engineering evaluation and analysis of hydropower projects. The Commission's surveillance and monitoring component provides methods to better identify and solve dam safety issues

and improves coordination, abilities, and trust among all stakeholders. Another component of the dam safety program is the emergency action plans (EAP), which are required for all jurisdictional dams. These plans require the development, maintenance, and periodic testing of project-specific plans, and they help ensure coordination and cooperation among the dam owners, state and local emergency management agencies, and the Commission.

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

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

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

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LNG Facilities.

Construction & Operational Inspections.

The Commission is responsible for inspecting LNG facilities during construction and subsequently, during their operation, to ensure compliance with the safety and reliability requirements put into place by the Commission. While facilities are under construction, Commission engineers conduct inspections at least once every eight weeks. In FY 2012, seven construction and pre-operational inspections were conducted for one terminal expansion and one peak-shaving plant expansion. The number of construction and pre-operational inspections

that may occur in FYs 2013 and 2014 may be more than FY 2012, but will ultimately be determined by market conditions, as well as the number of approved LNG export facilities that move forward with construction in the next 18 months.

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

OBJECTIVE 2.3: RELIABILITY

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

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

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

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

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

STRATEGY 1

Process Reliability Standards in a timely manner

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

The ERO, among other tasks, is responsible for proposing mandatory Reliability Standards and interpretations of approved standards for the Commission's review and approval. All Reliability Standards and interpretations must

be submitted for Commission approval in order to become mandatory and enforceable in the United States.

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

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

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

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

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

A review of bulk-power system disturbances and events may necessitate development of a new Reliability Standard or modifications to the existing Standards. For example,

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

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

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

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

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

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

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

STRATEGY 2

Monitor, audit, and enforce Reliability Standards

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

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

The Commission also fulfills its role by participating in selected Regional Entity-led compliance audits and investigations of users, owners and operators of the bulk power system. The Commission will also perform

several independent compliance audits and conduct independent investigations of significant blackouts, system disturbances, cyber security incidents, and other reliability and security issues, as warranted.

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

Audits and Investigations.

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

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

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

Event Inquiries.

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

Arizona-Southern California.

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

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

Northeast Snow Storm.

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

Texas, New Mexico, and Arizona.

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

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

Enforcement.

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

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

Cooperation with EPA.

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

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

STRATEGY 3

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

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

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

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

In FY 2012, the Commission reviewed the comments filed by industry and other

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

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

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PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 2.3

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

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

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

AGENCY ADMINISTRATION AND SUPPORT

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

Strategic Plan Update

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

Hiring Reform

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

eLibrary Upgrade

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

FERC Remote Work Capability

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

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

Cloud First

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

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

Modernization of Administrative Support Systems

Since FY 1998, the Commission has utilized the PeopleSoft Human Resources application to support key administrative functions. In FY 2012, the Commission completed an assessment focused on decommissioning its PeopleSoft HR suite. The assessment provided a roadmap which identified alternate approaches for timekeeping, training administration, background investigation

management and data archiving needs. Specifically, this roadmap identified business systems within the Interior Business Center (IBC) as viable options to support its comprehensive needs. In FY 2013, the Commission will migrate to the IBC’s WebTA application to modernize and streamline its timekeeping function. Additionally, the Commission is planning to utilize other IBC offerings such as its hosted Learning Management System, existing investigation management capabilities within its Federal Personnel and Payroll System, and data warehousing and reporting capabilities available in its Datamart application. These efforts will commence in FYs 2013 - 2014 and will allow the Commission to leverage more cost-effective solutions to support varied administrative processes.

E-Gov Travel System 2 (ETS2)

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

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APPENDIX A

Historical Performance Results FY 2010 – FY 2011

Goal 1: Just and Reasonable Rates, Terms and Conditions

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

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

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

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

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

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

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

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

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

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

Goal 2: Infrastructure

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

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

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

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

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

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

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

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APPENDIX B

Workload Tables

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

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

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

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

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

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

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

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

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

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

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

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

APPENDIX C

Guiding Principles

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

Organizational Excellence.

Above all, the Commission strives to use its resources efficiently and effectively to achieve its strategic priorities. This includes its human resources. The Commission performs targeted recruiting and hiring and has developed a markets-oriented training curriculum for entry-level as well as experienced staff. The Commission also makes efficient use of information technology to receive filings, produce reports and orders, and maintain data repositories. The Commission tracks the activities of its staff to ensure that they are directed at meeting the Commission's strategic goals and objectives.

Due Process and Transparency.

Paramount in all of its proceedings is the Commission's determination to be open and fair to all participants. Filings are publicly accessible through the Commission's website, and filings to change rates, terms and conditions of service are announced by way of public notice published in the Federal Register. Material issues of fact are resolved through hearings governed by due process rules; the Commission also encourages the use of ADR procedures, which provide for more informal public participation in resolution of a proceeding. The Commission often holds public conferences at which it receives input from members of the public on controversial issues of national importance. Finally, many of the Commission's major decisions are discussed and announced at meetings that are open to the public and also are webcast at no charge on its website.

Regulatory Certainty.

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

Stakeholder Involvement.

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

Timeliness.

The Commission's goal is to reach an appropriate resolution of each proceeding in an expeditious manner. Toward that end, the Commission has steadily decreased the time it takes to act on proposed projects, such as

Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

LNG import terminals, gas storage facilities, and interstate natural gas pipelines. It has done so without compromising its environmental protection and public participation responsibilities. The Commission

also sets and tracks compliance with goals for timely resolution of filings for cost recovery, new services or changes to existing services, as well decisions on initial decisions, complaints, and FPA section 203 applications.

Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

APPENDIX D

Acronyms and Abbreviations

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

Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

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**People's Dossier: FERC's Abuses of Power and Law
→ Budget Issues**

**Budget Issues Attachment 2, Congressional
Performance Budget Request, Fiscal Year 2017, pgs.
ii-iii.**



Federal Energy Regulatory Commission

Fiscal Year Congressional Performance
2017 Budget Request

Fiscal Year Annual Performance
2015 Report



Chairman Norman C. Bay





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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.

GOAL 2

PROMOTE SAFE, RELIABLE, SECURE, AND EFFICIENT INFRASTRUCTURE

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

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.

PROPOSED APPROPRIATION LANGUAGE

For necessary expenses of the Federal Energy Regulatory Commission to carry out the provisions of the Department of Energy Organization Act (42 U.S.C. 7101 et seq.), including services as authorized by 5 U.S.C. 3109, the hire of passenger motor vehicles, and official reception and representation expenses not to exceed \$3,000, \$346,800,000, to remain available until expended: Provided, That notwithstanding any other provision of law, not to exceed \$346,800,000 of revenues from fees and annual charges, and other services and collections in fiscal year 2017 shall be retained and used for necessary expenses in this account, and shall remain available until expended: Provided further, That the sum herein appropriated from the general fund shall be reduced as revenues are received during fiscal year 2017 so as to result in a final fiscal year 2017 appropriation from the general fund estimated at not more than \$0.

FULL COST RECOVERY

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

| | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request |
|-------------------------------|-------------------|---------------------|--------------------|
| Appropriation | \$304,389,000 | \$319,800,000 | \$346,800,000 |
| Offsetting Collections | (\$304,389,000) | (\$319,800,000) | (\$346,800,000) |
| Net Appropriation | \$ - | \$ - | \$ - |

FAST ACT

Title 41 of the Fixing America’s Surface Transportation Act, H.R. Rep. No. 114-357 (2015) (Conf. Rep.), enacted on December 4, 2015, establishes a Federal Permitting Improvement Steering Council, composed of designated agencies, including FERC, with the goal of coordinating federal review of covered infrastructure projects. The act provides that member agencies, with the guidance of the Office of Management and Budget, may issue regulations establishing a fee structure for project proponents to reimburse the United States for reasonable costs incurred in conducting environmental reviews and authorizations for covered projects.

FY 2017 REQUEST SUMMARY

The Federal Energy Regulatory Commission (FERC or the Commission) requests \$346,800,000 and 1,480 full-time equivalents (FTEs) to execute its mission in fiscal year (FY) 2017. This funding request is an increase of \$27,000,000, or about 8.4 percent, above the FY 2016 enacted appropriation.

The FY 2017 request supports an overall 3 percent increase in base operating costs. The Commission's request reflects the necessary resources to support increases in salaries and benefits associated with a 1.3 percent pay raise in both FY 2016 and FY 2017. The request also supports funding for increased rental rates in the lease renewal that became effective in FY 2016. The Commission anticipates program cost increases associated with statutorily required hydropower environmental workload, LNG construction inspections, and expert witness contractor assistance in the Commission's enforcement program. Over the last several years, the Commission has reduced costs through streamlining processes and improving efficiency in administrative and programmatic areas and continues to do so through FY 2017. The Commission is also requesting a nominal increase in critical travel funding above the FY 2016 levels to support requirements in hydropower pre-filing activities, dam safety inspections, LNG and gas compliance inspections, investigations, and infrastructure security programs. Furthermore, the Commission continues to pursue innovative information technology initiatives to help achieve better performance and future cost savings. To that end, the Commission's request level includes continued investment in cost-effective information technology (IT) solutions and lower IT support services costs through FY 2017.

In addition to our base operating expenses, this budget request includes additional funding required to continue a multi-year building modernization project. The FY 2017 request includes \$16,276,000 to fund construction, furniture, IT and security equipment, logistical services, and administration costs to support the modernization project. Funding in FY 2017 will support the modernization of two floors within the FERC Headquarters building. The Commission is expecting to fund the first phases of construction, which includes the build-out and move to the construction swing space located at 999 North Capital Street in FY 2016. The Commission will fund \$10,351,000 of the \$79 million project in FY 2016 with the use of unobligated prior year balances. Congress approved a Prospectus for the 10-year lease option on the 888 First Street Building (FERC Headquarters). As part of the terms of the Prospectus, the Commission is required to consolidate within the FERC Headquarters building to reduce its overall space utilization by 12 percent, which would include relocating employees currently located at 1100 First Street back to FERC Headquarters. The new lease term began on October 1, 2015. The building modernization project is expected to take approximately four years to complete. It entails multiple employee moves to renovate the building and requires external swing space occupancy to effectively reposition personnel in a more efficient housing scheme.

COMPARISON OF FYs 2016 and 2017

| Major Category (Dollars in thousands) | FY 2016 Estimate | FY 2017 Request | Difference | Percent Change FY 2016 to FY 2017 |
|---|---------------------|--------------------|------------------|---|
| Salaries & Benefits | \$ 233,545 | \$ 240,434 | \$ 6,888 | 2.9% |
| Environmental and Program Contracts | 8,283 | 9,711 | 1,429 | 17.2% |
| Rent | 31,923 | 31,314 | (609) | -1.9% |
| Information Technology | 28,379 | 29,963 | 1,584 | 5.6% |
| Administrative (including Travel and Training) | 18,757 | 19,102 | 346 | 1.8% |
| Building Modernization | 10,351 | 16,276 | 5,926 | 57.3% |
| Subtotals | \$ 331,237 | \$ 346,800 | \$ 15,563 | 4.7% |
| Application of Prior Year (PY) Budget Authority | (11,437) | - | | |
| Totals | \$ 319,800 | \$ 346,800 | \$ 27,000 | 8.4% |

Note: Numbers may not add up due to rounding.

RESOURCES BY STRATEGIC GOALS AND OBJECTIVES

The Commission's budget request and associated justification is aligned with its updated Strategic Plan for FY 2014 – FY 2018. The first two goals are mission critical and correspond to key aspects of FERC's statutory authority. The third goal is a mission support goal focused on establishing a foundation of organizational excellence that enables the achievement of the FERC's mission.

| Strategic Goal and Objectives (Dollars in thousands) | | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request | Percent Change FY 2016 to FY 2017 |
|---|---------|-------------------|---------------------|--------------------|--|
| Goal 1 | Funding | \$ 147,246 | \$ 152,891 | \$ 159,650 | 4.4% |
| | FTE | 685 | 694 | 694 | 0.0% |
| Objective 1.1 | | 115,189 | 119,978 | 125,420 | 4.5% |
| | | 543 | 550 | 550 | 0.0% |
| Objective 1.2 | | 32,057 | 32,913 | 34,230 | 4.0% |
| | | 142 | 145 | 145 | 0.0% |
| Goal 2 | Funding | 110,257 | 117,451 | 123,576 | 5.2% |
| | FTE | 490 | 500 | 500 | 0.0% |
| Objective 2.1 | | 57,298 | 62,333 | 66,076 | 6.0% |
| | | 252 | 257 | 257 | 0.0% |
| Objective 2.2 | | 52,959 | 55,118 | 57,500 | 4.3% |
| | | 238 | 243 | 243 | 0.0% |
| Goal 3 | Funding | 57,864 | 60,895 | 63,574 | 4.4% |
| | FTE | 281 | 286 | 286 | 0.0% |
| Objective 3.1 | | 29,908 | 31,360 | 32,730 | 4.4% |
| | | 146 | 148 | 148 | 0.0% |
| Objective 3.2 | | 12,299 | 12,919 | 13,483 | 4.4% |
| | | 59 | 60 | 60 | 0.0% |
| Objective 3.3 | | 15,657 | 16,616 | 17,361 | 4.5% |
| | | 75 | 78 | 78 | 0.0% |
| TOTAL | Funding | \$ 315,367 | \$ 331,237 | \$ 346,800 | 4.7% |
| | FTE | 1,456 | 1,480 | 1,480 | 0.0% |
| Application of PY Budget Authority | | - | (11,437) | - | |
| TOTAL | Funding | \$ 315,367 | \$ 319,800 | \$ 346,800 | 8.4% |
| | FTE | 1,456 | 1,480 | 1,480 | 0.0% |

Note: Numbers may not add up due to rounding.

RESOURCES BY INDUSTRY

| Regulated Industry (Dollars in thousands) | | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request | Percent Change FY 2016 to FY 2017 |
|--|----------------|-------------------|---------------------|--------------------|---|
| Electric | Funding | \$ 176,355 | \$ 184,031 | \$ 192,136 | 4.4% |
| | FTE | 818 | 829 | 829 | 0.0% |
| Hydro | Funding | 68,459 | 73,454 | 77,483 | 5.5% |
| | FTE | 314 | 321 | 321 | 0.0% |
| Natural Gas | Funding | 61,496 | 64,104 | 67,113 | 4.7% |
| | FTE | 281 | 285 | 285 | 0.0% |
| Oil | Funding | 9,057 | 9,648 | 10,068 | 4.3% |
| | FTE | 43 | 44 | 44 | 0.0% |
| Subtotal | | \$ 315,367 | \$ 331,237 | \$ 346,800 | 4.7% |
| Application of PY Budget Authority | | - | (11,437) | - | |
| Total | Funding | \$ 315,367 | \$ 319,800 | \$ 346,800 | 8.4% |
| | FTE | 1,456 | 1,480 | 1,480 | 0.0% |

Note: Numbers may not add up due to rounding.

OBJECT CLASS SUMMARY

| OBJECT CLASS SUMMARY (Dollars in thousands) | | | | |
|--|---|-------------------|---------------------|--------------------|
| | | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request |
| 11.9 | Personnel Compensation | \$ 171,665 | \$ 179,350 | \$ 183,221 |
| 12.1 | Benefits | 53,240 | 54,195 | 57,212 |
| 13.0 | Benefits for Former Personnel | 59 | - | - |
| | Sub Total, Personnel Compensation & Benefits | \$ 224,964 | \$ 233,545 | \$ 240,433 |
| 21.0 | Travel and Transportation of Persons | 2,931 | 3,251 | 3,394 |
| 22.0 | Transportation of Things | 22 | 3 | 3 |
| 23.1 | Rental Payments to GSA | 23,462 | 31,923 | 31,314 |
| 23.2 | Rental Payments to Others | 712 | 729 | 759 |
| 23.3 | Communications, Utilities & Misc. Charges | 1,892 | 1,816 | 1,953 |
| 24.0 | Printing and Reproduction | 1,740 | 1,929 | 1,966 |
| 25.1 | Advisory and Assistance | 8,493 | 9,094 | 11,016 |
| 25.2 | Non-Federal | 8,279 | 8,495 | 8,526 |
| 25.3 | Federal | 1,544 | 1,410 | 1,440 |
| 25.4 | Operation & Maintenance of Facilities | 1,702 | 1,734 | 1,776 |
| 25.7 | Operation & Maintenance of Equipment | 35,581 | 23,990 | 22,198 |
| 26.0 | Supplies and Materials | 2,460 | 2,617 | 2,707 |
| 31.0 | Equipment | 1,288 | 3,879 | 6,270 |
| 32.0 | Leasehold Improvements | - | 6,741 | 12,963 |
| 41.0 | Grants, Subsidies & Contributions | 49 | 49 | 49 |
| 42.0 | Insurance Claims and Indemnities | 248 | 31 | 33 |
| | TOTAL, OBLIGATIONS | \$ 315,367 | \$ 331,237 | \$ 346,800 |
| | Application of PY Budget Authority | - | (11,437) | - |
| | GROSS BUDGET AUTHORITY | 315,367 | 319,800 | 346,800 |
| | Offsetting Receipts | (315,367) | (319,800) | (346,800) |
| | NET BUDGET AUTHORITY | \$ - | \$ - | \$ - |

Note: Numbers may not add up due to rounding.

VERIFICATION AND VALIDATION OF PERFORMANCE INFORMATION

FERC collects, uses and reports performance data on its activities to inform decision making, track progress and meet statutory reporting requirements. The Commission believes the capacity and skill to measure performance is critical to maintaining operational effectiveness. FERC implemented a process to verify and validate performance measure data to support the development of this capability, establish internal controls over performance information, and ensure the completeness and reliability of FERC performance measure data.

FERC's FY 2015 Annual Performance Report has been combined with its FY 2017 Congressional Performance Budget Request, which continues to serve as its Annual Performance Plan, to provide more complete and meaningful data on past performance and the Commission's efforts to improve performance in the coming fiscal years. The report is organized by strategic goals and objectives established in the FY 2014 – FY 2018 Strategic Plan. The performance goals and indicators expressed in this report are aligned to the objectives in the strategic plan and define the level of performance to be achieved.

FERC ensures that the performance data presented in this report meet the verification and validation criteria of being valid, complete, consistent, accurate, and timely based upon the following assessment steps:

1. The Commission applies logic modeling to develop performance measures through its strategic planning process.
2. FERC's program offices document procedure manuals to ensure confidence in the reported performance data. The procedure manuals define:
 - the purpose and interpretation of the measure,
 - external factors that may impact the measure,
 - data collection and storage procedures,
 - data quality controls,
 - and reporting requirements.
3. Performance results are calculated and reported according to established procedures and approved by the office director.
4. Performance measures undergo an independent Verification and Validation Assessment during the four year performance reporting cycle. An Independent Review Team prepares a report evaluating each performance measure based on the five verification and validation criteria.

OVERVIEW OF THE FEDERAL ENERGY REGULATORY COMMISSION

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

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

FERC is composed of up to five commissioners who are appointed by the President of the United States with the advice and consent of the Senate. Commissioners serve staggered five-year terms and have an equal vote on the orders through which the Commission takes action. To avoid any undue political influence or pressure, the Commission is a bi-partisan body and no more than three commissioners may belong to the same political party. The President appoints one of the Commissioners to be the Chairman of FERC and the Chairman is the administrative head of FERC.

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

**Chairman
Norman C. Bay**

Sworn In: August 4, 2014
Term Expires: June 30, 2018



**Commissioner
Tony Clark**

Sworn In: June 15, 2012
Term Expires: June 30, 2016



**Commissioner
Cheryl A. LaFleur**

Sworn In: July 13, 2010
Term Expires: June 30, 2019



**Commissioner
Colette D. Honorable**

Sworn In: January 5, 2015
Term Expires: June 30, 2017



COMMISSION OFFICES

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 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 Electric Reliability Organization (ERO) dealing with its budget, rules of procedure, and bylaws.

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 Policy and Innovation** (OEPI) advises the Commission on policies to ensure the efficient development and use of transmission, generation, and demand-side resources, remove barriers to the participation of emerging technologies and resources, and create a platform for innovation in wholesale energy markets.

The **Office of Electric Reliability** (OER) oversees the development and review of mandatory reliability and security standards by the ERO and ensures compliance with the approved mandatory standards by the users, owners, and operators of the bulk power system.

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 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 the Commission; and negotiating settlements that achieve prompt rate reductions, provide rate certainty, and conserve Commission resources.

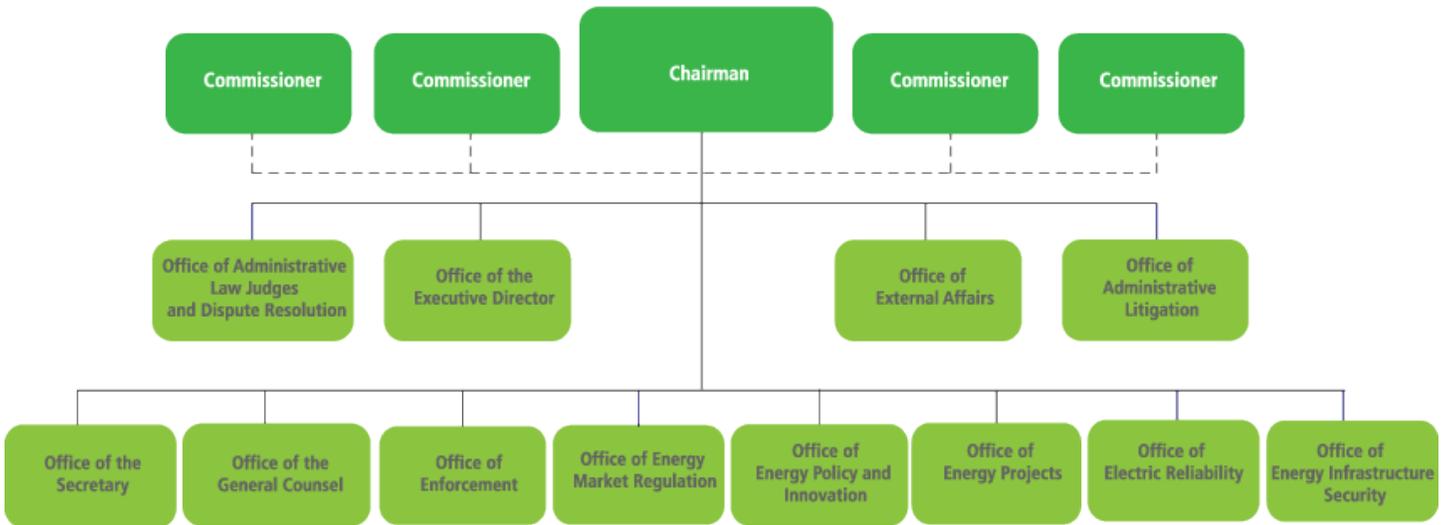
The **Office of Administrative Law Judges and Dispute Resolution** (OALJDR) develops an evidentiary record in contested cases as directed by the Commission. Through trial-type hearings and the issuance of an initial decision, OALJDR ensures that the rights of all parties are preserved. In addition, the 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 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 External Affairs** (OEA) is responsible for communications and public relations of the Commission. OEA provides informational and educational services to Congress; federal, state and local governments; the news media and the public; regulated industries; and consumer and public interest groups. This office also is the Commission's liaison with foreign governments.

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.

COMMISSION ORGANIZATIONAL CHART



REGULATORY AUTHORITY HISTORY AND OVERVIEW

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

Hydropower

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

Electric

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

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

The Commission also has other electric regulatory responsibilities under portions of the Public Utility Regulatory Policies Act of 1978 and the Public Utility Holding Company Act of 2005 pertaining to qualifying facilities, exempt wholesale generators, and books and records access requirements. Under the Energy Independence



and Security Act of 2007 (EISA), the Commission, along with the Department of Energy and National Institute of Standards and Technology (NIST), has a role to play in ensuring awareness, coordination, and integration of the federal government's diverse activities related to smart grid technologies and practices.

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

Natural Gas and Liquefied Natural Gas

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

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

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

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

Oil

The Interstate Commerce Act (ICA) gives the Commission jurisdiction over the rates, terms and conditions of transportation services provided by interstate oil pipelines. Oil pipelines transport crude oil, natural gas liquids (NGLs: ethane, propane and butane), refined petroleum products (gasoline, jet and fuel oils), and liquefied petroleum gas (LPG). The Commission has no authority over the construction of new oil pipelines or over other aspects of the industry such as production, refining or wholesale or retail sales of oil.

In addition to ensuring oil pipelines comply with the Commission's regulations governing oil pipelines' tariffs subject to section 6 of the ICA, the Commission's responsibilities include the establishment of equal service conditions to provide shippers with equal access to pipeline capacity, and analyzing market-based, cost-of-service and anchor shipper contract rate applications to provide reasonable rates for transporting petroleum and petroleum products by pipeline.

Enforcement

Through the Energy Policy Act of 2005 (EPAAct 2005), Congress gave the Commission broad authority to prohibit manipulation in wholesale energy transactions. Congress also enhanced civil penalties for violations of the FPA, NGA, and NGPA. EPAAct 2005 made three major changes to the Commission's civil penalty authority.

1. Congress expanded the Commission's FPA civil penalty authority to cover violations of any provision of Part II of the FPA, as well as of any rule or order issued there under.
2. Congress extended the Commission's civil penalty authority to cover violations of the NGA or any rule, regulation, restriction, condition, or order made or imposed by the Commission under NGA authority.
3. Congress established the maximum civil penalty the Commission may assess under the NGA, NGPA, or Part II of the FPA as \$1,000,000 per violation for each day that it continues.

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

GOAL 1

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.

INTRODUCTION

Electricity, natural gas, and oil are vital resources that fuel economic activity and help to meet the nation’s energy needs. Through the FPA, NGA, and ICA, among other laws, Congress gave FERC authority to regulate the transmission and wholesale sale of electricity and natural gas in interstate commerce, and to regulate the transportation of oil by pipeline in interstate commerce. The Commission’s responsibility in the exercise of this authority is to ensure that rates, terms, and conditions for wholesale sales and transmission of electric energy in interstate commerce and transportation of natural gas in interstate commerce, as well as for transportation of oil by pipeline in interstate commerce, are just and reasonable and not unduly discriminatory or preferential. As part of this responsibility, the Commission balances the economic viability of energy suppliers with the protection of energy customers. Through these efforts, FERC ensures that consumers have reasonable access to the resources they need and that service providers are appropriately compensated. To achieve this goal, the Commission uses a range of ratemaking activities, including regulatory and market means, as well as market oversight and enforcement.

| Strategic Goal and Objectives (Dollars in thousands) | | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request | Percent Change FY 2016 to FY 2017 |
|---|---------|-------------------|---------------------|--------------------|--|
| Objective 1.1 | FTE | 543 | 550 | 550 | 0.0% |
| | Funding | 115,189 | 119,978 | 125,420 | 4.5% |
| | Program | 85,449 | 88,587 | 91,402 | 3.2% |
| | Support | 29,740 | 31,392 | 34,018 | 8.4% |
| Objective 1.2 | FTE | 142 | 145 | 145 | 0.0% |
| | Funding | 32,057 | 32,913 | 34,230 | 4.0% |
| | Program | 24,270 | 24,657 | 25,283 | 2.5% |
| | Support | 7,786 | 8,256 | 8,947 | 8.4% |
| Goal 1 Subtotal | FTE | 685 | 694 | 694 | 0.0% |
| | Funding | 147,246 | 152,891 | 159,650 | 4.4% |
| Application of PY Budget Authority | | - | (5,279) | - | |
| Goal 1 Total | Funding | 147,246 | 147,612 | 159,650 | 8.2% |

Note: Numbers may not add up due to rounding.

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.

To establish rules and policies, FERC draws on both market and regulatory means. When competitive markets exist and there are adequate assurances against the exercise of market power, FERC leverages competitive market forces to promote efficiency for consumers while taking measures to mitigate inappropriate or excessive market power. 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. These techniques produce just, reasonable, and not unduly discriminatory or preferential rates, terms, and conditions.

Rate and Tariff Filings

A significant portion of the Commission'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 Commission action from regulated entities and interested stakeholders. All jurisdictional public utilities, natural gas pipelines, and oil pipelines are required to have their rates, terms and conditions on file with the Commission. The Commission must review proposed changes to filed rates, terms, and conditions and all comments filed in response before determining whether to accept, conditionally accept subject to modifications, or reject the proposed changes. The Commission expects to use quantitative analysis, as appropriate, to help inform the Commission's decision-making on both an ex-ante and ex-post basis.

Commission staff also performs regular reviews of cost-based electric transmission rates. In FY 2014, Commission staff performed a comprehensive electric utility formula rate review. Based on the findings of that review, the Commission initiated FPA section 206 proceedings to require utilities to make annual informational filings to implement their formula rates. Staff prepared written guidance that was posted on the Commission's website to assist all utilities in complying with Commission policies on formula rate updates. Staff has devised a plan for monitoring and reviewing such filings in an organized fashion and will continue to review these filings in FYs 2016 and 2017.

The Commission reviews applications for market-based rate authorizations for the sale for resale of electricity, capacity, or ancillary services by public utilities; for storage services provided by natural gas companies; and for transportation services provided by oil pipelines. The Commission also

permits natural gas pipelines to charge negotiated rates, subject to the availability of a cost-based recourse rate. Also, the Commission may grant merchant transmission developers authorization to sell transmission services at negotiated rates under certain circumstances. The Commission grants market-based rate authorization where the ability to exercise market power either is not present or has been adequately mitigated and where other conditions are met.

Public utilities and natural gas pipelines that have not been granted market-based rate authority must establish their rates using a cost-based rate structure. Oil pipelines that have not been granted market-based rates may establish their rates using a cost-based rate structure or by filing a sworn affidavit stating that the initial rate is agreed to by at least one non-affiliated person who intends to use the new service. When reviewing cost-based rate proposals, the Commission considers the opportunity to recover investments in energy infrastructure and the fair allocation of costs among ratepayers.

From a broader geographic perspective within the electric industry, the Commission also regularly reviews proposals from regional transmission organizations (RTOs) and independent system operators (ISOs) to reform organized wholesale energy markets to ensure that the dynamics for buying, selling and transmitting energy are robust and working as intended and to promote operational efficiency in wholesale markets. In particular, the Commission engages the RTOs/ISOs and stakeholders to ensure that energy, capacity and ancillary services markets provide appropriate price signals, support market evolution, and provide appropriate opportunities to participate for all eligible resources, including emerging technologies.

In reviewing some filings, the Commission determines that a trial-type evidentiary hearing or other procedures are needed to bolster the factual record on which the Commission will base its decision. In these instances, the Commission recognizes the value of resolving issues through consensual means where possible. Settling cases benefits energy consumers as it dramatically limits the time, expense, and resources that the Commission and outside parties would otherwise devote to litigating these cases. A settlement not only provides ratepayers reduced rates and refunds far more quickly than litigation, but also provides business certainty and facilitates the construction of needed infrastructure in a timely manner. Further, the resolution of a case through settlement is likely to be more acceptable to the parties than a litigated result, and therefore,

reduces the likelihood of an appeal. The Commission’s administrative law judges (serving as settlement judges), trial staff, and dispute resolution staff all play important roles in resolving matters without full litigation. In instances where a settlement cannot be achieved, the trial staff and the parties develop evidentiary records that the presiding judges and the Commission use to determine just and reasonable, and not unduly discriminatory or preferential, rates, terms and conditions of service.

In FYs 2016 and 2017, the Commission will continue to dedicate a significant amount of resources to the analysis of rate and tariff filings because of the large number of such filings received annually.

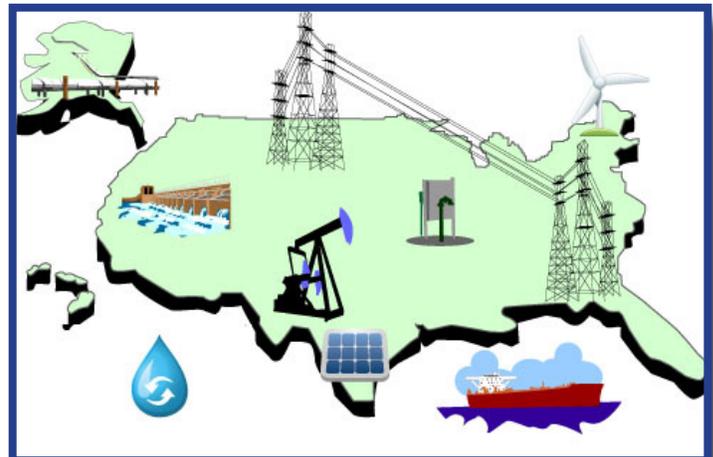
RATE AND TARIFF FILINGS BY INDUSTRY

| | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2016 Estimate | FY 2017 Estimate |
|-----------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| Electric | 5,305 | 6,018 | 6,054 | 6,100 | 6,100 |
| Gas | 1,767 | 1,503 | 1,634 | 1,725 | 1,725 |
| Oil | 628 | 770 | 735 | 750 | 750 |

Note: Estimates are based on historical data and expected filings.

Electric Market Based Rates

In accordance with Order No. 697, the Commission grants market-based rate authorization for wholesale sales of electric energy, capacity, and ancillary services by sellers that can demonstrate that they and their affiliates lack or have adequately mitigated horizontal and vertical market power. In FY 2016, the Commission issued a Final Rule, Order No. 816, to clarify and streamline certain aspects of its market-based rate program for wholesale sales of electric energy, capacity and ancillary services. The changes will increase transparency while continuing to ensure that the program results in market-based rates that are just and reasonable. Among other things, the Final Rule streamlined the program by eliminating a requirement that market-based rate sellers file quarterly land acquisition reports for new generation sites. The Final Rule became effective January 28, 2016.



Pipeline Rate Review

In FY 2009, the Commission began an in-depth review of information filed annually by natural gas pipelines in their financial reports to determine whether the pipelines' returns are just and reasonable. Based on the findings, since FY 2010, the Commission has initiated 14 NGA section 5 actions to determine the justness and reasonableness of existing transportation and storage rates. In FYs 2016 and 2017, the Commission will continue to review the pipelines' financial reports to determine whether the pipelines' returns are just and reasonable. If any pipeline's returns appear to be excessive, the Commission will consider what additional steps may be warranted. Similarly in FYs 2016 and 2017, the Commission will review the information filed by jurisdictional oil and product pipelines in their financial reports to determine whether these pipeline earnings

are just and reasonable. If any pipeline's earnings appear excessive, the Commission will consider what additional steps may be warranted.

The Commission has established an indexing rate methodology that is designed to enable oil pipelines to recover costs by allowing pipelines to raise rates at the same pace as they are predicted to experience cost increases. This oil pipeline indexing rate methodology was established consistent with the Energy Policy Act of 1992. In FY 2016, the Commission completed its five year review of the index and adopted a new index to establish annual rate ceiling levels for oil pipeline rate changes for the period July 1, 2016, through June 30, 2021.

ORDER NO. 1000 IS A FINAL RULE THAT REFORMS THE COMMISSION'S ELECTRIC TRANSMISSION PLANNING AND COST ALLOCATION REQUIREMENTS FOR PUBLIC UTILITY TRANSMISSION PROVIDERS. THE RULE BUILDS ON THE REFORMS OF ORDER NO. 890 AND CORRECTS REMAINING DEFICIENCIES WITH RESPECT TO TRANSMISSION PLANNING PROCESSES AND COST ALLOCATION METHODS.

Electric Transmission Planning

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

Following an extensive rulemaking process, the Commission issued Order No. 1000 in July 2011, Order No. 1000-A in May 2012, and Order No. 1000-B in October 2012. This rulemaking was designed to correct deficiencies in transmission planning processes and to ensure that Commission-jurisdictional transmission services are provided at just and reasonable rates and on a basis that is just and reasonable and not unduly discriminatory or preferential. Specifically, Order No. 1000 requires public utility transmission providers to improve transmission planning processes and allocate

costs for new transmission facilities to beneficiaries of those facilities, thereby aligning transmission planning and cost allocation. The Order No. 1000 transmission planning reforms require each public utility transmission provider to participate in a regional transmission planning process that produces a regional transmission plan and provides for consideration of transmission needs driven by public policy requirements established by local, state or federal laws or regulations. Order No. 1000 also requires that each public utility transmission provider participate in a regional transmission planning process that has a regional cost allocation method that meets six cost allocation principles for the cost of new transmission facilities selected in a regional transmission plan for purposes of cost allocation. In addition, Order No. 1000 establishes interregional coordination and cost allocation requirements for public utility transmission providers in neighboring transmission planning regions. The rule also promotes competition in regional transmission planning processes by removing from Commission-approved tariffs and agreements a federal right of first refusal for transmission facilities selected in a regional transmission plan for purposes of cost allocation, subject to certain limitations.

Public utility transmission providers in all of the proposed Order No. 1000 transmission planning regions submitted their compliance filings addressing the Order No. 1000 requirements in FY 2013. In FY 2013, the Commission issued orders addressing all of the initial regional compliance filings and requiring further compliance filings. In FY 2014, the Commission addressed the requests for rehearing of the orders addressing the initial regional compliance filings and the second round of regional compliance filings. In FY 2015, the Commission issued orders addressing the requests for rehearing of the second round of regional compliance orders and the third round of regional compliance filings,

as well as a few of the fourth round of regional compliance filings. In addition, in FY 2015 the Commission addressed the compliance filings made to address the interregional requirements to ensure they meet the requirements of Order No. 1000, and addressed further regional compliance filings. The Commission will continue to review and address any further regional or interregional compliance filings in FY 2016 and 2017. The Commission will also monitor the implementation of the transmission planning reforms adopted in Order No. 1000 to evaluate their effectiveness in FYs 2016 and 2017.



Electric Transmission and Open Access

The Commission requires all public utilities that own, control or operate facilities used for transmitting electric energy in interstate commerce to file open access non-discriminatory transmission tariffs. Open access transmission tariff reform contributes to the Commission's goal of removing impediments to competition in the wholesale bulk power marketplace and bringing more efficient, lower cost power to the Nation's electricity consumers. The Commission will continue to evaluate and make improvements to the open access transmission tariff through FYs 2016 and 2017, as needed.

Increasingly, the Commission is asked to approve requests from prospective developers of transmission facilities based on non-traditional business models, including merchant transmission development. In FY 2013, the Commission issued a policy statement which clarified and refined policies governing the allocation of capacity for new merchant

transmission projects and new non-incumbent, cost-based, participant-funded transmission projects. In May 2014, the Commission initiated a rulemaking proceeding to revisit its rules governing the use of capacity on facilities interconnecting generating units to the transmission grid. In March 2015, the Commission issued Order No. 807, a final rule to remove regulatory inefficiencies and burdens by granting a blanket waiver from Open Access Transmission Tariff requirements to public utilities that would only be subject to those requirements because of their ownership, control, or operation of Interconnection Customer's Interconnection Facilities. The Commission will continue to act on applications by merchant transmission project developers applying the policies as clarified in the new policy statement and will continue to evaluate its policies in FYs 2016 and 2017, including possible consideration of a final rule to address concerns with third-party access to interconnection facilities.

Capacity Markets

The Commission has approved forward-looking, auction-based markets in the PJM Interconnection, L.L.C. (PJM) and ISO New England Inc. (ISO-NE) regions to allow load-serving entities to procure adequate capacity to meet the long-term electricity needs of consumers. In the region operated by the New York Independent System Operator, Inc. (NYISO), the Commission has approved a monthly auction-based capacity market. In other regions, including those operated by the California Independent System Operator Corp. (CAISO) and the Midcontinent Independent System Operator, Inc. (MISO), the Commission has approved alternative approaches to the mandatory forward-capacity procurement design.

The Commission continually evaluates how current centralized capacity market rules and structures are supporting the procurement and retention of resources necessary to meet future reliability and operational needs established by the regions. While the capacity market mechanisms the Commission approves often vary in design, all are intended to provide the proper price signals to, where appropriate, retain existing efficient resources and encourage the entry of new resources in areas where they are needed to meet electric supply needs.

In August 2013, the Commission released a staff report on Centralized Capacity Market Design elements, and in September 2013 (Docket No. AD13-7-000) the Commission held a technical conference to explore these issues. In April 2014, the Commission held a technical conference on Winter 2013-2014 operations and market performance in RTOs and ISOs that considered, among other things, the performance of capacity resources during the 2013-2014 winter period (Docket No. AD14-8-000). Separately, in November 2014, the Commission held jointly, with the New York Public Service Commission, a technical conference to discuss issues of mutual interest and concern regarding the installed capacity markets and energy infrastructure in New York.

In November 2014, after considering the comments received in response to the Docket Nos. AD13-7-000 and AD14-8-000 conferences, the Commission issued an order directing regional electric power market operators to file reports on their efforts to address fuel assurance in their respective regions. The reports were filed in February 2015 and comments on the reports were filed in March 2015. The Commission is reviewing the reports and the comments on the reports to determine the appropriate next steps in FYs 2016 and 2017.

Wholesale Energy and Ancillary Services Market Rules

The Commission reviews proposed market rules to ensure just and reasonable rates, terms, and conditions, and to maintain open access for diverse energy resources, including demand response, energy efficiency, and renewable energy sources. In FYs 2016 and 2017, the Commission will review wholesale energy and ancillary services market rules to ensure that they provide efficient price signals and incentivize performance for all eligible resources.

Ancillary services are necessary for the reliable and efficient transmission of electric power. These services, as defined in Order No. 888, include: Scheduling, System Control and Dispatch; Reactive Supply and Voltage Control from Generation Sources; Regulation and Frequency Response; and Energy Imbalance. As the energy mix changes in response to renewable energy portfolio requirements, there is a growing need for ancillary services to support grid functions and the integration of intermittent resources.

In July 2013, the Commission issued Order No. 784, Third-Party Provision of Ancillary Services; Accounting and Financial Reporting for New Electric Storage Technologies, which aims to reduce unnecessary barriers for ancillary service providers wishing to make market-based rate sales to public utility transmission providers, and also provides for greater transparency in reserve requirements for Regulation and Frequency Response service. Order No. 784 also adopts reforms to the Commission's accounting and reporting regulations to better account for transactions with energy storage devices. Compliance filings were filed in FYs 2014 and 2015, and the Commission processed these filings in FYs 2014, 2015 and 2016.

In February 2015, the Commission proposed to allow the sale of primary frequency response service at market-based rates by sellers with market-based rate authority for energy and capacity. In November 2015, after reviewing the comments filed in response to its proposal, the Commission issued Order No. 819, Third-Party Provision of Primary Frequency Response Service, to foster competition in the sale of primary frequency response service. The final rule permits the sale of primary frequency response service at market-based rates by sellers with market-based rate authority for sales of energy and capacity. The rule will promote competition in anticipation of growing demand for primary frequency response service as a result of a reliability standard taking effect in 2016 that requires balancing authorities to meet a minimum frequency response obligation. Primary frequency response service is one of the tools available to ensure reliable operation of the North American electric system.

In November 2015, the Commission proposed to require all new interconnecting generators, including wind generators, to provide reactive power by revising both the pro forma Large Generator Interconnection Agreement (facilities larger than 20 megawatts) and the pro forma Small Generator Interconnection Agreement (Docket No. RM16-1-000). Reactive power is needed to control system voltage for efficient and reliable operation of the transmission system. The Commission will review the comments in response to this rulemaking to determine next steps in FY 2016 and 2017.

In June 2014, the Commission initiated a proceeding to evaluate issues regarding price formation in the organized wholesale electric energy and ancillary services markets operated by RTOs and ISOs. The goals of proper price formation are to: maximize market surplus for consumers and suppliers; provide correct incentives for market participants to follow commitment and dispatch instructions, make efficient investments in facilities and equipment, and maintain reliability; provide transparency so that market participants understand how prices reflect the actual marginal cost of serving load and the operational constraints of reliably operating the system; and ensure that all suppliers have an opportunity to recover their costs.

The Commission directed its staff to engage in outreach and convene workshops to explore improvements to market designs and operational practices of the organized markets. In September 2014, the Commission convened a workshop to discuss with industry uplift payments in energy and ancillary service markets operated by RTOs and ISOs.

In October 2014, the Commission convened a workshop on technical operational, and market issues related to offer price mitigation and offer price caps as well as scarcity and shortage pricing in energy and ancillary services markets operated by RTOs and ISOs.

In December 2014, the Commission convened a workshop to address technical, operational, and market issues related to operator actions in energy and ancillary services markets operated by RTOs and ISOs. Following these workshops the Commission solicited additional stakeholder comments on various aspects of price formation in RTO and ISO markets that were discussed at the technical conferences. The Commission is reviewing those comments and considering potential improvements, with work in this area continuing in FYs 2016 and 2017.

In September 2015, the Commission issued its first proposal on price formation to address two practices that fail to provide appropriate signals for resources to respond to the actual operating needs and properly reflect system conditions and costs to serve consumers when compensating

resources within organized markets. In its Notice of Proposed Rulemaking on Settlement Intervals and Shortage Pricing in Markets Operated by Regional Transmission Organizations and Independent System Operators (Docket No. RM15-24-000), 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. In FY 2016, Commission staff will evaluate the comments submitted in response to its proposal to determine the appropriate next steps with work continuing into FY 2017.

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 (Docket No. AD14-14-000). In addition to providing an update on the RTO/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 FY 2016, Commission staff will analyze these reports, which are due in February 2016, and comments in response to these reports, to determine the appropriate next steps. Related work will continue in FYs 2016 and 2017.

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 and ISOs to either raise their offer cap or permit cost recovery above their offer cap through uplift. In the proposed rule, the Commission is taking a generic action and proposing 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 expected to 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, Commission staff will evaluate the comments submitted in response to its proposal to determine the appropriate next steps with work continuing into FY 2017.

Barriers to Efficient Trading Between Markets

The Commission seeks to identify and remove barriers to efficient trading between regional markets to ensure that trades result in just and reasonable rates. To this end, the Commission in several proceedings is considering issues related to seams between organized wholesale energy markets. For example, at the June 2013 Commission meeting, PJM, MISO, the Organization of MISO States, the Organization of PJM States, and the independent Market Monitors of each RTO made presentations to the Commission on efforts to identify and address any barriers to trade between the PJM and MISO markets through the PJM/MISO Joint and Common Market process. At the meeting, the Commission encouraged PJM, MISO, and their stakeholders to develop an action plan for addressing any barriers to trade between the PJM and MISO markets. In September 2013, PJM and MISO submitted to the Commission a work plan developed with their stakeholders for addressing various initiatives to promote greater coordination of their market operations, through their Joint and Common Market process. In December 2013, the Commission issued an order addressing the proposed work plan and directed staff to participate in the RTOs' Joint and Common Market meetings to aid the Commission in

monitoring the RTOs' progress in addressing the initiatives. Consistent with that directive, staff attended meetings and provided feedback to the Commission regarding progress being made. The Commission invited PJM and MISO, their respective market monitors and state commissioner representatives from both regions to provide a status report at the Commission's January 2015 Commission meeting. In February 2015, the Commission issued an order requesting that PJM, MISO, and their independent market monitors provide further information on certain specific initiatives being addressed in the Joint and Common Market process, and provided an opportunity for interested parties to comment on the information provided by PJM, MISO, and their independent market monitors. The Commission is reviewing this information to understand what, if any, additional steps it should take to improve the efficiency of operations at the PJM/MISO seam. Another example of Commission consideration of such issues is found in several proceedings that involve the seam between MISO and the Southwest Power Pool. The Commission will continue to seek to identify and address barriers to efficient trade between markets as appropriate during FYs 2016 and 2017.



Energy Imbalance Market

In FY 2014, the Commission approved CAISO's implementation of an Energy Imbalance Market allowing neighboring balancing area authorities in the western states to participate in the imbalance energy portion of CAISO's real-time market. The Commission continues to work with CAISO and the Energy Imbalance Market participants to address problems as they arise, and approve market design improvements which address identified deficiencies. In May 2015, the Commission conditionally accepted NV Energy's tariff provisions to allow for its participation subject to further compliance obligations. NV Energy has since joined PacifiCorp as the second entity to

participate in the Energy Imbalance Market. In FY 2016, the Commission will address further outstanding compliance obligations of NV Energy and CAISO. Puget Sound Energy and Arizona Public Service Company have both entered into implementation agreements with CAISO to join the Energy Imbalance Market and they plan to file tariff provisions to allow for their participation beginning in October 2016. Other western utilities continue to explore joining the Energy Imbalance Market. The Commission will continue to monitor the implementation, performance and integration of existing and new balancing authority areas participating in the Energy Imbalance Markets in FYs 2016 and 2017.

Gas-Electric Coordination

Due to historically low natural gas prices, environmental considerations, and other factors, the electric industry has become increasingly reliant on natural gas as a fuel for generation. To explore the interdependencies of these industries, the Commission held five regional technical conferences in August 2012.

In November 2012, the Commission issued an order directing Commission staff to hold additional technical conferences on information sharing and communication issues between natural gas and electric entities and on natural gas and electric scheduling issues. Technical conferences were held in February and April 2013 on these issues. In November 2013, the Commission issued Order No. 787, Communication of Operational Information between Natural Gas and Electric Transmission Operators. Order No. 787 allows interstate natural gas pipelines and electric transmission operators to share non-public operational information to promote the reliability and integrity of their systems. Specifically, the final rule authorizes interstate natural gas pipeline and electric transmission operators to voluntarily share non-public, operational information. To protect against undue discrimination and ensure that the shared information remains confidential, the rule also adopts a No-Conduit Rule that prohibits recipients of the information from disclosing it to an affiliate or a third party. ISO-NE, PJM, and NYISO have voluntarily submitted tariff revisions to allow for the sharing of non-public, operational information with interstate natural gas pipelines consistent with Order No. 787.

In March 2014, the Commission initiated further steps to improve the coordination and scheduling of natural gas pipeline capacity with electricity markets culminating into a final rule, Order No. 809, issued in April 2015 to improve coordination of wholesale natural gas and electricity market scheduling. Order No. 809 adopted North American Energy Standards Board standards to revise the interstate



natural gas nomination timeline. These standards move the Timely Nomination Cycle deadline for scheduling gas transportation from 11:30 a.m. to 1 p.m. Central Clock Time and add a third intraday nomination cycle during the gas operating day to help shippers adjust their scheduling to reflect changes in demand. The Commission also revised its regulations to provide additional contracting flexibility to firm natural gas transportation customers through the use of multi-party transportation contracts. However, the Commission declined to adopt the Notice of Proposed Rulemaking proposal to move the start of the gas operating day earlier. In FY 2016, the Commission will review and take appropriate action on the Order No. 809 compliance filings interstate pipelines are required to submit in February 2016.

Also in March 2014, in two separate but related orders, the Commission established proceedings under the FPA and NGA. In one order, the Commission established proceedings under section 206 of the FPA to ensure that the scheduling practices of RTOs and ISOs correlate with the revisions to the natural gas scheduling practices adopted by the Commission in Order No. 809. Each ISO and RTO was required to make a filing in July 2015 that proposed tariff changes, or show cause why such changes were not necessary. The RTOs and ISOs made filings in July and August 2015, which the Commission addressed in November and December 2015.

Settlements and Trial-Type Evidentiary Hearings

As noted earlier, some filings lack the necessary facts for summary Commission action. These cases are set for trial-type evidentiary hearings and, in some instances, also for settlement judge procedures. When such cases are set for hearing, trial staff and parties conduct comprehensive discovery to develop facts relevant to the issues set for hearing and to create a complete and accurate record for the presiding judges and the Commission. After discovery is complete, trial staff and parties file several rounds of expert testimony and exhibits addressing the issues that are the subject of the hearing. Following a hearing at which witnesses are cross-examined, trial staff and the parties file briefs addressing the factual, legal and policy issues presented by the proceeding. Thereafter, the presiding judge issues an Initial Decision and further briefs are filed by the trial staff and parties with the Commission, after which the Commission issues its final decision in the case. In FY 2015, such proceedings resulted in the issuance of five Initial Decisions and four Commission opinions or orders on Initial Decisions. In one of these decisions, the judge found that traders manipulated the natural gas next day markets resulting in financial losses of approximately \$1.4 million to \$1.9 million.

Settlement of cases set for hearing is always explored, either through settlement judge procedures or by trial staff and the parties. Settlement negotiations frequently take months, often involve numerous highly technical issues, and require a delicate balancing of many different interests. The settlement judge and/or trial staff play a lead role in facilitating the settlement of cases set for hearing. The Commission encourages settlements, and the majority of cases result in settlements approved by the Commission as in the public interest. Such settlements result in faster, less expensive resolutions of cases and frequently also earlier refunds and rate reductions to ratepayers. The Commission also benefits by limiting the time, expense and resources needed to achieve a fair result for all parties.

Savings to ratepayers from settlements that occurred in FY 2015 totaled approximately \$296 million (\$146 million in electric utility matters and \$150 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, and thus provide long-term benefits beyond just the savings that occurred from these cases in FY 2015.

In addition, many matters, docketed and non-docketed, are resolved through the intervention of the administrative law judges and/or dispute resolution staff serving as mediators of facilitators. For example, during FY 2015, the dispute

resolution staff successfully resolved 36 disputes. There were also five proceedings that were successfully resolved through negotiated settlement, but the parties chose to withdraw their filing with the Commission rather than to file a settlement agreement.

In FYs 2016 and 2017, the Commission will continue to: (i) scrutinize filings to ensure that customers pay just and reasonable rates that ensure continued access to adequate energy supplies; (ii) actively encourage settlement of proceedings to secure prompt benefits for ratepayers, jurisdictional entities, and the Commission; and (iii) assure fair and thorough hearings of those cases that cannot be resolved through settlement.



Corporate Activities and Mergers

The Commission also takes action to improve competitiveness in wholesale electric markets by preventing the accumulation and exercise of market power as it reviews proposed mergers, dispositions, and acquisitions, thereby ensuring that all such transactions are consistent with the public interest. The Commission ensures that the disposition, consolidation, or acquisition of jurisdictional facilities is in the public interest by reviewing each proposed transaction to determine its potential effect on rates, regulation, competition, and cross-subsidization.

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

Smart Grid

The Commission continues to encourage the efficient operation of the electric grid, which includes the development of a smart grid. The smart grid concept involves automating the electric grid by outfitting it with smart controls, and two-way communications systems. These technologies have the potential to reduce power consumption through demand response, and to improve grid reliability.

The EISA provides roles for NIST and the Commission with respect to development of smart grid interoperability

standards. Section 1305 of the EISA directs the Commission to determine if NIST's work in this area has led to sufficient consensus on smart grid interoperability standards and, if so, to initiate a rulemaking through which it may adopt standards and protocols developed by the NIST process to govern the implementation of smart grid technologies. In FYs 2016 and 2017, the Commission will monitor the development of interoperability standards in the NIST framework process and evaluate standards as appropriate to determine whether there is sufficient consensus for adoption.

Performance Goal 1.1.1

Reduce Interchange Flows that are Uneconomic

Description

The percentage change in uneconomic interchange flows (i.e., electricity flowing from a high-cost market to a low-cost market) between adjacent organized markets is one indication of market inefficiency. The extent to which interchange flows move in the economic direction is one indicator of the Commission’s success in accomplishing Objective 1.1 of the Commission’s Strategic Plan, which focuses on ensuring just and reasonable rates, terms and conditions.

The reported percentage change for this measure represents the change in the degree to which participants in adjacent organized markets schedule uneconomic interchange. Positive values reported for percentage change indicate that the uneconomic interchange flows increased from the previous year, while negative values reported indicate that

uneconomic interchange flows decreased. Since decreases in uneconomic interchange flow are what are desired, this means that negative values for this measure are desired. As organized markets increase coordination and implement policies and rules that better promote efficiency between adjacent organized markets and remove incentives to schedule uneconomic interchange, the percentage change in uneconomic interchange flow should become negative. However, realistic expectations for improvements from policies that can be implemented from year to year are limited. In fact, there are likely declining marginal returns to such policies, such that the less costly and/or most effective policies are implemented first, and subsequent policies have marginally less effect. As such, this document sets a target for year-over-year improvement, but does not expect the rate of improvement to increase every year.

| Fiscal Year | FY 2011 Actual | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|--|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Performance Indicator: Lost firm load megawatts resulting from bulk power system transmission related events, excluding weather related outages | Data not available | -2.98% | -1.99% | 1.09% | -1.76% | -1.25% | -1.25% | -1.25% |
| FY 2015 Target: Met | | | | | | | | |

Analysis

The frequency of economic flows improved on all the measured interfaces, particularly the interface between the Southwest Power Pool (SPP) and the MISO, which reflects the effects of operating experience and change in market rules. This will be especially important as the footprint of SPP expands with the integration of the Western Area Power Administration and the associated utilities, which will increase the size of SPP and the amount of interchange

that will occur between SPP and MISO. On the interface between the NYISO and PJM, Coordinated Transaction Scheduling was implemented, which provided a way to more efficiently schedule hourly interface transactions. The Joint and Common Market process between PJM and MISO continued, which has worked to smooth issues regarding inter-RTO scheduling.

Performance Goal 1.1.2

Participation of stakeholders in regional transmission planning meetings

Description

The measure captures the level of participation of stakeholders in regional transmission planning meetings. Recognizing the importance of transmission planning, the Commission issued Order No. 1000, which requires public utility transmission providers to collaborate in regional transmission planning and take steps to encourage

participation by all stakeholders in those planning activities. This measure provides an indication of the potential effectiveness of Order No. 1000 in encouraging greater participation in the regional transmission planning process, which could result in more efficient and cost-effective transmission solutions.

| Fiscal Year | FY 2014 Actual | FY 2015 Actual | FY 2016 Target | FY 2017 Target |
|---|--------------------|----------------|----------------|----------------|
| Performance Indicator: Average attendance across all the regions | Data not available | 111.6 | 111.6 | 111.6 |

FY 2015 Target: Baseline

Analysis

Staff estimates a measure of the annual level of participation based on the number of participants attending regional transmission planning meetings. To calculate the level of participation, staff calculated an average attendance number across all the regions based on the total number of stakeholders⁶ attending the various meetings that staff monitored in each region during FY 2015 divided by the number of regions. The average attendance across all the regions for FY 2015 was 111.6 which is the baseline figure for this measure. Averaging the attendance numbers for the various meetings monitored by staff is a more accurate reflection of attendance than a simple count because stakeholder participation fluctuates between meetings held at different times in the transmission planning cycles. The Order No. 1000 monitoring effort began in earnest during FY 2015. Monitoring for most regions covered only the last nine months of FY 2015 because, during the first part of FY 2015, the Commission was still in the process of addressing the final regional compliance proposals. Staff monitored 41 meetings during FY 2015 and expects to monitor at least the same number of meetings in FY 2016. Staff found that the stakeholders were active and engaged in the Order No. 1000 process.

As the Order No. 1000 transmission planning meetings continue, the target is expected to stay the same. The FYs 2016 and 2017 targets are based on the Commission’s belief that the Commission’s Order No. 1000 efforts will lead to a consistent base level of stakeholders in regional transmission planning meetings. While effective transmission planning requires at least a base level of participation, it does not require 100 percent participation. Although the Commission anticipates a consistent base level required for effective planning and targets the same average participation, staff anticipates that attendance for each region will vary based on size and interest by non-incumbents.

⁶Representatives from the same entity are counted as one participant at a particular meeting regardless of the number of representatives in attendance.

Performance Goal 1.1.3

Cases resolved by settlements

Description

In reviewing some filings, the Commission determines that a trial-type evidentiary hearing or other procedures are needed to bolster the factual record on which the Commission will base its decision. In these instances, the Commission recognizes the value of resolving issues through consensual means where possible. Settling cases benefits energy consumers as it dramatically limits the time, expense, and resources that the Commission and outside parties would otherwise devote to litigating these cases. A settlement not only provides ratepayers reduced rates and refunds far more quickly than litigation, but also provides

business certainty and facilitates the construction of needed infrastructure in a timely manner. Further, the resolution of a case through settlement is likely to be more acceptable to the parties than a litigated result, and therefore, reduces the likelihood of an appeal. While the majority of cases set for hearing in any given fiscal year have traditionally been settled, many factors affect the percentage of cases settled in a given fiscal year. These include: i) the type and complexity of issues presented; ii) whether the issues are novel or have been addressed by the Commission in the past; and iii) the parties' willingness to settle.

| Fiscal Year | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|---|--------------------|--------------------|----------------|----------------|----------------|----------------|
| Performance Indicator: Percentage of cases set for hearing, settlement procedures or otherwise resolved by settlements ² | Data not available | 78.4% ³ | 92.40% | 75% | 75% | 75% |

FY 2015 Target: Met

Analysis

The Commission exceeded the target goal of 75 percent for achieving settlements during FY 2015. FERC staff settled 61 cases (54 full settlements, three partial settlements, and four settlement negotiations resulting in withdrawal or Alternative Dispute Resolution settlements in a docketed proceeding) out of 66 resolved cases during the fiscal year.

² In FY 2015, the performance indicator was changed to include docketed matters that were not set for hearing or settlement processes by the Commission but may have resulted in a settlement or motion to dismiss or withdraw. Docketed cases which have not been set for hearing or settlement procedures may nonetheless be settled, withdrawn or dismissed through the efforts of the FERC Staff.

³ The FY 2014 result reported in the FY 2014 Performance and Accountability Report was recalculated to include two withdrawn cases meeting the criteria of the revised measure. The change had no effect on the reported result.

Objective 1.2

INCREASE COMPLIANCE WITH FERC RULES; DETECT AND DETER MARKET MANIPULATION.

Oversight and enforcement are essential tools for ensuring that rates, terms and conditions of service are just, reasonable, and not unduly discriminatory or preferential. Whereas regulatory and market means focus on establishing rules and policy, oversight and enforcement focus on increasing compliance of regulated entities and detecting and deterring market manipulation. The Commission's oversight and enforcement program takes proactive steps to detect problems in energy markets and to reduce the probability that violations of applicable laws, the Commission's regulations, or market rules will occur. FERC uses a balanced approach to oversight and enforcement efforts: conduct surveillance and analysis of market trends and data; promote internal compliance programs; employ robust audit and investigation programs; and, when appropriate, exercise 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.

Market Oversight

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, requiring in-depth and time consuming data analysis, to relatively straightforward one-to-one interactions. The Commission examines and monitors many elements of the physical energy markets, including the structure and operations of, and interaction between, the natural gas and electric markets, among other things. This regular monitoring of energy markets is designed to maintain market intelligence to identify market anomalies, participant misbehavior, and to promote market efficiency.

Market Monitoring and Surveillance

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

In an effort to improve the Commission's ability to identify market misbehavior as it happens, Commission staff continues the use of algorithmic screening methods to identify inappropriate market participant activity. This expanded screening allows the Commission to incorporate data already generated in the markets to more acutely determine market health. To enhance this ability, the

Commission collects detailed market-participant level activity data from the RTOs, pursuant to Order No. 760. Commission staff also performs detailed transaction analysis throughout the lifecycle of market manipulation investigations. This forensic analysis, which requires the assessment of millions of lines of sensitive data, allows the Commission to create a complete picture of the trading activities under review. Commission staff is using natural gas market modeling software to aid in uncovering market participant behavior that may be of interest from an enforcement and market efficiency standpoint and is seeking to do the same with electric market software that will also aid the Commission in understanding the interplay between the gas and electric markets. The models will help the Commission achieve the next level of providing robust market oversight and surveillance.

Outreach and Communication

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

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

During FY 2016, Commission staff will meet with natural gas pipelines and shippers to discuss liquidity underlying price indices used in natural gas pipeline contracts.

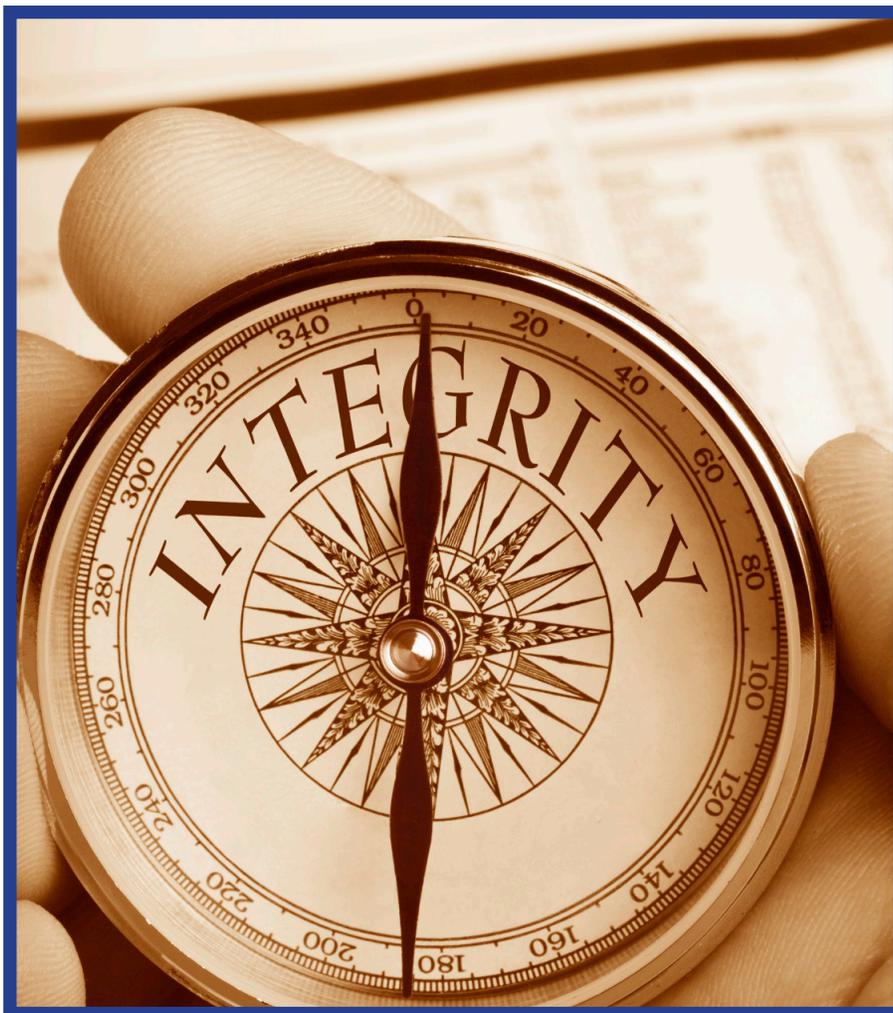
Transparency

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

Of note is the Electric Quarterly Report which provides the Commission and the public a record of each transaction under the Commission’s jurisdiction in the electric market. Electric Quarterly Report filings are used for ex-post analysis of entities with market based rate authority. The Commission staff also analyzes the Electric Quarterly Report data to identify participant level activities in the electric market. The Commission staff is currently enhancing aspects of the ex-post analysis to include use of other data streams to create a more comprehensive analysis.

Pursuant to Order No. 768, to increase transparency and to adapt to changes in the market, the Commission is collecting Electric Quarterly Report submissions from market participants that are excluded from the Commission’s jurisdiction under FPA section 205 and that have more than a de minimis market presence. These added data strengthen the Commission’s ability to identify potential exercises of market power or manipulation and aids the Commission in the evaluation of applications for market-based rates, proposed mergers and acquisitions, and enforcement proceedings.

In response to a petition for rulemaking filed by several oil pipeline shippers asking the Commission to require changes to the annual reports filed by oil pipeline companies, in FY 2015, Commission staff held a technical conference to discuss the issues raised in the petition. Subsequently, entities filed comments on the petition. In FY 2016, Commission staff will evaluate the comments and recommend what additional action, if any, the Commission should take in response to the petition.





Audits

The Commission will continue to use audits to work actively to identify and appropriately address areas of risk. The Commission conducts a variety of audits including, but not limited to, compliance, operational, and financial audits. These audits are undertaken to ensure that jurisdictional companies comply with the Commission's authorizing statutes, orders, rules, and regulations. Also, audits of jurisdictional entities are performed to address accountability, transparency, and any other objectives and goals of the Commission. To enhance industry compliance, the Commission staff reviews jurisdictional entities' compliance programs and provides guidance on enhancing these programs. The Commission will continue to use a risk-based approach in the preparation of its annual audit plan to address areas of highest priority identified by the Commission.

In FY 2015, the Commission completed 22 audits of public utilities and natural gas pipelines. These audits resulted in 360 recommendations for corrective actions and directed over \$26.3 million in refunds and recoveries. The recommended corrective actions improve and strengthen jurisdictional companies' compliance programs. The major topic areas of the Commission's FY 2016 audits and those anticipated for FY 2017 include: Order No. 1000, oil pipeline carriers, market-based rates, RTOs/ISOs formula rates, mergers and acquisitions, gas pipeline tariffs, nuclear decommissioning, open access transmission tariffs, affiliated transactions, and accounting and reporting audits.

Implementation of Recommendations

The Commission continues to stress the importance of timely implementation of audit recommendations.

Prompt implementation of recommendations ensures that potential risks or negative impacts of noncompliance are minimized and any refunds are promptly returned. Timely implementation of recommendations also demonstrates a commitment to improve compliance with FERC precedents and strengthen regulatory operations and internal compliance programs. Finally, timely implementation evidences a stronger compliance culture within a company, lowering the risk of future noncompliance.

Outreach

The Commission continues to stress the importance of having a robust compliance program and the timely implementation of audit recommendations, and to discuss trends of noncompliance at industry conferences, meetings, and speaking engagements and in the annual Report on Enforcement. The Commission will continue to engage in formal and informal outreach efforts to promote effective compliance programs and work to ensure that jurisdictional companies properly implement recommended corrective actions.

As a result of these efforts, the Commission anticipates that potential risks of noncompliance will be minimized and any refunds will be promptly issued. The Commission further expects that emphasizing prompt implementation of recommendations and robust compliance programs will lead to a greater culture of compliance and will lead to entities actively addressing and minimizing areas of systematic noncompliance. In support of these goals, the Commission will strive for prompt implementation of the recommendations in its reports.

Accounting

The Commission processes accounting filings timely and analyzes accounting matters in other filings submitted by regulated entities to ensure compliance with Commission accounting and related financial reporting regulations and to bolster the accuracy, transparency, and usefulness of accounting information for the Commission, regulated entities, and interested parties in the development and oversight of rates. The Commission's accounting program is an instrumental component in ensuring that rates established for jurisdictional companies are just and reasonable and not unduly discriminatory or preferential. The program is designed to evaluate financial, market, and other information filed or reported to the Commission for compliance with the Commission's accounting rules. Additionally, the program will modify its accounting and financial reporting rules, as necessary, to support the development and oversight of rates. The accounting function also is engaged in, and informs the Commission of, emerging accounting issues that affect jurisdictional industries such as the proposed changes in U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. The Commission also provides informal accounting guidance related to various aspects of Commission accounting, financial reporting, and record retention regulations.

These inquiries come from jurisdictional entities, industry stakeholders, and consultants, as well as through the Commission's Compliance Help Desk, Office of External Affairs, Enforcement Hotline, and other Commission offices.

Outreach and Communication

The Commission is also actively engaged in emerging accounting issues that affect jurisdictional industries such as the U.S. Securities and Exchange Commission's pending decision that may require U.S. companies to adopt International Financial Reporting Standards; the International Accounting Standards Board's project on Rate-Regulated Activities; and the impacts of changes to the natural gas and oil industries related to pipeline integrity management testing requirements imposed by other regulators. The Chief Accountant and other Commission staff also regularly engage in informal meetings with representatives of the regulated industries to discuss relevant accounting topics and Commission actions. Additionally, topics of wide generic interest to the industries are highlighted in the annual Report on Enforcement to better inform them of areas of high risk of noncompliance that the Commission addressed in the current fiscal year.



Investigations

In FYs 2016 and 2017, the Commission will continue to focus on the following investigation and enforcement priorities:

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

Conduct involving fraud and market manipulation poses a significant threat to the markets overseen by the Commission and, therefore, to the Commission's efforts to ensure just, reasonable, and not unduly discriminatory or preferential rates, terms, and conditions. Further, anticompetitive conduct and behavior that threatens market transparency undermines the confidence that market participants and consumers have in the energy markets.

While most market participants act in good faith and observe the relevant rules and regulations, there are instances in which some participants engage in manipulative behavior or violate known requirements when it is in their economic interest to do so. When such instances are suspected or identified, the Commission conducts an investigation.

While investigations are non-public activities, the Commission provides guidance to the regulated community where possible, including in the annual Report on Enforcement. The Commission staff also has regular interactions with regulated entities, conducts outreach efforts, encourages companies to implement effective compliance programs, and releases reports of investigations of alleged fraud or manipulation, when appropriate. Moreover, if Commission staff finds a violation after the non-public investigation, matters become public through a notice of alleged violations, an order approving settlement or an order to show cause. These actions, and the Commission's demonstrated willingness to impose civil penalties or other sanctions where circumstances warrant, act as a deterrent to fraud, market manipulation and other violations. During FY 2015, the Commission approved settlements in six investigative matters. These FY 2015 settlements amounted to over \$26.25 million in civil penalties, nearly \$1 million in disgorged unjust profits plus interest. A substantial portion (\$17.4 million) of the civil penalties in three of these settlements was offset by the companies' agreement to make additional investments that will enhance reliability of the grid. The Commission also issued Orders Assessing Civil Penalties in three Federal Power Act-related investigations, ordering assessed penalties of over \$49 million.

In FY 2015, a hearing before an Administrative Law Judge was conducted on an investigation of BP America, Inc. for alleged market manipulation involving natural gas

trading. The hearing concluded on April 15, 2015, and the Administrative Law Judge issued her Initial Decision on August 13, 2015. Currently pending in federal district court are reviews of Orders to Show Cause issued in FY 2013 against Barclays Bank, PLC and some of its traders for engaging in market manipulation involving the trading of electricity contracts, and against Lincoln Paper and Tissue, LLC, Richard Silkman, and Competitive Energy Services, LLC, for fraud in participation in an RTO's demand response program. Also pending in federal district court are reviews of Orders Assessing Civil Penalties issued in FY 2015 against Maxim Power Corporation, Maxim Power (USA) Inc., Pawtucket Power Holding Co., LLC, Pittsfield Generating Company, LP, and Kyle Mitton, for fraud in the collection of make-whole payments, and against Houlian Chen, Powhatan Energy Fund, LLC, HEEP Fund, LLC, and CU Fund, Inc. for fraud in the collection of marginal loss surplus allocation payments in PJM energy markets.

In FY 2015, Commission staff issued four notices of alleged violations, opened 19 new investigations and brought 22 investigations to closure. The length of an investigation depends upon its nature and complexity; some close in a few months while others may be ongoing for multiple years. From time to time, the Commission also brings subpoena enforcement actions in federal district court, when appropriate, against entities who do not comply with investigation requests.

The Commission continues to receive self-reports of violations from regulated entities and market participants, many of which are resolved without any sanctions. In FY 2015, the Commission received 122 such self-reports. Information gathered from these self-reports is provided to the public and regulated entities in the Commission's annual report on enforcement activities, which is released following the close of the fiscal year.

ENFORCEMENT HOTLINE

THE COMMISSION OPERATES AN ENFORCEMENT HOTLINE WHEREBY THE PUBLIC OR INDUSTRY PARTICIPANTS CAN ANONYMOUSLY PROVIDE INFORMATION TO THE COMMISSION CONCERNING POTENTIAL REGULATORY VIOLATIONS, MARKET ANOMALIES, OR MARKET PARTICIPANT MISCONDUCT.

IN FY 2015, THE COMMISSION OPENED 195 ENFORCEMENT HOTLINE MATTERS, MOST OF WHICH RESULTED IN PROMPT, INFORMAL RESOLUTION. OF THESE, NINE ARE STILL PENDING.

Performance Goal 1.2.1

Audit recommendations are implemented within six months of issuance

Description

FERC issues audit reports to regulated entities that include a number of recommendations for corrective actions. These recommendations enforce FERC’s regulations of the interstate transmission of electricity, natural gas, and oil. The desired outcome is timely implementation of audit recommendations because it ensures greater compliance with Commission regulations and re-enforces a strong compliance culture throughout the industry.

Although a significant majority of recommendations can be implemented within six months, the timeline for

completing corrective actions for certain recommendations may exceed the six month target, especially if they involve significant changes to current practices, policies, or procedures (e.g., major software upgrades). FERC considers a recommendation implemented when a company has been presented with the recommendation and it has fully implemented the recommended corrective action or, for particularly complex recommendations, the company has actively and continuously taken steps to implement the recommendation.

| Fiscal Year | FY 2010 Actual | FY 2011 Actual | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|--|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Performance Indicator: Percentage of audit recommendations implemented within six months of issuance | Data not available | 96% | 95% | 92% | 95% | 96% | 95% | 95% | 95% |
| FY 2015 Target: Met | | | | | | | | | |

Analysis

In FY 2015, 96 percent of the 308 recommendations issued by FERC were implemented within a six month timeframe.

Achieving the future target results is anticipated to be challenging for several reasons. For example, the Commission is undertaking audits of increasing complexity. As a function of more complex audit topics, the recommendations will likewise be more complex and time consuming. Larger

and more complex audits will translate into fewer audit completions and potentially fewer recommendations. This means that the actions, or inactions, of one company have a far greater influence on the measure. The long-term effects of these developments remain to be seen; however, maintaining a high goal of 95 percent reflects our effort to maintain a consistently high level of performance.

GOAL 2

PROMOTE SAFE, RELIABLE, SECURE, AND EFFICIENT INFRASTRUCTURE

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

INTRODUCTION

The NGA and FPA, among other statutory authorities, charge the Commission with the responsibility to promote the development of strong 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, LNG facilities, and non-federal hydropower projects. Other Commission responsibilities include ensuring the safety of non-federal hydropower projects and ensuring compliance with Commission-imposed conditions on 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.

| Strategic Goal and Objectives (Dollars in thousands) | | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request | Percent Change FY 2016 to FY 2017 |
|---|---------|-------------------|---------------------|--------------------|--|
| Objective 2.1 | FTE | 252 | 257 | 257 | 0.0% |
| | Funding | 57,298 | 62,333 | 66,076 | 6.0% |
| | Program | 43,493 | 47,666 | 50,181 | 5.3% |
| | Support | 13,806 | 14,668 | 15,895 | 8.4% |
| Objective 2.2 | FTE | 238 | 243 | 243 | 0.0% |
| | Funding | 52,959 | 55,118 | 57,500 | 4.3% |
| | Program | 39,899 | 41,228 | 42,448 | 3.0% |
| | Support | 13,060 | 13,890 | 15,052 | 8.4% |
| Goal 2 Subtotal | FTE | 490 | 500 | 500 | 0.0% |
| | Funding | 110,257 | 117,451 | 123,576 | 5.2% |
| Application of PY Budget Authority | | - | (4,055) | - | |
| Goal 2 Total | Funding | 110,257 | 113,397 | 123,576 | 9.0% |

Note: Numbers may not add up due to rounding.

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, and natural gas production continues to increase due to the development of shale gas.⁴ 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. 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.

Interest in developing hydropower projects has also increased, in part because hydropower offers the benefits of a renewable, domestic energy source that supports efficient, competitive electric markets by providing low-cost energy reserves and ancillary services. Hydropower projects may also provide other public benefits such as environmental protection and enhancement, water supply, irrigation, recreation and flood control.

Natural Gas and LNG Programs

Pre-Filing and Applications

As part of the natural gas pipeline certificate and LNG facility authorization process, the Commission reviews applications to ensure that the proposals are in the public interest. The established pre-filing process engages stakeholders in the identification and resolution of concerns prior to a company filing a formal application with the Commission. Commission staff's participation and initiative in these efforts allows for the filing of more complete applications. Once the application is filed, the Commission is committed to the expeditious completion of the required environmental review consistent with the NEPA. At the same time as the environmental review is occurring for natural gas pipeline applications, the Commission is also performing an engineering analysis of proposed facilities and reviewing the application to establish initial recourse rates, as well as to ensure that the proposed tariff complies with the Commission's policies and regulations. The Commission assesses applications for embedded accounting issues in pipeline construction, acquisition, and abandonment transactions, and Commission staff will identify deficiencies in proposed accounting practices and recommend appropriate corrective action. These accounting reviews in certificate filings provide greater certainty to pipelines by providing upfront guidance on accounting entries. Together, these activities enable more efficient and expeditious determination by the Commission.

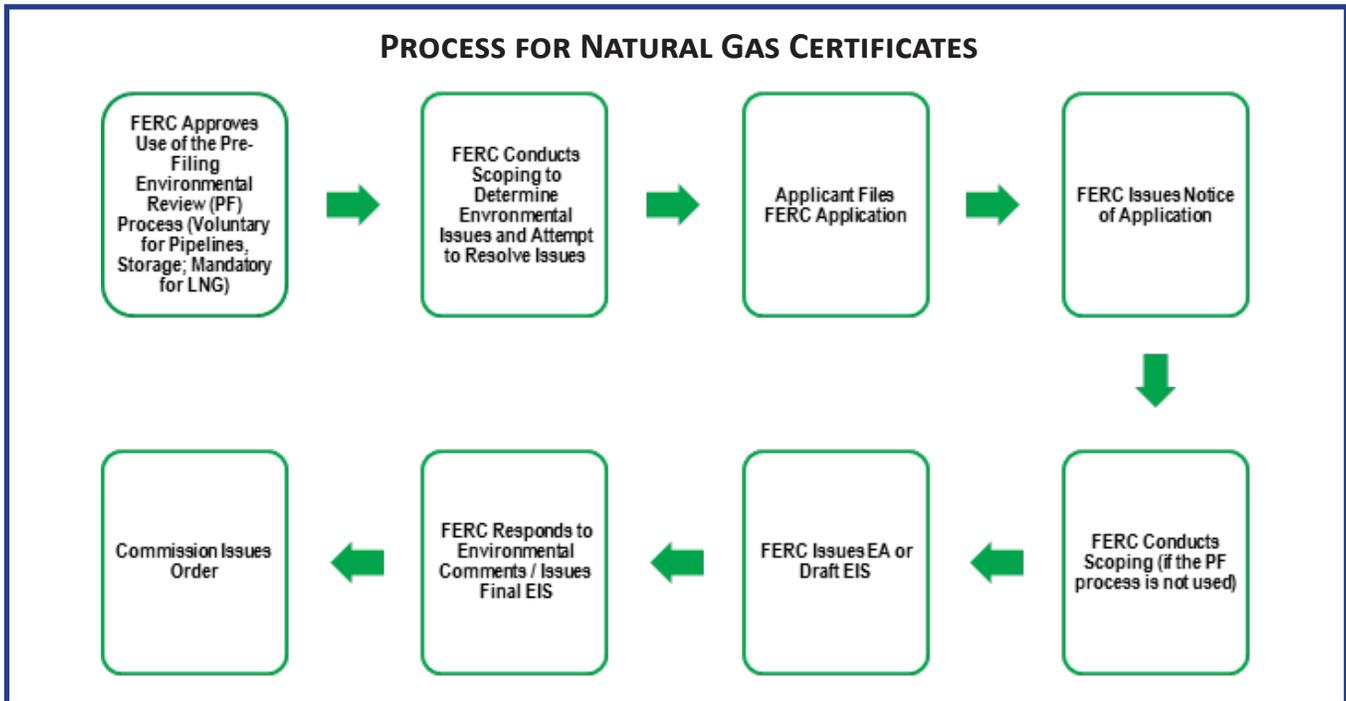
In FY 2015, 45 percent of major pipeline projects used the voluntary pre-filing process.⁵

Of the projects that used the pre-filing process, all but one of the environmental documents were issued by Commission staff within eight months of determining that the application was complete. During this same time, the Commission authorized 43 major natural gas pipeline projects, which resulted in approximately 667 miles of additional pipeline and over 467,000 horsepower of mainline compression. Four storage projects were also authorized, resulting in approximately 3 billion cubic feet of working gas capacity. As the supply and market areas continue to develop and expand, the Commission expects the number of natural gas pipeline project applications to increase in FY 2017. In addition, the increase in the demand for gas-fired electric generation and new or expanded manufacturing is spurring the development of greenfield projects.

In FY 2015, the Commission conducted the pre-filing review of 15 LNG projects, consisting of both new LNG terminals and modifications of existing LNG facilities. Three of those projects subsequently filed applications, and the remaining 12 are in pre-filing environmental review process. In addition to other pending LNG projects, this resulted in the Commission's processing of 16 applications for new LNG facilities or modifications to existing LNG facilities. Based upon industry filings with the Department of Energy and industry information provided during pre-filing meetings with Commission staff, the Commission expects 10 LNG export terminal applications and one LNG peak-shaving facility application to be under review by the Commission through FY 2017.

⁴ Shale is a fine grained sedimentary rock which can contain natural gas. Hydraulic fracturing of this rock may release trapped natural gas that can be produced and shipped to consumers. Geologic formations containing shale gas occur throughout the country and are referred to as shale plays.

⁵ Use of the pre-filing process is mandatory for LNG projects.



Outreach

The Commission regularly conducts natural gas environmental training seminars to provide guidance and insight on the Commission’s environmental review process and compliance-related matters. These sessions, which provide an opportunity for open dialogue between Commission staff and stakeholders, are attended by state, local and federal agency officials, natural gas company representatives, construction contractors, and consulting firm staff. These sessions provide information on the filing requirements for environmental reports, reporting requirements for blanket certificate projects, new regulations, overview of the Commission’s baseline construction and mitigation measures, and more. The seminars are instrumental in developing the understanding of and successful adherence to the Commission-issued certificates and authorizations. In FY 2015, Commission staff conducted four training seminars and participated in several outreach sessions to natural gas companies and federal permitting agencies, addressing the Commission’s certificate and environmental review processes. In FY 2017, the Commission proposes to conduct four seminars.

In FY 2015, Commission staff compiled Suggested Best Practices for Industry Outreach Programs to Stakeholders with the goal of effectively engaging stakeholders to identify and resolve issues over the entire course of the FERC project review process. The document was developed based on staff experience and with the input from natural gas companies with proactive outreach programs.

Commission staff has also continued to extend its outreach efforts to Native American tribes to enhance their participation in the Commission’s environmental review process. In FY 2015, contacts were made with 74 tribes and meetings were held with six tribes. These included Commission staff’s participation in several meetings with representatives of various Indian tribes in the New England Region interested in the review of natural gas projects. In addition, Commission staff provided a training seminar attended by tribal representatives and representatives of the natural gas industry entitled “Commission’s Section 106 Process and Tribal Consultation for Natural Gas Facilities,” and consulted Native American tribes in an effort to update the Commission’s Guidelines for Reporting on Cultural Resources Investigations for Pipeline Projects, dated December 2002.

Alaska Natural Gas Pipeline Project

In FY 2015, Commission staff engaged in the pre-filing review of the Alaska LNG Project, which consists of a planned LNG export terminal and associated pipeline facilities. As part of the pre-filing review, staff attended and participated in Alaska LNG’s open house meetings, received and reviewed the first full set of draft resource reports, issued a Notice of Intent to initiate formal scoping, initiated government-to-government consultations with Native Alaskans, conducted field reviews, and participated in numerous interagency meetings. If the project sponsors file a formal application for the Alaska LNG Project in FY 2017, as projected, Commission staff will promptly identify any remaining data gaps, and begin preparing a draft environmental impact statement.

THE COMMISSION REGULATES OVER 1,600 NON-FEDERAL HYDROELECTRIC PROJECTS AT OVER 2,500 DAMS AND IMPOUNDMENTS.

TOGETHER, THESE PROJECTS REPRESENT 54 GIGAWATTS OF HYDROELECTRIC CAPACITY, MORE THAN HALF OF ALL THE HYDROPOWER IN THE UNITED STATES.

Hydropower Program

Pre-Filing and Applications

The pre-filing process typically begins three years prior to the filing of a license application.⁶ Throughout this process, Commission staff consults with stakeholders to identify issues, develop study plans, address any issues, and ensure that the licensing proposal is complete by the time the application is filed. The Commission anticipates 94 pre-filing processes in FY 2017. In the course of these processes, the Commission expects its staff to attend 105 scoping and study plan meetings, a 176 percent increase from FY 2015, and to participate in numerous tribal consultations.

Commission staff conducts NEPA environmental analyses for all hydropower project applications. The Commission is responsible for ensuring that the environmental document analyzes the project's effects on potentially affected resources, including geology and soils, aquatic resources (including water quality), terrestrial resources, threatened and endangered species, recreation, land use and aesthetic resources, cultural resources, and examines alternatives and makes recommendations for protection, mitigation, and enhancement measures to be included in any license issued. In FY 2015, Commission staff issued 26 draft and final environmental documents. Commission staff issued 20 final environmental documents, on average about 13 months after the date that reply comments were due on the Notice of Ready for Environmental Analysis; all but three were issued within 24 months of when reply comments were due. The Commission expects its staff to issue about 40 environmental documents and participate in 10 post-filing public meetings associated with its environmental analysis of applications in FY 2017. The Commission expects to increase the use of the hydropower environmental and engineering services contract to respond to the anticipated increase in workload.

⁶ The Federal Power Act requires that a relicense application must be filed with the Commission no later than two years before the license expires.

In FY 2015, the Commission acted on 15 applications representing a total capacity of 780 megawatts. In FY 2015, the Commission received seven license applications of which six were for original projects and the remaining one was for a project with an expiring license. In FY 2017, the Commission expects to receive 10 original applications due to a continued interest in developing new projects, and 17 relicense applications.

In addition to license applications, the Commission processes preliminary permit applications and monitors compliance with issued permits. A permit guarantees the holder "first-to-file" status for a particular site in cases where multiple applications are received by the Commission for a hydropower license. Permits also allow the holder to study a particular site for up to three years. A permit does not authorize construction, nor is it required to apply for, or receive, a license. In FY 2015, there were over 150 permits in effect.

The Hydropower Regulatory Efficiency Act of 2013 made a number of changes regarding the Commission's regulation of hydropower projects, such as directing the Commission to investigate the feasibility of a two-year licensing process for hydropower development at non-powered dams and closed-loop pumped storage projects. Consistent with this directive, in FY 2014, the Commission solicited public opinion; developed a two-year process plan, schedule, and criteria for identifying projects that may be appropriate for a two-year licensing process; and approved one conventional hydroelectric pilot project to test a two-year licensing process. In FY 2015, the Commission received and accepted a license application for the approved pilot project to test a two-year process. In FY 2016, the Commission anticipates completing the processing of the license application for the two-year process and reporting to Congress on the results of these efforts.

The Hydropower Regulatory Efficiency Act also exempts certain conduit hydropower facilities from the licensing requirements of the Federal Power Act. The Commission is required to determine whether proposed projects meet the criteria to be considered “qualifying conduit hydropower facilities.” Qualifying conduit hydropower facilities are not required to be licensed or exempted by the Commission, however, any person, State, or municipality proposing to construct a facility that meets the criteria must file a Notice of Intent to Construct a Qualifying Conduit Hydropower Facility with the Commission. In FY 2015, the Commission issued 33 letters on these qualifying conduits. In FY 2017, the Commission expects to issue 20-30 qualifying conduit letters.

Outreach

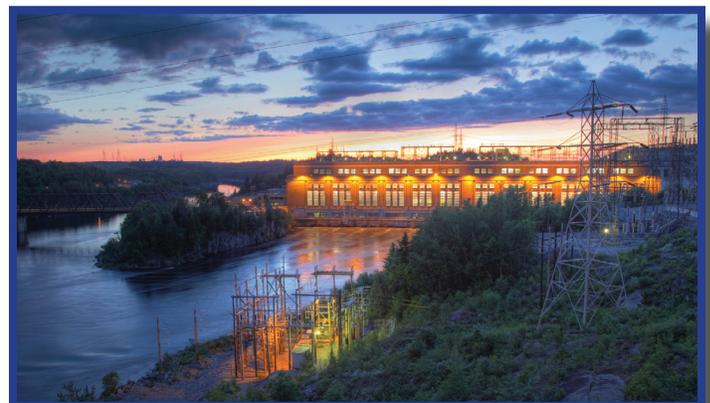
In the past several years, Commission staff has held workshops to assist licensees with specific issues. In FY 2015, staff held a Shoreline Management Workshop in Bend, Oregon that was attended by over 90 individuals representing approximately 60 licensees from across the country to discuss shoreline uses and management along the reservoirs. Staff also held a recreation workshop in Ontario, California to assist licensees in completing the Commission’s Licensed Hydropower Development Recreation Report (Form 80), which tracks recreational amenities and use at hydropower projects; developing recreation plans and monitoring use, and ensuring public safety at the sites. In addition, staff has been working with a number of licensees on-site to review recreation plans and compliance. These workshops and site visits also provide an opportunity to discuss innovations and trends in public recreation, as well as discuss safety of recreation users. Based on the feedback from these workshops and site visits, Commission staff anticipates providing additional recreation and shoreline management workshops and site visits in FY 2017.

The Commission also regularly conducts hydropower licensing training sessions to provide guidance on how to obtain a license or exemption and how to effectively participate in the licensing and exemption processes. The sessions are typically attended by prospective licensees, federal and state natural resource agency personnel, Indian tribes, and members of the public, and cover such topics as what licensing process to use, when to file comments and recommendations for license or exemption conditions, and how to officially intervene in a license or exemption proceeding. In FY 2015, Commission staff conducted outreach sessions with Indian tribes, federal and state agencies, and hydropower industry personnel to prepare for an increasing relicensing workload beginning in FY 2016.

Shoreline Management and Recreation

Licensees may, with Commission approval, authorize specific uses and occupancies of the licensee-controlled lands along the project reservoir shoreline that are not related to hydroelectric power production or other project purposes. Examples of non-project uses include, but are not limited to: commercial marinas, private residential boat docks and marinas, shoreline erosion control structures, water withdrawal facilities, utility lines, access roads, bridge crossings, and significant dredging activities. In FY 2015, Commission staff processed 54 applications for non-project uses of project lands and waters. Commission staff is seeing fewer applications for new facilities, but is seeing an increase in the number of applications for reconfigurations and/or improvements at already approved existing facilities (24 of the 54 applications). These applications seek to reduce the number of large docks to allow for an increase in docking slips for smaller boats and/or personal watercraft (PWCs). Commission staff is also processing requests for changes/reductions to previously approved facilities where marinas are seeing less demand for docking locations.

In order to ensure that licensees properly manage licensee-owned lakeshore lands, some licensees prepare and file shoreline management plans. A shoreline management plan is essentially a land use plan, in which a licensee, in consultation with stakeholders and subject to Commission approval, determines what types of development and environmental protection are appropriate on the licensee’s shoreline lands. Shoreline management plans typically guide development and use of project shorelines for recreation, habitat protection, erosion control, and other uses. Not all projects require shoreline management plans; these plans are generally required where it appears that the project’s shoreline may be subject to competing developmental pressures such that public access or environmental resources are at risk. A shoreline management plan is only applicable to lands owned or controlled by a licensee, and has no effect on privately-owned lands in which a licensee has no interest.



Performance Goal 2.1.1

Hydropower and Natural Gas Orders Issued Within Established Timeframes

Description

FERC-regulated entities must obtain authorization before beginning the construction of natural gas pipeline, natural gas storage, LNG, and hydropower facilities and before implementing measures required from relicensing a hydropower facility. In order to maximize both the economic and environmental benefits of these projects, the

Commission must process applications in an efficient and timely manner and ensure that its authorizations are based on thorough environmental analysis. FERC has established timeframes that balance the competing demands of timeliness and thorough analysis.

| Fiscal Year | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|---|--------------------|----------------|----------------|----------------|----------------|----------------|
| Performance Indicator: Percent of hydropower orders issued within 24 months | Data not available | 80% | 94% | 75% | 75% | 75% |
| FY 2015 Target: Met | | | | | | |
| Performance Indicator: Percent of natural gas orders issued within the appropriate timeline depending upon the category of the filing | Data not available | 92% | 88% | 90% | 90% | 90% |
| FY 2015 Target: Not Met | | | | | | |

Analysis

The FY 2015 result reflects the Commission’s emphasis on consistently meeting its established timeframes in order to maximize the economic and environmental benefits of the proposed for hydropower and natural gas pipeline projects. While each program is required to conduct thorough analysis in an efficient and timely manner, the processes in which to do so have different elements and unique requirements.

In FY 2015, the Commission expected to issue 75 percent of hydropower orders within 24 months of issuance of either the Ready for Environmental Analysis Notice or the Notice of Application (as appropriate) when all required agency materials have been received. For the 13 hydropower applications where required agency documentation was filed prior to the issuance of the NEPA document, 100

percent of the orders were issued within 24 months from the date of Ready for Environmental Assessment notice or the Notice of Application is issued by the Commission. For the four hydropower applications where required agency documentation was filed after the issuance of the NEPA document, 75 percent of the orders were issued within 24 months from the date of the filing of final required documentation by the agencies. In total, 16 out of 17, or 94.1 percent of hydropower orders were issued within the established timeframe.

Gas orders are separated into four categories, based on scope of the facilities proposed and complexity of the case. Each category has a separate established timeframe, allowing additional time for increasing scope and complexity. In FY 2015, 51 out of 58, or 88 percent of gas orders were

issued within the established timeframes. Applications that utilized the pre-filing process effectively, providing robust applications with a well-defined/finalized project, thorough and complete responses to all comments made during the scoping period and on the draft resource reports, and who consulted with other agencies early in the process were issued timely. All of the untimely orders involved facilities that were larger in scope and complexity. Three of the seven orders that did not meet the established timeframe required several requests for additional information to be provided by the applicants, and/or significant changes to the project or new information was provided after the applicant filed

its application. Three of the seven untimely orders required the applicant to coordinate with the U.S. Department of Transportation before FERC could issue the NEPA document and proceed with issuing an order. Two of the seven cases involved extensive protests or significant conflict over land use/siting between the applicant and another utility, both requiring additional time to resolve. Another factor in four of the seven orders issued untimely was several changes in Commission staff evaluating the projects. The Commission continues to emphasize the value of the pre-filing process and has taken action to ensure transitions to different staff, if needed, occurs more seamlessly.

Objective 2.2

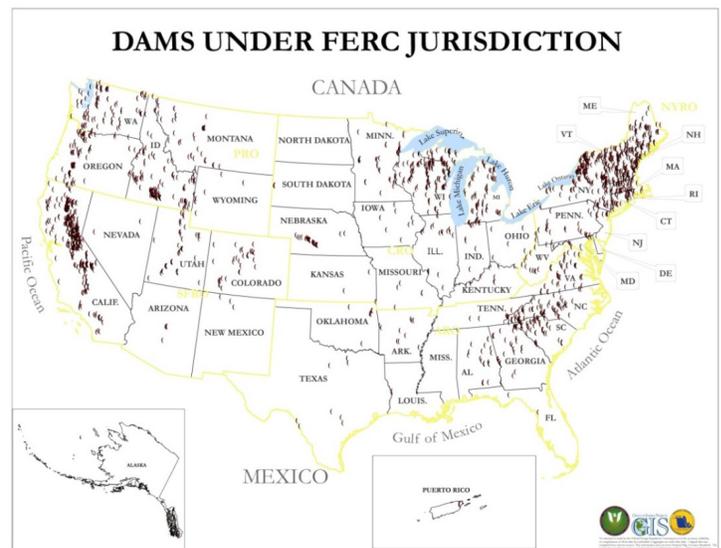
MINIMIZE RISKS TO THE PUBLIC ASSOCIATED WITH FERC-JURISDICTIONAL ENERGY INFRASTRUCTURE.

In addition to reviewing applications and issuing orders with respect to construction, operation, and modification of natural gas facilities and non-federal hydropower facilities, the Commission has other responsibilities concerning energy infrastructure subject to its jurisdiction. For LNG facilities, the Commission evaluates the design of proposed facilities to assess whether the facilities would have a public safety impact, and ensures that appropriate mitigation or protection measures are included in the design. These responsibilities also include ensuring the safety of non-federal hydropower projects 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 governmental agencies at the federal and state levels to identify and seek solutions to threats to FERC-jurisdictional infrastructure from cyber and physical attacks. Through these actions, the Commission minimizes risks to the public associated with jurisdictional infrastructure.

Hydropower

Failure of a non-federal hydropower project potentially can result in significant safety, environmental and economic consequences. To fulfill its responsibility for ensuring the safety of these facilities, the Commission relies on physical inspections for detecting and preventing potential catastrophic structural failures, thereby protecting the public against the risk associated with such an event. Commission engineers are highly trained and work closely with local and other federal officials at all stages of project development and operation. Before projects are constructed, the designs, plans, and specifications of the proposed facility are reviewed and approved. Through regularly scheduled and comprehensive inspections during construction and operation, Commission engineers verify that dams meet stipulated design criteria, identify necessary remedial modifications or required maintenance, and ensure compliance with requirements. This approach allows the Commission to ensure the safety of the public, as well as the continued operation of the facilities to meet the energy demands of the nation. In FY 2017, the Commission expects to conduct approximately 2,100 inspections.

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



specific plans for emergency response, including ensuring coordination and cooperation among the dam owners, state and local emergency management agencies, and the Commission.

The Commission also requires comprehensive inspections and engineering evaluations of the high and significant hazard potential dams by independent consultants every five years. All independent consultant inspection reports are thoroughly reviewed and evaluated by the Commission to determine whether additional studies are required or if remedial measures are necessary. The Commission reviews approximately 200 independent consultant reports each year to make certain the structural integrity of the jurisdictional dams is maintained or improved as appropriate. The Commission expects the number of independent consultant inspection report reviews to remain steady through FY 2017.

**THE FREQUENCY OF DAM INSPECTIONS
AS DETERMINED BY ITS HAZARD POTENTIAL CLASSIFICATION**

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

Risk-informed decision making provides the capability to assess non-traditional failure modes, levelize risk across different loading conditions, focus inspections and surveillance on the specific potential failure modes and monitoring programs at projects, and guide remediation projects to provide an overall reduced level of risk to the public. In FY 2017, the Commission will continue implementation of Risk-informed decision making through pilot projects, and continue to train Commission staff, dam owners, and consultants in risk assessment procedures, methodologies and tools. Refinement of the guidelines and procedures will continue to be carried out in an open, collaborative process with representatives of the hydropower industry, including Commission-regulated licensees. These efforts will run parallel to the traditional dam safety inspections and together will ensure public safety.

Liquefied Natural Gas

The Commission’s LNG review and oversight program evaluates the design of proposed LNG facilities to assess whether the facility would have a public safety impact. This is done through a comprehensive environmental and engineering review process that includes working very closely with other federal agencies such as the U.S. Coast Guard and the Department of Transportation, which establish and enforce the LNG safety and security standards. If a facility is authorized, the Commission is responsible for conducting inspections during construction and subsequently, during facility operation, to ensure compliance with the requirements included in the Commission authorization. While facilities are under construction, Commission engineers conduct inspections at least once every eight weeks. In FY 2015, 29 inspections were conducted at the four terminal expansions and one new LNG terminal under construction. At a minimum, 35 construction and pre-operational inspections are anticipated for both FYs 2016 and 2017. The FY 2017 number may also increase depending on market conditions, as well as the number of approved

LNG export facilities that move forward with construction in the next 18 months.

Once in operation, jurisdictional peak-shaving plants are inspected once every other year and LNG import or export terminals are inspected once each year. In FY 2015, 15 operational inspections were conducted at six peak-shaving facilities and nine LNG terminals. The number of operational inspections is expected to be 14 in FY 2017.

Reliability of the Bulk Power System

EPA 2005 amended the FPA to charge FERC with overseeing the development and enforcement of mandatory reliability standards applicable to the bulk power system through an ERO. The Commission draws on the substantial experience of its staff, including electrical engineers with many years of experience in the utility industry, to facilitate its oversight of those standards. Commission staff analyzes standards proposed by the ERO to determine whether those standards support the reliable operation of the grid. Once the standards are approved, the Commission oversees the compliance with and enforcement of reliability standards that apply to all users, owners and operators of the bulk power system. The Commission also reviews major blackouts and events to determine whether standards were violated or should be changed to help prevent future blackouts. In addition to conducting its own audits, investigations, and enforcement actions, the Commission oversees audits, investigations, and proposed penalties of the ERO and the ERO regional entities to help ensure that their efforts will result in strong compliance with mandatory standards. The Commission also communicates with various federal and state agencies, international entities and industry participants on emergency reliability and security issues.

The Commission will continue to encourage innovative approaches to system reliability, security, and resilience that will improve the bulk power grid’s ability to withstand and recover from abnormal events.

Reliability Standards

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

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

The ERO develops these standards through an open and inclusive process that involves extensive negotiation, consultation and coordination among many stakeholders. The eight Regional Entities may also develop and propose regional Reliability Standards. The Commission does not have statutory authority to write Reliability Standards. If the Commission does not approve a Reliability Standard or interpretation filed, it may remand the filing to the ERO for reconsideration. The Commission may direct the ERO to develop and submit a new or modified Reliability Standard on a specific matter.

One illustration of this process involves the ERO's Critical Infrastructure Protection (CIP) Reliability Standards. The Commission previously approved Version 5 of the CIP Reliability Standards, which focuses on cyber security, while concurrently directing modifications. In February 2015, the ERO submitted a proposal to modify the CIP Reliability Standards, seeking approval of additional reliability standards and security controls to address Commission directives. In July 2015, the Commission issued a Notice of Proposed Rulemaking on the ERO's proposal. In addition, the Commission's Notice of Proposed Rulemaking proposed the development of a new Reliability Standard for supply chain management security controls to protect the bulk electric system from security vulnerabilities and malware threats. Commission staff intends to provide continuing support to oversee the development of these revised and new cyber security Reliability Standards through FY 2017, including attendance of a technical conference on CIP supply chain risk management issues in January 2016. Commission staff will also undertake through FY 2017 the processing of subsequent compliance filings, as well as several oversight activities to support the transition to compliance with the revised Reliability Standards.

A review of bulk power system disturbances and risks may necessitate development of a new Reliability Standard or modifications to the existing Reliability Standards. For

example, during FY 2013 the Commission approved a Final Rule directing the ERO to develop a set of Reliability Standards to address the impact of geomagnetic disturbances (GMD) on the bulk power system in two stages. In November 2013, the ERO submitted a Geomagnetic Disturbance (GMD) Operations Reliability Standard (Stage 1). In June 2014, the Commission issued a Final Rule approving the GMD Reliability Standard. In January 2015, the ERO submitted the Stage 2 Reliability Standard (Transmission System Planned Performance for Geomagnetic Disturbance Events). In May 2015, the Commission issued a Notice of Proposed Rulemaking to approve the Stage 2 Reliability Standard with modifications. Commission staff's processing of the Stage 2 Reliability Standard will be undertaken through early FY 2016.

The Commission issued a Final Rule in early FY 2013 approving the ERO's proposed revisions to the Reliability Standard for Vegetation Management. This Reliability Standard was developed to protect the bulk power system against vegetation-related transmission outages. In the Final Rule, the Commission directed the ERO to obtain empirical data on the appropriate clearance distances between vegetation and transmission lines for various voltage ratings. In August 2015, the ERO submitted to the Commission a technical report of the analysis of this empirical data, which concluded that the Minimum Vegetation Clearance Distances (MVCD) in the proposed Reliability Standard, based on a gap factor of 1.3, should be increased, and the corresponding gap factor reduced to a more conservative value of 1.0. In FY 2016, the ERO expected to modify the reliability standard to reflect the results of the empirical data analysis. Commission staff's oversight of the effort, as well as the processing of any subsequent filings, is expected through early FY 2017.

In November 2013, the Commission issued a Notice of Proposed Rulemaking to remand the ERO's proposed revisions to the Transmission Operations and Interconnection Reliability Operations and Coordination Standards. The Transmission Operations Reliability Standards address the reliability goal of ensuring that the transmission system is operating within appropriate limits. The Interconnection Reliability Operations and Coordination Standards detail the responsibilities and authorities of a reliability coordinator. In March 2015, the ERO filed revisions to the standards in response to the Notice of Proposed Rulemaking. In November 2015, the Commission issued a Final Rule approving the ERO's revisions to the Transmission Operations and Interconnection Reliability Operations and Coordination Standards and directed the ERO to make modifications to the standards. Commission staff's oversight of the ERO's efforts to address the concerns identified in the Final Rule will be ongoing through early FY 2017.

The Commission issued a Final Rule in April 2015 approving the ERO's revisions to the Reliability Standards for Communications and Operating Personnel Communications Protocols. The Reliability Standards were developed to enhance reliability by, among other things, requiring adoption of predefined communication protocols, annual assessment of those protocols and operating personnel's adherence thereto, training on the protocols, and use of three-part communications. In the Final Rule, the Commission directed the ERO to develop a modification to the Communications Reliability Standard that addresses internal communications capabilities that could involve the issuance or receipt of Operating Instructions or other communications that could have an impact on reliability. Commission staff's oversight of the ERO's development of directed modifications is expected through FY 2016.

The Commission will continue to explore ways to improve the efficiency and effectiveness of the Reliability Standards development and implementation process. For example, the Commission annually holds a reliability technical conference to discuss the state of reliability, ERO performance and emerging issues related to the bulk power system. Also, Commission and ERO staff initiated a joint staff review to assess and verify the electric utility industry's bulk power system recovery and restoration planning, and to test the efficacy of the relevant Reliability Standards in achieving and maintaining reliability. Staff selected a sample of registered entities with bulk power system significance to participate in the voluntary review, which will be completed in FY 2016 and may result in recommendations to modify existing Reliability Standards.



Reliability Compliance and Enforcement

The Commission monitors and participates in the enforcement of the Reliability Standards, primarily through its oversight of the ERO and Regional Entities. As part of that role, the Commission monitors the ERO's reports on the performance of the bulk power system from information gathered from the ERO, Regional Entities, and registered entities.

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

The Commission also performs independent compliance audits and conducts independent or joint investigations or inquiries of significant blackouts, system disturbances, cyber security incidents, and other reliability and security issues, as warranted. For example, in FY 2016 and FY 2017,

the Commission will work with the ERO and the regional entities while conducting a joint audit of the CIP Version 5 Critical Infrastructure Protection Reliability Standards and Reliability Standard CIP-014-1 pertaining to physical security of critical assets.

Rigorous audits and investigations of potential violations coupled with appropriate and adequate mitigation plans should lead to a culture of compliance, self-reporting and internal controls, which should produce better reliability and fewer blackouts or system disturbances.

As the electric grid grows in complexity and technological sophistication, the rate of emerging reliability issues is likely to accelerate. The Commission continues to monitor and analyze the performance of the bulk power system to assess the impact of emerging issues. Although the Commission attempts to maintain awareness of these emerging issues and associated reliability risks, including system disturbances or outages, they are extremely difficult to anticipate. In FY 2015, to improve its understanding of system disturbances, the Commission initiated a notice of proposed rulemaking to obtain certain transmission

and generation outage data, as well as protection system misoperation data, maintained by the ERO. Related analysis and a determination of potential actions will be an ongoing effort through FY 2017.

The ERO is authorized to impose, after notice and opportunity for a hearing, penalties for violations of the Reliability Standards, subject to Commission review and approval. When a Regional Entity or the ERO identifies a violation of a Reliability Standard, whether through self-reports, audits, investigations, or complaints, the ERO either processes it outside of its enforcement processes as a compliance exception or through its enforcement processes using its Find, Fix Track and Report program, or by filing a notice of penalty for Commission approval. All of these processes include a record supporting a finding of noncompliance with one or more Reliability Standards, and a description of actions taken or to be taken to remedy the violation(s) and prevent a recurrence. Notices of penalty add the proposed penalties and sanctions, as well as documentation and rationale supporting the penalties. The entity subject to a notice of penalty may appeal the violations or penalty to the Commission.

Energy Infrastructure Security

Growing cyber and physical security threats, along with increasing operational automation and a rapidly changing energy supply mix, demand an agile and focused approach to energy infrastructure security. The Commission is actively coordinating with its federal partners as well as regulated entities to create awareness of threats, activities, and capabilities of entities that may initiate a cyber or physical attack on jurisdictional energy infrastructure. These partners include Department of Defense, Department of Homeland Security, Department of Energy, and the Federal Bureau of Investigation among many others. This collaboration allows the Commission to support the development and encourage implementation of effective tools and techniques to enhance protection of jurisdictional infrastructure. Commission staff, with its extensive technical expertise including highly-skilled electrical engineers and IT specialists, provides a unique perspective that draws on both decades of regulatory experience as well as extensive operational experience. These contributions from the Commission help reduce the risk of cyber and physical security threats to vital energy infrastructure. This collaboration also facilitates the sharing of best practices, and it promotes an important complement to FERC's related responsibilities for both regulatory requirements and enforcement.

In coordination with its collaborative role, Commission staff proactively examines threats and potential vulnerabilities in the cyber and/or physical security posture of jurisdictional facilities through onsite security assessments. These

The Commission anticipates changes to the ERO's compliance monitoring and enforcement program through FY 2017. Notably, in FY 2015, the Commission approved subject to conditions the ERO's implementation of its reliability assurance initiative, which has a goal of focusing compliance monitoring on areas that pose the greatest risk to reliability while gaining efficiencies by reducing the administrative burdens of the compliance and enforcement program on industry. This initiative has created major changes in audit approaches, both in breadth and depth, and in how registered entities report noncompliance. The Commission also approved the ERO's risk-based registration initiative. Its aim is to ensure entities are registered and made subject to Reliability Standards based on the risk they pose to reliability, by eliminating certain functional registration categories, including the purchasing-selling entity, interchange authority, and load-serving entity functional registration categories; modifying the threshold for registration, and implementing certain procedural improvements to the registration process. Related Commission activity will occur in FY 2016 and succeeding years.

assessments better enable facility owners and operators to recognize current threats, potential attack vectors, potential counter measures and effective practices to minimize potential impacts and recovery time should a facility be compromised. In FY 2015, the Commission conducted nine of these onsite assessments and will continue to perform these in FY 2017. In addition, the Commission also provides timely and effective security threat briefings and presentations in both classified and unclassified settings to strategic partners, including state commissions that also have jurisdictional oversight of the energy infrastructure. The Commission conducted 15 of these briefings in FY 2015 and has already performed several classified and unclassified briefings in FY 2016 with plans to continue in FYs 2016 and 2017.

Lastly, it is important to understand the impact that some individual facilities may have on the resilience of critical infrastructure systems, as well as the risk of disruption to those systems from threats and vulnerabilities through cyber and physical attacks. To these ends, the Commission will use its analysis and assessment capabilities as appropriate in support of analyzing infrastructure threats and vulnerabilities to identify particularly critical equipment across the Commission's jurisdictional infrastructures. The Commission will then conduct outreach to facility owners and operators to promote security improvements at those facilities.

Performance Goal 2.2.1

Hydropower facilities have approved dam safety programs

Description

To safeguard public safety, environment, and hydroelectric facilities, licensees with hydropower dams designated as high and significant hazard potential are required to implement an Owner’s Dam Safety Program that complies with Commission regulations. In 2012, FERC began requiring licensees with high and significant hazard potential dams to develop and implement an acceptable Owner’s Dam Safety Program that is robust and focused, which acknowledges

the dam safety responsibilities at each level of the licensee’s organization, establishes protocols for internal and external dam safety communication, and has clear designation of dam safety responsibilities among the licensee’s staff. The effectiveness of Objective 2.2 is evident by the total percentage of licensees that are able to maintain compliant Owner’s Dam Safety Programs.

| Fiscal Year | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|---|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Performance Indicator: Percent of high or significant hazard hydropower facilities that have approved dam safety programs | Data not available | 64% | 78% | 75% | 80% | 85% |
| FY 2015 Target: Met | | | | | | |

Analysis

FERC continues to emphasize the requirement for licensees to have an acceptable Owners Dam Safety Program at every annual inspection of a high or significant hazard dam. FERC is monitoring and providing assistance to help the licensees develop and implement a complete program. As a

result of these efforts, 31 Dam Safety Programs were found acceptable in FY 2015 resulting in a 14 percent increase from FY 2014. Currently, several licensees have Owners Dam Safety Programs that are under review and are expected to be approved in FY 2016.

Performance Goal 2.2.2

LNG facility recommendations implemented by established time frames

Description

In order to minimize risks to the public and to ensure reliable infrastructure, LNG terminals are inspected annually to ensure that they are being maintained and operated in a manner consistent with the Commission’s certificate/ authorization for the life of the facility. FERC issues a letter after each LNG inspection that lists any recommendations for safe and reliable operation and a timeline for completing these items. Companies are responsible for completing these items on time to ensure that the facility continues to be in compliance with the Commission’s certificate/

authorization. FERC makes a concerted effort to craft recommendations that clearly identify equipment or operational issues/improvements with practical timelines for completion. FERC also works with the facilities as needed to ensure that they understand the recommendations and how they can be implemented. Accordingly, the percentage of recommendations implemented within established timeframes provides a measure of FERC’s impact on LNG facility safety and reliability and thus serves as an indicator of the Commission’s effectiveness in achieving Objective 2.2.

| Fiscal Year | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|--|--------------------|----------------|----------------|----------------|----------------|
| Performance Indicator: Percent ⁷ of LNG facility recommendations implemented by established time frames | Data not available | 91% | 70% | 90% | 90% |

FY 2015 Target: Met

Analysis

The reported percentage for this measure represents timely compliance with FERC issued LNG recommendations for in-service Section 3 LNG facilities. FERC conducted nine inspections at the eight operational LNG terminals under FERC jurisdiction in FY 2015. One terminal was inspected twice due to being rescheduled from FY 2014. In FY 2015, 23 recommendations were due to be implemented to improve

the safety and reliability of the facilities. Ninety one percent (21 of 23) of the recommendations were implemented in the established time frames. Two recommendations were completed less than 30 days after the due date. The 23 recommendations were due to be implemented at five of the eight terminals inspected. The remaining three terminals had no recommendations due for implementation in FY 2015.

⁷ In the Commission’s FYs 2014-2018 Strategic Plan, the title for this performance measure indicates that the “number” of LNG recommendations will be assessed. However, during the development of the baseline and targets in FY 2014, the measure was changed to the “percentage” of LNG facility recommendations implemented by established timeframes.

Performance Goal 2.2.3

The amount of lost firm load megawatts in a given year resulting from bulk power system transmission related events (unplanned outages), excluding weather related outages

Description

The annual amount of lost load resulting from unplanned disturbances on the bulk power system other than severe weather provides a measure of FERC’s impact on system reliability and serves as an indicator of the Commission’s effectiveness in achieving its Objective 2.2 to minimize risks to the public associated with FERC-jurisdictional energy infrastructure.

The maximum desired threshold of bulk power system, non-weather related megawatt lost in the US is set to be 0.5 percent normalized on an annual US actual peak load value. Based on this metric, any fiscal year with a major blackout event that has more than 0.5 percent of load loss or multiple events of lesser magnitude that cumulatively exceed 0.5 percent will be considered a poor performance year (weather-related events are not included in this calculation).

This threshold is established so that an event equivalent in size to past major blackouts (such as those experienced in the Northeast in 2003, Florida in 2008, or the Southwest in 2011) would indicate a poor performance year. Monitoring and re-evaluating this threshold is needed as more data and experience is gained in next several years. In addition, the threshold is a representative of average grid performance from 2009-2013, excluding major blackout events. In general, the number of bulk power system level outage events captured by this metric (uncontrolled outages directly impacting end-user customers in excess of 50 megawatts) has been small, indicating the bulk power system reliability remains adequate. However, even these small events can be an indicator of an emerging issue that may require the Commission to take action.

| Fiscal Year | FY 2010 Actual | FY 2011 Actual | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2017 Target | FY 2017 Target |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|-------------------|
| Performance Indicator: Lost firm load megawatts resulting from bulk power system transmission related events, excluding weather related outages | 0.70% | 1.50% | 0% | 0.30% | 0.08% | 0.31% ⁸ | Below 0.5% | Below 0.5% | Below 0.5% |

FY 2015 Target: Met

Analysis

The cumulative FY 2015 ratio of lost firm load is 0.31 percent, which is below the cumulative annual target (0.5 percent). A total of seven firm load loss events met the metric criteria in FY 2015. The cumulative lost firm load is 2,207 megawatts, out of 709,123 megawatts. The total energy not served is approximately 3,091 megawatt-hours. Equipment failure is an initiating cause

for five of these seven events; and protection system misoperations are identified as contributing factors in three of these seven events, increasing event severity.

Although the Commission met the FY 2015 annual target, staff recommends monitoring equipment failure and misoperation trends in the next two years, and considering reasonable mitigation solutions if warranted.

⁸ Result is based on the January 7, 2016, event report submitted by North American Electric Reliability Corporation (NERC). Staff has a quarterly verification process with NERC to assess the running total of loss-of-load events, amount of load loss, and event root causes, and will revise the metric data if updates become available.

GOAL 3

MISSION SUPPORT THROUGH ORGANIZATIONAL EXCELLENCE

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

INTRODUCTION

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. The Commission staff, while serving in different component offices, must work collaboratively and execute processes that work in concert with each other to produce the high quality results expected by the American people. In accomplishing this state, the Commission will use its resources efficiently, empower its employees, and earn the public trust. These essential outcomes are indicative of a model regulatory agency.

| Strategic Goal and Objectives (Dollars in thousands) | | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request | Percent Change FY 2016 to FY 2017 |
|---|---------|-------------------|---------------------|--------------------|--|
| Objective 3.1 | FTE | 146 | 148 | 148 | 0.0% |
| | Funding | 29,908 | 31,360 | 32,730 | 4.4% |
| | Program | 21,900 | 22,928 | 23,592 | 2.9% |
| | Support | 8,008 | 8,432 | 9,138 | 8.4% |
| Objective 3.2 | FTE | 59 | 60 | 60 | 0.0% |
| | Funding | 12,299 | 12,919 | 13,483 | 4.4% |
| | Program | 9,044 | 9,472 | 9,748 | 2.9% |
| | Support | 3,255 | 3,446 | 3,734 | 8.4% |
| Objective 2.3 | FTE | 75 | 78 | 78 | 0.0% |
| | Funding | 15,657 | 16,616 | 17,361 | 4.5% |
| | Program | 11,531 | 12,165 | 12,537 | 3.1% |
| | Support | 4,126 | 4,451 | 4,823 | 8.4% |
| Goal 3 Subtotal | FTE | 281 | 286 | 286 | 0.0% |
| | Funding | 57,864 | 60,895 | 63,574 | 4.4% |
| Application of PY Budget Authority | | - | (2,103) | - | |
| Goal 3 Total | Funding | 57,864 | 58,792 | 63,574 | 8.1% |

Note: Numbers may not add up due to rounding.

Objective 3.1

MANAGE COMMISSION RESOURCES EFFECTIVELY AND EFFICIENTLY.

The Commission continues to prioritize resource allocations and make prudent investments in relation to specific program activities and challenges, and these investments are expected to yield returns that directly benefit the agency's mission. Additionally, 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, IT resources, and physical infrastructure. These investments will facilitate mission accomplishment while providing measurable efficiencies in future operating cycles. The following projects and initiatives detail the types of investments the Commission is planning to make.

Human Capital Management

In FY 2015, the Commission continued human capital mitigation strategies to account for the potential loss of approximately 30 percent of its staff to retirement by FY 2018. The agency developed extensive analyses of recruiting and employment data which it leveraged to formulate strategic hiring plans. This approach has enabled the agency to target and mitigate critical staffing vulnerabilities ahead of forecasted attrition. Additionally, this strategic process has enabled the Commission to target additional skill sets required to meet evolving mission related demands. With the agency increasing its use of analytics and data-modeling to inform regulatory policy decisions, the Commission has

been aggressively recruiting professionals that possess the capabilities to analyze and evaluate complex energy data. In FYs 2016 and 2017, the Commission will continue to aggressively recruit and hire staff to meet its current and future needs. The agency will increasingly leverage social media platforms to market employment opportunities in addition to its use of more traditional recruiting strategies. Finally, the Commission will execute its hiring processes in a manner that minimizes hiring cycle times in line with established targets and maximizes the use of allocated financial resources.

Information Technology Management

While evaluating the need to modernize and upgrade legacy Commission applications to align more closely with current business needs, the Commission continues to make strategic IT investments that provide for lower operating costs. In FY 2016, the Commission plans to migrate a major business application to a cloud-based service solution. The Commission uses a suite of hardware and software called eLibrary that functions as the system of record for all FERC-issued orders, industry filings, and public comments. This system is used by all Commission staff and is the single entry point for the public to access docketed information. The system was put into production over 10 years ago and is no longer optimal for the Commission's IT infrastructure. Concurrently, integration design efforts for several workflow applications that interact with the eLibrary solution began in FY 2015 and will continue into FY 2017. These integration projects will automate redundant manual entry processes providing greater efficiencies to agency operations.

The Commission plans to continue to promote a federal Cloud First strategy by initiating pilots for the implementation of cloud-based processing and storage infrastructure. In

addition, the Commission will balance its financial and security needs to find appropriate solutions that will span the next few years. It is the Commission's expectation that these pilots will assist in the design of solutions that will ultimately decrease the costs associated with maintaining its technology environment.

In addition to implementing more cost-effective IT solutions, the Commission awarded a new multi-year contract which provides for lower IT support services costs beginning in FY 2016. The Commission awarded a seven year services contract to a major service provider which is projected to yield millions in annual savings. The Commission was able to accomplish such significant savings through a comprehensive solicitation that leveraged competitive rates available in the current market. Additionally, the Commission transitioned from a cost reimbursable vehicle to a firm-fixed price solution that clearly sets service level expectations and provides sufficient cost controls. Financial resources saved from reduced support costs can support other mission-critical IT requirements.



Headquarters Modernization

In August 2014, the Commission and GSA executed a 10-year renewal option on the Commission's Headquarters building. Congressional authorization for the lease extension requires the Commission to reduce the amount of space it currently utilizes to support its Washington, D.C., based operations. As required by the Prospectus, GSA and the Commission have developed a plan to consolidate its occupancy within the Commission's Headquarters building by vacating approximately 52,000 square feet. Additionally, as part of this consolidation effort, the Commission will relocate employees currently housed within a separate facility in downtown Washington, D.C., to the Commission's Headquarters building. In total, the Commission will release approximately 90,000 square feet that it currently utilizes to house its Washington, D.C., operations. This reduction will yield approximately \$4.5 million to \$6.75 million in savings annually to the federal government based on forecasted market rates for the local area.

While achieving the required space reductions, the Commission will modernize the floor configurations to an open environment that will leverage more natural light and provide for enhanced collaboration and additional conferencing capabilities.

The project will require substantial renovation to the headquarters building and is currently in the design phase. The Commission has funded initial project requirements

associated with planning, design and contractor support necessary to reconfigure the Commission's office space in a manner that meets the mandated reduction goals by the end of the project schedule. Construction is planned to commence in the summer of 2016 and conclude in 2019. The total project, including the purchase of furniture, is estimated to cost approximately \$79.4 million. In FY 2016, planned project requirements total approximately \$10.4 million and the Commission will fund these costs with its unobligated carryover balance from the previous fiscal year. In FY 2017, FERC requests approximately \$16.3 million to support project requirements.

The Commission is utilizing all available options to limit the impact the project has on its budget request in any one fiscal year. To this end, the Commission will take advantage of the building owner's tenant improvement allowances to spread approximately \$8.5 million of these project costs over the next 10 years. Also, the Commission will consider options to take advantage of furniture programs to amortize the estimated \$14.2 million of furniture costs. Finally, the Commission will aggressively manage the associated project schedule to avoid additional costs that may be realized due to any project delays. The timely funding of project requirements will mitigate the risks of such costs as the effort progresses forward. Current contractor estimates factor in an additional 10 percent contingency to mitigate associated risks.

Performance Goal 3.1.1

Average Hiring Cycle Time

Description

The Commission must ensure planned staffing levels are sufficiently maintained to ensure efficient utilization of its financial resources. The Commission allocates over two-thirds of its budget to employee compensation. Any undue lapse in recruiting and hiring new employees impacts the ability of the agency to balance its expenditures with its recovery of its annual appropriation, as required by statute.

The Commission will take action to reduce the amount of time it takes to fill vacancies. Accordingly, the average hiring cycle time is a measure of FERC’s performance in this regard and serves as an indicator of the Commission’s success in achieving Objective 3.1. The target for this measure is to maintain the average hiring cycle time of 55 days from need validation to offer.

| Fiscal Year | FY 2010 Actual | FY 2011 Actual | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|--|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Performance Indicator: Average Hiring Cycle Time | Data not available | 69 days | 56 days | 54 days | 55 days | 50 days | 55 days | 55 days | 55 days |

FY 2015 Target: Met

Analysis

Since the implementation of the Smart Hire automated hiring system by Monster Government Solutions in April 2011, the Commission continues to improve the hiring process. Prior to Smart Hire’s implementation, the hiring process was completed manually. Over the four years since implementation, the staffing and recruiting teams partnered with FERC program offices to develop ways to strategically decrease the hiring cycle time while hiring

increasing numbers of highly qualified candidates. In FY 2015, 198 total hires were made with an average hiring cycle time of 50 days; this demonstrates the progress made and success in reducing the overall hiring cycle time. With a continued focus on strategic recruitment initiatives and streamlined hiring processes, we expect to continue meeting and/or exceeding the 55-day target in the future.

Performance Goal 3.1.2

Reduction in targeted information technology costs

Description

In order to support the Commission’s operations, we must deliver secure and effective technology solutions at a reasonable cost. With the ability to deploy emerging technologies that provide for lower cost IT solutions, the Commission is targeting a reduction in current costs for labor acquired through its IT support services contract. These savings will allow the Commission to reprogram funding to meet other mission-critical IT needs. Accordingly,

the ability of the Commission to reduce targeted IT costs is a measure of its performance and serves as an indicator of the Commission’s success in achieving Objective 3.1.

The percent reduction in targeted IT costs is calculated cumulatively on FY 2015 baseline costs. A higher percent is an indication of greater savings as compared to the base year.

| Fiscal Year | FY 2014 Actual | FY 2015 Actual | FY 2016 Target | FY 2017 Target |
|--|----------------|----------------|----------------|----------------|
| Performance Indicator: Cumulative percent reduction in targeted IT costs | - | Baseline | 22.80% | 24.40% |
| Supplemental Information: Targeted IT costs (in millions) | \$24.30 | \$24.50 | \$18.90 | \$18.50 |

FY 2015 Target: Met

Analysis

Reductions (savings) planned in FY 2014, which will begin to accrue in the out-years, were driven by leveraging market competition to obtain lower cost IT support contractual services. Transition of contractors for IT Support Services occurred during FY 2015 during which time both were employed for purposes of knowledge transfer and continuity of services. In FY 2016, the Commission expects

to achieve a 22.8 percent reduction as compared to the FY 2015 baseline spend levels, which is primarily accounted for by the change in IT support services.

These savings are for services and projects in place in FY 2014 and exclude potential new IT investments.

Performance Goal 3.1.3

Time and cost of building modernization on schedule and budget

Description

The Commission must establish a design plan and budget for an extensive consolidation effort within its headquarters facility. This multi-million dollar renovation effort will span the next five to six years. The Commission will partner with the GSA, private contractors and the facility owner to execute the required work. It is imperative that management closely monitor project performance relative to schedule and resources given the significant investment and the numerous entities involved.

Accordingly, the extent to which the modernization effort is completed within budget is the primary measure of FERC’s performance in managing the project and serves as an indication of its effectiveness in achieving Objective 3.1. While schedule performance remains important to the overall effort, there are a number of constraints and external factors that make the measurement and reporting of schedule performance less of an indicator of the overall project’s performance. The project funding will be requested in phases, primarily to limit the amount of resources required in each fiscal year for project construction. This strategy enables the Commission to spread the recovery of these

costs over the life of the project, thereby more effectively aligning its assessment methodology with its requirement to recover its annual appropriation from regulated entities. Although this funding approach enables the Commission to amortize and recover the project’s costs, it also creates a high risk of uncertainty in the schedule for later phases of the project, as annual appropriation decisions are beyond the control of the Commission and GSA. To mitigate the impact of these risks, the Commission will factor in sufficient contingency within the project budget. Moreover, the Commission will provide supplemental data to report on the project’s schedule.

The Cost Performance Index (CPI) is used as the primary indication of project performance relative to managing cost and budget. Specifically, Earned Value (EV), the value of the work completed, and Actual Cost (AC), the actual cost incurred to complete the work will be assessed in order to produce the Cumulative CPI. Cumulative CPI is calculated as follows: $Cumulative\ CPI = EV / AC$. A value higher than one indicates a favorable condition, while a value under one would be considered unfavorable.

| Fiscal Year | FY 2014 Actual | FY 2015 Actual ⁹ | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|---|--------------------|-----------------------------|----------------|----------------|----------------|
| Performance Indicator: Cost Performance Index (CPI) | Data not available | 1.0 | 1.0 | 1.0 | 1.0 |

FY 2015 Target: Met

Analysis

The activities planned and completed this performance period consist of design activities for both the FERC Headquarters and offsite Swing Space (SS). The current CPI for this performance period is one (0.99997). While the target was met for this performance period, certain external factors could have negative schedule implications in future performance periods, and it is uncertain how those implications would translate to the CPI for those periods. The factors included budgetary uncertainty caused by a continuing resolution and a lease issue related to the SS that caused design efforts to be suspended. This suspension of design work on the SS did not affect the FERC

Headquarters design effort, but may impact the overall construction schedule in future periods. There were six major milestones scheduled for the FY 2015 performance period which includes procurement of architectural and engineering services, program of requirement validation, part one design intent drawings, part two design intent drawings, SS design completion, and SS delivery. Four of the six milestones were accomplished, though approximately one month later than scheduled, attributable to review and revision periods taking longer than anticipated. The two SS related milestones were delayed primarily due to lease issues and funding uncertainty.

⁹Based on timing of when the values used to calculate the CPI were made available, the FY 2015 performance period captures information through the first quarter of FY 2016.

Objective 3.2

EMPOWER COMMISSION EMPLOYEES TO DRIVE SUCCESS.

Commission employees are directly responsible for achieving FERC’s mission. On an annual basis, the Commission allocates over two-thirds of its budget to directly cover the compensation costs of its employees. Given this significant investment, the Commission places extremely high value on its employees and is focused on ensuring their success. The Commission seeks to become an employer of choice for individuals who can contribute a diverse set of needed skills. 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.

Corporate Knowledge Management

The Commission will invest heavily in succession and knowledge management activities to ensure the agency equips employees with the requisite knowledge to meet strategic demands going forward. It will develop a knowledge management program to mitigate the risks associated with 30 percent of the agency’s workforce being eligible for retirement in the next five years. In FY 2016, the agency will continue to implement knowledge collaboration tools that will serve as the vehicle to capture critical organizational knowledge and promote learning. The Commission will develop a uniform approach that will seek to preserve corporate information and make it accessible to all Commission employees. These delivery mechanisms will provide information and training to Commission employees in a cost-effective and easily repeatable fashion. Such a strategy will ensure employees possess the specialized skills and knowledge required to successfully support the agency’s mission.



FERC RANKED NO. 5 OUT OF 24 MID-SIZED AGENCIES IN EMPLOYEE SATISFACTION AND COMMITMENT, ACCORDING TO THE NONPROFIT PARTNERSHIP FOR PUBLIC SERVICE 2015 BEST PLACES TO WORK IN THE FEDERAL GOVERNMENT SURVEY.

Federal Employee Viewpoint Survey (FEVS) and Other Employee Outreach Activities

It is imperative that the Commission is fully aware of employees’ most critical needs and this knowledge will ensure that the agency adequately empowers its employees to meet their mission responsibilities. To this end, the Commission will utilize results from the annual FEVS to assess employee perceptions relative to performance management. In FY 2015, results showed that the Commission was one of the top agencies in the federal government, ranking fifth out of all mid-sized agencies and departments relative to employee engagement. Employees rated the agency’s leadership 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 conveyed through these results. Agency efforts in this regard further enhanced the importance of the survey and 74 percent of all eligible employees participated in the FY 2015 survey. 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.

Performance Goal 3.2.1

Deployment of a Knowledge Management Program¹⁰

Description

The deployment of this program ensures knowledge is shared across the Commission and an environment of continuous learning is present to address the retirement eligibility of 30 percent of the current workforce within the next five years. The Commission must maintain a highly skilled workforce to address its regulatory responsibilities. A knowledge management program provides employees a means to share critical information across the Commission and involves an analysis of the competencies necessary to

perform their job requirements. The Commission also will deploy automated collaboration tools to capture and share knowledge gathered across the Commission. The entire deployment of the knowledge management program will be tracked against pre-established milestones. The percent of those milestones that are met is a measure of FERC’s performance in deploying the program and an indication of its accomplishment of Objective 3.2.

| Fiscal Year | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|---|--------------------|------------------------------|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Performance Indicator: Percent of milestones that are met in the deployment of a knowledge management program using automated tools | Data not available | Resource planning completed. | 83% of planned milestones achieved. | 100% of planned milestones achieved. | 100% of planned milestones achieved. | 100% of planned milestones achieved. |

FY 2015 Target: Not Met

Analysis

The Commission completed five out of six planned milestones in the deployment of a Knowledge Management program. Knowledge Management ramped up in early 2015 after awarding the contract to ICF International LLC. A project plan was developed describing the planned schedule, technical approach, and steps in the work process, including the methodology and project tasks, critical linkages between tasks, staffing requirements, and the time requirements of FERC personnel that are necessary to complete each task. A kickoff meeting was conducted in October of 2015 with FERC’s stakeholders in which needs and expectations for the project, as well as preferences on receiving information, and anticipated roles were captured

and documented. The team has, and will continue in FY 2016, to deploy knowledge collaboration automated tools and conduct an analysis of the competencies necessary in Commission occupations. Due to time constraints, working groups were not established; however this is being addressed through conversations with the program offices. In FY 2016, FERC will identify key stakeholders and map their roles as impacted by Knowledge Management. Additionally, FERC will continue to work to understand specific requirements or concerns of each office, occupation, and role. From these efforts, a change management plan and communication plan will be developed that will endure throughout the life of the contract.

¹⁰ In the FY 2014 – 2018 Strategic Plan, this performance goal was established to measure the deployment of a competency based training program. In FY 2015, this measure was modified to measure the deployment of a knowledge management program to expand the scope of our original efforts to look broader at capturing critical organization knowledge and use it to promote learning.

Performance Goal 3.2.2

Employee Satisfaction Favorability Rating

Description

The Commission must ensure that employee performance is aligned with the Commission’s strategic goals and that employees have the resources they need to accomplish the Commission’s goals. Thus, this measure uses the results

of the FEVS to measure employee perceptions on the Commission’s performance management system and the adequacy of resources.

| Fiscal Year | FY 2010 Actual | FY 2011 Actual | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Performance Indicator: Employee Satisfaction Favorability Rating | 67% positive | 66% positive | 65% positive | 67% positives | 69% positive | 71% positive | 69% positive | 69% positive | 69% positive |

FY 2015 Target: Met

Analysis

This rating is defined as the weighted average of the percentage of employees who responded favorably to fifteen selected questions related to performance management and adequacy of resources in the FEVS. From FY 2014 to FY 2015, this rating increased by 2 percent. Of the 15 questions used to calculate this rating, the two highest rated and the two lowest rated questions in FY 2015 were also the highest rated and lowest rated, respectively, in FY 2014. The two highest rated questions (above 80 percent positive) were: i) “In the last six months, my supervisor has talked with me about my performance,” and ii) “employees are protected from health and safety hazards on the job.” The two questions with the lowest ratings (below 50 percent positive) were: i) “In my work unit, differences in performance are recognized in a meaningful way,” and ii) “Creativity and innovation are rewarded.” However, the scores for the lowest rated questions increased from FY 2014 by 4 and 6 percent, respectively, partially leading to the overall increase in the measure from FY 2014 to FY 2015.

Overall, the scores for 12 of the 15 increased (ranging from 0.2 to 6 percent) from last year, while the scores of three questions decreased (ranging from -0.4 to -1.9 percent). As such, the Commission exceeded the 69 percent target

for FY 2015. All questions relating to the performance management aspect of the measure increased while the three questions that decreased relate to the adequacy of resources employees have. However, it is important to note that the questions that had a decrease in score range between 82 to 88 percent positive and, based on Office of Personnel Management guidelines, are considered strengths. Given that the decrease in any individual score was less than 1.9 percent (regarding resources), and the highest increase was 6 percent, we cannot attribute them to any significant changes with Commission resources or performance management that may have led to these variances.

Each office and component within the Commission plays an important role in ensuring employee satisfaction and adequacy of resources (e.g., providing sufficient training to employees). To ensure continued success with meeting this target, the Commission has and will continue to communicate the results of each program office’s FEVS to the respective offices. FERC will also continue to provide each office with guidelines to help them develop action plans to address any areas not favorably rated and take corrective actions.

Objective 3.3

FACILITATE PUBLIC TRUST AND UNDERSTANDING OF COMMISSION ACTIVITIES BY PROMOTING TRANSPARENCY, OPEN COMMUNICATION, AND A HIGH STANDARD OF ETHICS.

Facilitating understanding of how the Commission carries out its responsibilities and maintaining public trust in the Commission are important components of the Commission’s commitment to organizational excellence. Trust and understanding increase acceptance of FERC decisions and reduce the potential for contentiousness toward FERC rules and regulations, thus enabling the creation and enforcement of policy. The Commission advances this objective by promoting transparency and open communication with respect to conduct of the Commission’s business, thereby increasing awareness and understanding of the Commission’s activities. The Commission furthers this objective by cultivating relationships with sister government agencies and stakeholder groups, which supports understanding of Commission procedures and actions. The Commission also promotes a high standard of ethics, which encourages public confidence in the Commission’s activities and ability to fulfill its responsibilities.

Commission staff is highly interactive and responsive to its stakeholders. For example, it is essential that Commission staff communicate clearly and concisely with the media so that stakeholders and the public can be aware of and understand the Commission’s actions. To that end, Commission staff consistently provides detailed background material on Commission meeting orders to help the media, stakeholders and the public understand complex matters, and posts links to the actual orders to the Commission’s web page as quickly as possible after each meeting.

With the Commission’s web page being its primary communication tool, staff worked in FY 2014 to improve its usability. Staff analyzed user data and redesigned the main web page to provide simpler access that makes it easier for the media, stakeholders and the public to get direct links to FERC orders, reports, meeting and hearing schedules, statements and other of the most on-demand information.

Communicating with Congress on the Commission’s actions also is 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, the Commission responds in a timely and transparent manner to all Congressional inquiries.

Finally, communicating with state officials, particularly state regulators, also is a priority for the Commission. Staff consistently notifies the appropriate regulators and other state officials of Commission actions that are of interest, and frequently offers briefings via conference calls or webinars on major issues.

Through the use of the Commission’s eLibrary and eSubscription web pages, the public can obtain extensive information concerning documents both submitted to and issued by the Commission. FERC seeks to ensure that all filings and Off-the-Record Communication (Ex Parte)

FERC LANDOWNER HELPLINE

THE COMMISSION’S LANDOWNER HELPLINE IS ANOTHER EXAMPLE OF HOW THE COMMISSION PROMOTES TRANSPARENCY. THE LANDOWNER HELPLINE ASSISTS LANDOWNERS WITH ISSUES RELATING TO THE CONSTRUCTION OR OPERATION FOR FERC JURISDICTIONAL FACILITIES.

ISSUES ADDRESSED INCLUDE, FOR EXAMPLE:

- RESPONDING TO REQUESTS FOR INFORMATION
- RESPONDING TO REQUESTS FOR ASSISTANCE TO FACILITATE RESOLUTION OF DISPUTES RELATING TO RESTORATION (SUCH AS LAND AFTER CONSTRUCTION)
- RESPONDING TO OTHER COMPLAINTS.

THE LANDOWNER HELPLINE ALSO FACILITATES RESOLVING LANDOWNER ISSUES INVOLVING ENVIRONMENTAL, RECREATIONAL, AND OTHER MATTERS RELATING TO A FERC JURISDICTIONAL HYDROELECTRIC PROJECT.

submitted to and from the Commission are publicly noticed timely and accurately. The Commission continues to make the maintenance and implementation of effective filing procedures a high priority, therefore, the timely processing of incoming documents ensures the information is channeled to Commission staff for prompt review and action. As a result, timely and accurate Commission issuances, such as notices, orders, and major rules, continue to promote the flow of information through all levels of the agency and to all interested parties.

Furthermore, the number of users and followers of the Commission’s social media efforts has grown significantly, to approximately 20,000 since the Commission launched these efforts, including Facebook, Twitter and Flickr, starting in FY 2011. In addition to following the Commission’s news-related postings, thousands of people and institutions are reposting Commission information to other websites, which further increases awareness and understanding of the Commission’s activities. In FY 2014, the Commission began using Flickr to share official photos from FERC’s public hearings and other official activities. In FY 2015, the Commission implemented advanced tracking software that will more thoroughly monitor and measure the effectiveness and reach of its social media.

In addition, the Commission’s ethics program aims to promote the highest standards of ethical conduct by determining whether employees’ activities conform to statutes and regulations that set standards of conduct for federal employees. The Commission continues to utilize innovative annual ethics training, which has been recognized repeatedly for excellence among government agencies. To promote transparency and public confidence in the Commission’s programs, Commission staff responds to requests under the Freedom of Information Act, 5 U.S.C. § 552. The Commission seeks to issue responses to 85 percent of such requests within the statutory time frame of 20 business days, excluding statutory extensions.



Performance Goal 3.3.1

Disseminate Commission filings and issuances to the public within established timeframes

Description

Timely communication with stakeholders helps to demonstrate a spirit of transparency and openness that is essential to maintaining public trust and understanding. Accordingly, FERC has established timeframes for responding to requests for information, for disseminating policy decisions and actions, for the issuance of approved orders, and for public notification of filings submitted to the Commission as well as Off-the-Record Communications (Ex Parte) submitted to and from the Commission. The extent to which FERC meets these timelines is an indication of its

performance with regard to timely communication and serves as an indicator of the Commission’s effectiveness in achieving Objective 3.3.

Targets are set for each filing channel, varying by channel. These differing thresholds reflect the relative importance of the type of document, the extent to which the documents are processed electronically, and the degree of control which FERC exercises over the document filing channel.

| Fiscal Year | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|---|--------------------|----------------|----------------|----------------|----------------|----------------|
| Performance Indicator: Percent of Commission filings and issuances that are disseminated to the public within established timeframes | Data not available | 81% | 87% | 86% | 92% | 96% |

FY 2015 Target: Met

Analysis

While the FY 2015 results for all filing channels combined met the target, there is room for improvement for the regional office paper filings. Our plan for improving results on this metric relies upon moving these filings into the electronic arena. Enhancements and upgrades to both eFiling and to the issuance application (Publish Issuance

Workflow) will pave the way for migrating away from paper. This realignment will subject regional office filings to the electronic performance measures, which, while more challenging statistically, offer more realistic opportunities for meeting the higher goals.

Appendix A

WORKLOAD TABLES

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|---------------------------------|----------------|----------------|-----|----|------------------|-----|-----|------------------|-----|-----|
| Pipeline Certificates | P | R | C | P | R | C | P | R | C | P |
| Construction Activity | 67 | 87 | 59 | 95 | 120 | 120 | 95 | 120 | 120 | 95 |
| Prior Notice & Abandonments | 24 | 49 | 60 | 13 | 100 | 100 | 13 | 100 | 100 | 13 |
| Compliance Filings & Reports | 0 | 423 | 423 | 0 | 400 | 400 | 0 | 400 | 400 | 0 |
| Environmental Analysis | 35 | 188 | 139 | 84 | 190 | 160 | 114 | 190 | 160 | 144 |
| Compliance & Safety Inspections | 0 | 331 | 331 | 0 | 350 | 350 | 0 | 350 | 350 | 0 |
| LNG Inspections | 1 | 14 | 15 | 0 | 18 | 18 | 0 | 14 | 14 | 0 |
| Rehearings | 14 | 27 | 17 | 24 | 20 | 20 | 24 | 27 | 27 | 24 |
| Complaints | 2 | 1 | 2 | 1 | 2 | 2 | 1 | 1 | 1 | 1 |
| Declaratory Orders | 2 | 3 | 5 | 0 | 2 | 2 | 0 | 1 | 1 | 0 |
| Remands | 2 | 0 | 0 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Dispute Resolution | 7 | 100 | 103 | 4 | 125 | 120 | 9 | 135 | 137 | 7 |

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|-----------------------|----------------|----------------|----|----|------------------|----|----|------------------|----|----|
| Hydropower Licensing | P | R | C | P | R | C | P | R | C | P |
| Original Licenses | 49 | 5 | 10 | 44 | 10 | 30 | 24 | 10 | 22 | 12 |
| Relicenses | 55 | 1 | 6 | 50 | 18 | 25 | 43 | 20 | 30 | 33 |
| 5 MW Exemptions | 1 | 1 | 1 | 1 | 3 | 2 | 2 | 3 | 2 | 3 |
| Preliminary Permits | 29 | 94 | 79 | 44 | 85 | 85 | 44 | 50 | 75 | 19 |
| Rehearings | 14 | 18 | 21 | 11 | 25 | 25 | 11 | 25 | 25 | 11 |
| Declaratory Orders | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Remands | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Cases Set for Hearing | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 1 | 0 |
| Dispute Resolution | 1 | 1 | 1 | 1 | 2 | 3 | 0 | 2 | 2 | 0 |

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

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|--|----------------|----------------|-------|-----|------------------|-------|-----|------------------|-------|-----|
| | P | R | C | P | R | C | P | R | C | P |
| Project Compliance and Administration | | | | | | | | | | |
| Amendments | 577 | 2,389 | 2,435 | 531 | 2,485 | 2,696 | 320 | 2,597 | 2,600 | 317 |
| Jurisdiction | 6 | 5 | 5 | 6 | 5 | 5 | 6 | 5 | 5 | 6 |
| Federal Lands | 28 | 124 | 151 | 1 | 151 | 145 | 7 | 127 | 131 | 3 |
| Headwater Benefits | 4 | 99 | 100 | 3 | 105 | 104 | 4 | 110 | 107 | 7 |
| Compliance | 85 | 765 | 772 | 78 | 785 | 780 | 83 | 822 | 821 | 84 |
| Surrenders, Transfers | 23 | 26 | 22 | 27 | 31 | 26 | 32 | 34 | 34 | 32 |
| Conduit Exemptions | 2 | 34 | 32 | 4 | 31 | 28 | 7 | 25 | 29 | 3 |
| Environmental Inspections And Assistance | 0 | 57 | 57 | 0 | 63 | 63 | 0 | 68 | 68 | 0 |
| Rehearings | 2 | 25 | 11 | 16 | 15 | 25 | 6 | 15 | 15 | 6 |
| Complaints | 5 | 1 | 5 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Dispute Resolution | 1 | 5 | 6 | 0 | 3 | 3 | 0 | 3 | 3 | 0 |

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|-----------------------------------|----------------|----------------|-------|-------|------------------|-------|-------|------------------|-------|-------|
| | P | R | C | P | R | C | P | R | C | P |
| Dam Safety and Inspections | | | | | | | | | | |
| Operational Inspections | 1,148 | 1,460 | 1,369 | 1,239 | 1,460 | 1,396 | 1,303 | 1,460 | 1,396 | 1,367 |
| Prelicense Inspections | 1 | 14 | 5 | 10 | 11 | 12 | 9 | 11 | 10 | 10 |
| Construction Inspections | 37 | 120 | 106 | 51 | 147 | 160 | 38 | 142 | 148 | 32 |
| Exemption Inspections | 217 | 331 | 257 | 291 | 272 | 264 | 299 | 284 | 262 | 321 |
| Special Inspections | 51 | 192 | 171 | 72 | 163 | 158 | 77 | 169 | 160 | 86 |
| Engineering Evaluation & Studies | 1,903 | 9,518 | 8,483 | 2,938 | 9,500 | 8,960 | 3,478 | 9,500 | 8,865 | 4,113 |
| Part 12 Reviews | 156 | 179 | 147 | 188 | 175 | 150 | 213 | 175 | 150 | 238 |
| Dam Safety Reviews | 8 | 29 | 26 | 11 | 35 | 40 | 6 | 35 | 40 | 1 |
| EAP Tests – Functions | 34 | 64 | 66 | 32 | 65 | 63 | 34 | 65 | 63 | 36 |
| EAP Tests – Table Top | 12 | 41 | 27 | 26 | 40 | 36 | 30 | 40 | 36 | 34 |

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

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|---|----------------|----------------|-------|-------|------------------|-------|-------|------------------|-------|-------|
| Rates and Tariffs | P | R | C | P | R | C | P | R | C | P |
| Gas Certificates & Rate Evaluations | 107 | 81 | 48 | 140 | 85 | 55 | 170 | 85 | 65 | 190 |
| Market-Based Rates | 1,224 | 3,229 | 3,367 | 1,086 | 2,900 | 3,000 | 986 | 2,900 | 3,000 | 886 |
| Cogeneration/Small Power Producers (QF) | 418 | 2,079 | 2,390 | 107 | 1,375 | 1,375 | 107 | 1,375 | 1,375 | 107 |
| Dispute Resolution (Electric) | 6 | 12 | 14 | 4 | 15 | 17 | 2 | 18 | 18 | 2 |
| Rehearings (Electric) | 418 | 259 | 242 | 435 | 200 | 220 | 415 | 200 | 220 | 395 |
| Complaints (Electric) | 47 | 59 | 58 | 48 | 60 | 65 | 43 | 60 | 65 | 38 |
| Declaratory Orders (Electric) | 24 | 26 | 30 | 20 | 30 | 35 | 15 | 30 | 35 | 10 |
| Remands (Electric) | 6 | 0 | 2 | 4 | 0 | 2 | 2 | 0 | 2 | 0 |
| Negotiated Rates | 42 | 650 | 646 | 46 | 675 | 675 | 46 | 675 | 675 | 46 |
| Cost-Based Rates | 1,179 | 4,333 | 4,591 | 921 | 4,300 | 4,100 | 1,121 | 4,200 | 4,100 | 1,221 |
| Dispute Resolution (Gas) | 1 | 1 | 2 | 0 | 2 | 2 | 0 | 3 | 3 | 0 |
| Rehearings (Gas) | 45 | 15 | 30 | 30 | 20 | 30 | 20 | 15 | 30 | 5 |
| Complaints (Gas) | 3 | 1 | 2 | 2 | 1 | 3 | 0 | 1 | 1 | 0 |
| Declaratory Orders (Gas) | 0 | 3 | 3 | 0 | 2 | 2 | 0 | 1 | 1 | 0 |
| Remands (Gas) | 2 | 1 | 3 | 0 | 2 | 2 | 0 | 1 | 1 | 0 |
| RTO and ISO Filings | 88 | 211 | 229 | 70 | 300 | 300 | 70 | 300 | 300 | 70 |
| Dispute Resolution (Oil) | 0 | 2 | 2 | 0 | 1 | 1 | 0 | 1 | 1 | 0 |
| Rehearings (Oil) | 38 | 12 | 30 | 20 | 5 | 15 | 10 | 5 | 10 | 5 |
| Complaints (Oil) | 1 | 6 | 4 | 3 | 5 | 6 | 2 | 3 | 4 | 1 |
| Declaratory Orders (Oil) | 4 | 22 | 24 | 2 | 20 | 21 | 1 | 20 | 21 | 0 |
| Remands (Oil) | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 1 | 1 | 0 |

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|---|----------------|----------------|-----|----|------------------|-----|-----|------------------|-----|-----|
| Corporate Applications | P | R | C | P | R | C | P | R | C | P |
| Interlocking Positions, Other Corporate Filings | 107 | 695 | 708 | 94 | 820 | 800 | 114 | 820 | 800 | 134 |
| Mergers, Acquisitions & Dispositions | 30 | 222 | 210 | 42 | 235 | 235 | 42 | 235 | 235 | 42 |

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

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|--|----------------|----------------|----------|----------|------------------|----------|----------|------------------|----------|----------|
| Electric Grid Reliability | P | R | C | P | R | C | P | R | C | P |
| Reliability Standards | 103 | 166 | 159 | 110 | 99 | 101 | 108 | 129 | 136 | 101 |
| Interpretations/Erratas of Reliability Standards | 12 | 0 | 0 | 12 | 6 | 9 | 9 | 3 | 3 | 9 |
| Reliability Filings by ERO/RE | 42 | 20 | 17 | 45 | 19 | 15 | 49 | 18 | 20 | 47 |
| Standards Compliance Audits | 2 | 15 | 14 | 3 | 25 | 25 | 3 | 35 | 35 | 3 |
| Notices of Penalty-Violations | 89 | 1,157 | 1,205 | 41 | 825 | 791 | 75 | 770 | 775 | 70 |

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|------------------------------|----------------|----------------|----------|----------|------------------|----------|----------|------------------|----------|----------|
| Legal Matters | P | R | C | P | R | C | P | R | C | P |
| Cases Set for Hearing | 57 | 87 | 65 | 79 | 85 | 75 | 89 | 85 | 75 | 99 |
| Settlement Judge Proceedings | 28 | 69 | 57 | 40 | 75 | 65 | 50 | 75 | 65 | 60 |
| Appellate Review | 110 | 120 | 125 | 105 | 115 | 120 | 100 | 115 | 120 | 95 |
| Audits | 25 | 23 | 22 | 26 | 19 | 24 | 21 | 20 | 21 | 20 |
| Accounting | 64 | 407 | 376 | 95 | 380 | 388 | 87 | 385 | 390 | 82 |

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

Appendix B

ACRONYMS AND ABBREVIATIONS

| | |
|------------------------|---|
| CAISO | California Independent System Operator Corp. |
| CIP | Critical Infrastructure Protection |
| CPI | Cost Performance Index |
| EISA | Energy Independence and Security Act of 2007 |
| EPAct 2005 | Energy Policy Act of 2005 |
| ERO | Electric Reliability Organization |
| FERC or the Commission | Federal Energy Regulatory Commission |
| FEVS | Federal Employee Viewpoint Survey |
| FPA | Federal Power Act |
| FPC | Federal Power Commission |
| FTE | Full-Time Equivalent |
| FY | Fiscal Year |
| GSA | General Services Administration |
| ICA | Interstate Commerce Act |
| ISO | Independent System Operator |
| ISO-NE | Independent System Operator New England, Inc. |
| IT | Information Technology |
| LNG | Liquefied Natural Gas |
| MISO | Midcontinent Independent Transmission System Operator, Inc. |
| NEPA | National Environmental Policy Act |
| NERC | North American Electric Reliability Corporation |
| NGA | Natural Gas Act of 1938 |
| NGPA | Natural Gas Policy Act of 1978 |
| NIST | National Institute of Standards and Technology |
| NYISO | New York Independent System Operator, Inc. |
| PJM | PJM Interconnection, LLC |
| PY | Prior Year |
| RTO | Regional Transmission Organization |
| SPP | Southwest Power Pool |
| SS | Swing Space |



**Office of External Affairs
888 First Street, NE
Washington, D.C. 20426**

**202-502-6088
1-886-208-3372 (toll-free)
202-502-8659 (TTY)**

www.FERC.gov



FEDERAL ENERGY REGULATORY COMMISSION

FY 2014 Congressional
Performance Budget Request

*Chairman Jon
Wellinghoff*

April 2013

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THE FEDERAL ENERGY REGULATORY COMMISSION'S MISSION

Reliable, Efficient, and Sustainable Energy for Consumers

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

Fulfilling this mission involves pursuing two primary goals:

- 1. Ensure that rates, terms and conditions are just, reasonable and not unduly discriminatory or preferential.**
- 2. Promote the development of safe, reliable and efficient energy infrastructure that serves the public interest.**



Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

Proposed Appropriation Language

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

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

Full Cost Recovery

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

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

Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

FY 2014 Request Summary

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

Resources by Strategic Goals and Objective

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

Resources by Industry

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

Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

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

Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

OVERVIEW OF THE FEDERAL ENERGY REGULATORY COMMISSION

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

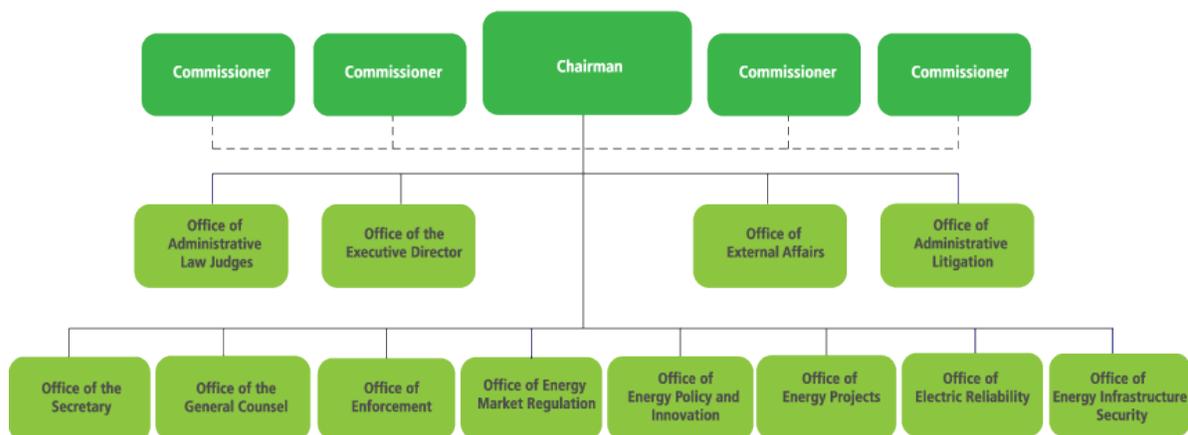
The Commission was created through the Department of Energy Organization Act on October 1, 1977. At that time, the Federal Power Commission (FPC), the Commission's predecessor that was established in 1920, was abolished and the Commission inherited most of the FPC's regulatory mission. As authorized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

FERC is composed of up to five commissioners who are appointed by the

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

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

Federal Energy Regulatory Commission



Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

Office of Administrative Law Judges (ALJ)

Resolves contested cases as directed by the Commission either through impartial hearing and decision or through negotiated settlement, ensuring that the rights of all parties are preserved.

Office of Administrative Litigation (OAL)

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

Office of Electric Reliability (OER)

Oversees the development and review of mandatory reliability and security standards; ensures compliance with the approved mandatory standards by the users, owners, and operators of the bulk power system.

Office of Energy Infrastructure Security (OEIS)

Provides leadership, expertise and assistance to the Commission to identify, communicate and seek comprehensive solutions to potential risks to FERC-jurisdictional facilities from cyber attacks and physical threats.

Office of Energy Market Regulation (OEMR)

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

Office of Energy Policy and Innovation (OEPI)

Issues, coordinates, and develops proposed policy reforms to address emerging issues affecting wholesale and interstate energy markets, including such areas as climate change, the

integration of renewable resources, and the deployment of demand response.

Office of Energy Projects (OEP)

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

Office of Enforcement (OE)

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

Office of External Affairs (OEA)

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

Office of the Executive Director (OED)

Provides administrative support services to the Commission including human resources (HR), acquisition, information technology (IT), organizational management, financial, and logistic functions.

Office of the General Counsel (OGC)

Provides legal services to the Commission. Represents the Commission before the courts and Congress and is responsible for the legal aspects of the Commission's activities.

Office of the Secretary (OSEC)

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

Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

THE CURRENT CHAIRMAN and COMMISSIONERS



Chairman Jon Wellinghoff

Sworn In: July 31, 2006

Term Expires: June 30, 2013



**Commissioner
Tony Clark**

Sworn In: June 15, 2012

Term Expires: June 30, 2016



**Commissioner
Cheryl A. LaFleur**

Sworn In: July 13, 2010

Term Expires: June 30, 2014



**Commissioner
Philip D. Moeller**

Sworn In: July 24, 2006

Term Expires: June 30, 2015



**Commissioner
John R. Norris**

Sworn In: June 18, 2012

Term Expires: June 30, 2017

REGULATORY AUTHORITY HISTORY AND OVERVIEW

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

Hydropower

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

Electric

Since 1935, the Commission has regulated certain electric industry activities under Part II of the FPA. Under FPA sections 205 and 206,

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

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

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

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coordination, and integration of the federal government's diverse activities related to smart grid technologies and practices.

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

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

Natural Gas and Liquefied Natural Gas

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

Under section 7 of the NGA, the Commission issues certificates of public convenience and necessity for the construction and operation of interstate natural gas pipelines and storage facilities. FERC is also responsible for conducting compliance inspections of the natural gas pipelines and storage facilities

during construction. Although the Commission does not have any jurisdiction over the safety or security of natural gas pipelines or storage facilities once they are in service, it actively works with other agencies with these responsibilities, most notably the Pipeline and Hazardous Materials Safety Administration of the Department of Transportation.

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

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

Oil

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

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Oversight and Enforcement

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

1. Congress expanded the Commission's FPA civil penalty authority to cover violations of any provision of Part II of the FPA, as well as of any rule or order issued there under.
2. Congress extended the Commission's civil penalty authority to cover violations of the NGA or any rule, regulation, restriction, condition, or order made or imposed by the Commission under NGA authority.
3. Congress established the maximum civil penalty the Commission may assess under the NGA, NGPA, or Part II of the FPA as \$1,000,000 per violation for each day that it continues.

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

GOAL 1: JUST AND REASONABLE RATES, TERMS AND CONDITIONS

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

Introduction

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

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

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

OBJECTIVE 1.1: REGULATORY AND MARKET MEANS

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

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

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

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

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

STRATEGY 1

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

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

demand response, renewable energy, and electric energy storage.

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

Demand-Side Resources.

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

Barriers to Demand Resources.

In order to overcome barriers to the development of demand response resources and in compliance with Congressional mandates, FERC staff published a National Action Plan on Demand Response¹ that, among other things, identifies requirements for technical assistance and a national communications program, and develops or identifies tools and other materials to support the development of demand response. Subsequently, FERC staff, in a joint effort with staff from DOE, submitted to Congress a proposal for implementing the National Action Plan on Demand Response.²

¹ National Action Plan on Demand Response, June 2010

<http://www.ferc.gov/legal/staff-reports/06-17-10-demand-response.pdf>

² Implementation Proposal for the National Action Plan on Demand Response, July 2011

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

Demand Response Compensation.

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

Additional Market Reform Efforts.

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

<http://www.ferc.gov/legal/staff-reports/07-11-dr-action-plan.pdf>

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properly credit demand response and energy efficiency for their services.

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

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

Renewable Resources.

Renewable energy resources have the potential to be a cost-effective means to diversify fuels used for electric generation. The Commission has been responsive to requests for flexibility in how it approaches transmission rate design, recognizing that renewable resources are often "location-constrained," and do not have the flexibility to locate near existing transmission lines. For example, in May 2012, the Commission approved Rock Island Clean Line LLC's proposal to allocate ownership rights and to offer capacity at negotiated rates for the transmission of 3,500 megawatts of renewable location-constrained generation resources in South Dakota and nearby portions of other Midwestern states with markets and customers in Illinois. In April 2012, the Commission approved the Zephyr Power Transmission, LLC and Pathfinder Power Transmission, LLC petition for declaratory order requesting to transfer negotiated rate authority and the confirmation of capacity rights in the Zephyr merchant

transmission project to Duke-American Transmission Company, LLC. The project is a 1,100 mile, 500 kV high voltage transmission line originating in southeast Wyoming and terminating south of Las Vegas, Nevada. The project is expected to be capable of delivering approximately 3,000 megawatts of generation to the southwestern United States. In June 2012, the Commission approved a proposal by PJM for accounting and billing revisions related to the recovery of lost opportunity costs for wind units. Also, in September 2012, the Commission approved negotiated rate authority for the 750-mile 600 kV high voltage direct current transmission Plains and Eastern Clean Line project. This project would be capable of delivering up to 3,500 megawatts from western Oklahoma, southwestern Kansas, and the Texas Panhandle to Memphis, Tennessee.

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

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

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

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

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

Resource Capacity.

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

capacity deficient and fail to cure the deficiency through purchases of capacity through bilateral contracts or voluntary action are assessed financial penalties.

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

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

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

Ancillary Services.

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

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

In June 2012, the Commission proposed revisions to its pricing policies governing the

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

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

STRATEGY 2

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

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

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

STRATEGY 3

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

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

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

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

dimensions: market benefits, organizational effectiveness, and reliability.

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

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

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

STRATEGY 4

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

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

Settlements, Litigation and ADR.

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

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

The trial staff, settlement judges and dispute resolution staff play a pivotal role in structuring these settlements, which

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

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

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

CORE FUNCTIONS

Execute additional statutory requirements to advance strategic goals and objectives

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

The Commission reviews applications for market-based rate authorizations for the sale for resale of electricity, capacity, or ancillary services by public utilities, for storage services provided by natural gas companies; and for transportation services provided by oil pipelines. The Commission grants market-based rate authorization where the ability to exercise market power either is not present or

has been mitigated and where other conditions are met. Public utilities with market-based rate authority must submit Electric Quarterly Reports in order to maintain this authority.

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

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

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

Rate and Tariff Filings by Industry

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

Estimates are based on historical data and expected filings.

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PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 1.1

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

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

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

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

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

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

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

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

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

OBJECTIVE 1.2: OVERSIGHT AND ENFORCEMENT

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

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

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

The Commission also ensures that rates are just and reasonable and not unduly discriminatory or preferential by requiring that

financial and market information is recorded in a useful form, is transparent, and is in compliance with the Commission's accounting regulations. The Commission also improves competitiveness in wholesale electric markets by preventing the accumulation and exercise of market power as it reviews proposed mergers, dispositions, and acquisitions, thereby ensuring that all such transactions are consistent with the public interest.

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

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

Strategy 1: Promote internal compliance programs and self-reporting of violations

Strategy 2: Use a risk-based approach to plan and prioritize audits of jurisdictional companies' operations

STRATEGY 1

Promote internal compliance programs and self-reporting of violations

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

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

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

should follow to establish effective compliance programs.⁵

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

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

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

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

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

STRATEGY 2

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

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

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

In FY 2012, the Commission completed 44 audits of public utilities, natural gas pipelines, and storage companies. These audits resulted in 99 recommendations for corrective actions. In many cases, the recommended corrective actions improve and strengthen

jurisdictional companies' compliance programs. The topic areas of the Commission's FY 2013 audits and those anticipated for FY 2014 include: transmission incentives, demand response, capacity markets, energy trading, market-based rates, formula rates, open access transmission tariffs, mergers and acquisitions, and gas tariffs.

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

CORE FUNCTIONS

Execute additional statutory requirements to advance strategic goals and objectives

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

General Oversight and Enforcement

Accounting.

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

Commission of, emerging accounting issues that affect jurisdictional industries.

Market Oversight.

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

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

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Market Monitoring and Surveillance.

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

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

Outreach and Communication.

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

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

Transparency.

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

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

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

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

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

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

Corporate Activities and Mergers.

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

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

Investigations and Enforcement.

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

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

Conduct involving fraud and market manipulation poses a significant threat to the markets overseen by the Commission and, therefore, to Commission's efforts to provide for energy services at a reasonable cost. Further, anticompetitive conduct and behavior that threatens market transparency undermine the confidence that market participants and consumers have in the energy markets.

While many market participants act in good faith and observe the relevant rules and regulations, there are instances in which some participants engage in manipulative behavior or violate known requirements when it is in their economic interest to do so. When such instances are suspected or identified, the Commission conducts an investigation.

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

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

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

Pursuant to its anti-manipulation authority, the Commission has investigated the energy commodities trading of banks and energy marketers that affect jurisdictional transactions. In FY 2012, the Commission approved settlements of nine investigations, totaling \$148 million in civil penalties and \$119 million in disgorged unjust profits. One significant settlement involved Constellation Energy Commodities Group, Inc., which paid a civil penalty and disgorgement of unjust profits totaling \$235 million. Also in FY 2012, Commission staff issued notices of alleged violations concerning conduct by Deutsche Bank Energy Trading, LLC and Barclays Bank, PLC. The Commission approved a settlement with Deutsche Bank in January 2013 – one of eleven settlements approved by the Commission in the first two quarters of FY 2013 (through March 31, 2013), which involve

a total of \$17 million in assessed civil penalties and \$6 million in disgorged unjust profits. The Commission continues to bring subpoena enforcement actions in district court, when appropriate, against entities who do not comply with investigation requests. Pursuant to the civil penalty authority granted by EAct 2005, Commission-assessed penalties have returned almost \$290 million in civil penalties to the US Treasury. Commission enforcement actions have also resulted in disgorgement of over \$160 million in unjust profits.

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

Enforcement Hotline.

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

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PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 1.2

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

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

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

GOAL 2: INFRASTRUCTURE

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

Introduction.

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

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

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

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

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

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OEIS was established to focus on cyber and other security matters in each of the Commission's areas of jurisdiction, the transmission system, oil and natural gas pipelines, liquefied natural gas terminals, and hydropower infrastructure. Beyond the threats of cyber to the critical energy sectors, OEIS also provides expertise in physical threats. OEIS will not require mandatory actions and does not have enforcement or compliance authorities. Rather, OEIS engages with stakeholders to openly share information on threats, vulnerabilities, and mitigation efforts. Engaging with the regulated community outside of standards and compliance processes and expanding

reliability monitoring efforts to all sectors under the Commission's authority accommodates the necessary and timely exchange of information and subsequent implementation of protective measures. In addition to working directly with the stakeholders, OEIS partners with other agencies, the Intelligence Community, national laboratories, vendors and universities to aid in identifying, communicating, and validating mitigating alternatives for cyber and physical security threats to Commission jurisdictional energy infrastructure.

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

OBJECTIVE 2.1: INFRASTRUCTURE DEVELOPMENT AND SITING

Increase efficient infrastructure consistent with demand.

The Commission will promote the development of efficient energy infrastructure in several ways, including encouraging the use of advanced technologies in developing infrastructure, providing incentive rates for new transmission projects where appropriate, and promoting

transmission planning processes that address all stakeholders' needs and result in the development of a more efficient transmission system. In addition to its core infrastructure authorities, the Commission will focus on three strategies to achieve this objective.

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

STRATEGY 1

Encourage new electric transmission facilities that advance efficient transmission system operation

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

Smart Grid.

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

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

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

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

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

Incentive Rates.

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

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

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

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

Non-traditional Business Models Supporting New Transmission Investment.

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

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

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received, the Commission issued a final policy statement in January 2013. The Commission

will continue to evaluate its policies in FYs 2013 and 2014.

STRATEGY 2

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

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

Following an extensive rulemaking process, the Commission issued Order No. 1000 in July 2011, Order No. 1000-A in May 2012, and 1000-B in October 2012. This rulemaking was designed to correct deficiencies in the current transmission planning processes and ensure the rates for transmission service are just and reasonable. Specifically, Order No. 1000 requires public utility transmission providers to improve transmission planning processes and allocate costs for new transmission facilities to beneficiaries of those facilities, thereby aligning transmission planning and cost allocation. Order No. 1000 also enhanced the Commission's transmission planning requirements by directing public utility transmission providers to participate in regional transmission planning processes that produce regional transmission plans, provide for consideration of transmission

needs driven by public policy requirements established by local, state or federal laws or regulations, and enable coordination between pairs of neighboring transmission planning regions. The rule also promotes competition in regional transmission planning processes by removing from Commission-approved tariffs and agreements a federal right of first refusal for transmission facilities selected in a regional transmission plan for purposes of cost allocation, subject to certain limitations.

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

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

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

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

STRATEGY 3

Promote efficient design and operation of natural gas facilities

The Commission continues its efforts to explore ways to improve the efficiency in the design and operation of jurisdictional natural gas facilities. In FYs 2010, 2011 and 2012, Commission staff examined 60 percent of the Commission's jurisdictional natural gas companies for feasibility of installing waste heat recovery systems. By the end of FY 2012, 22 jurisdictional pipelines have identified 64 stations that meet the initial requirements for feasibility. Commission staff will continue conducting quarterly reviews of Electronic Bulletin Boards⁷ to gauge participation across the industry. Staff will also review the FERC Form 567, annual flow diagrams, to identify which companies have facilities that may be candidates for waste heat recovery efforts. By the end of FY 2014, Commission staff will have examined 100 percent of the Commission's jurisdictional natural gas companies for feasibility of installing waste heat recovery systems.

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

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

CORE FUNCTIONS

Execute additional statutory requirements to advance strategic goals and objectives

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

Hydropower.

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

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

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

Pre-Filing.

The pre-filing process typically begins three years prior to the filing of a license application.⁹ Throughout this process, Commission staff will meet with stakeholders

⁸The Commission's dam safety program is detailed in Objective 2.2: Safety.

⁹A relicense application must be filed with the Commission no later than two years before the license expires.

to develop study plans and ensure that the licensing proposal will be considered "complete" by the time the application is filed. The Commission anticipates processing 59 pre-filing applications in FY 2014. To process these pre-filing applications, the Commission expects its staff to attend 47 scoping and study plan meetings, and to participate in numerous tribal consultations.

Applications.

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

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

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

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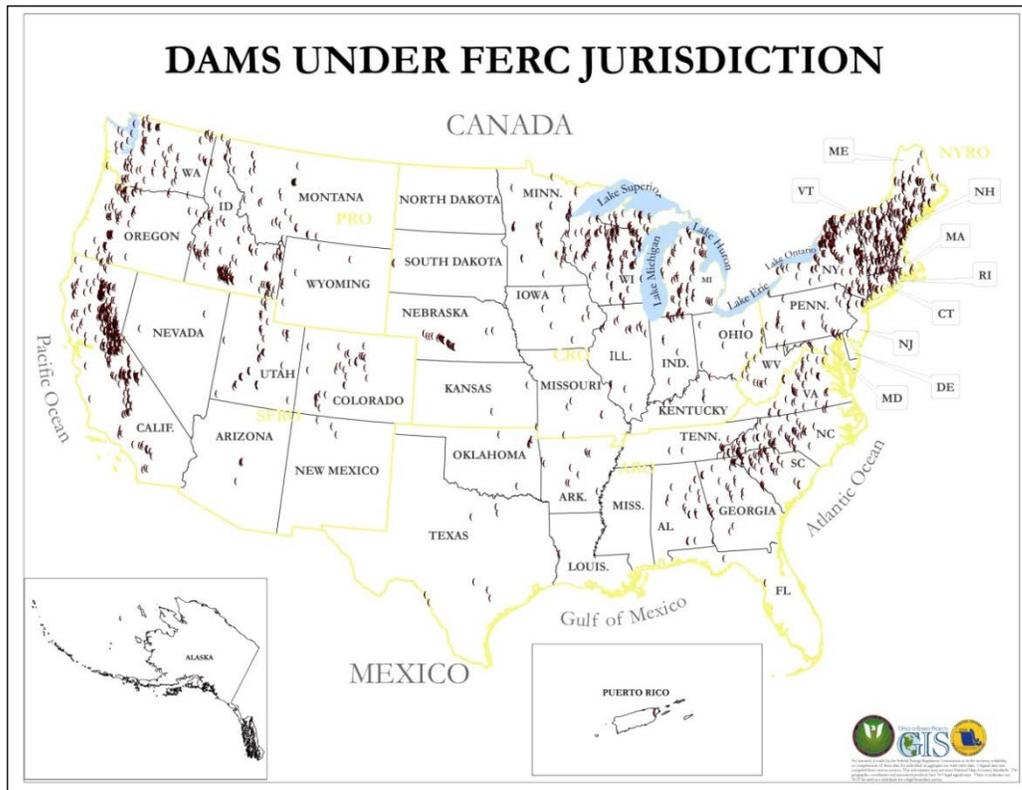
complexity and number of permit applications has dramatically increased over the past several years. In FY 2012, there were over 400 permits in effect. The increase in the number of these applications can be attributed to the current and near-term interest in retrofitting existing dams with hydropower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

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

As specified by the issued license, licensees are required to implement specific environmental and operational measures, generally after filing detailed plans, proposals and reports regarding the implementation of

the measures. In addition, licensees proposing to undertake certain activities not already authorized by the project license must file amendment applications.

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



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Shoreline Management, Recreation, and Outreach.

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

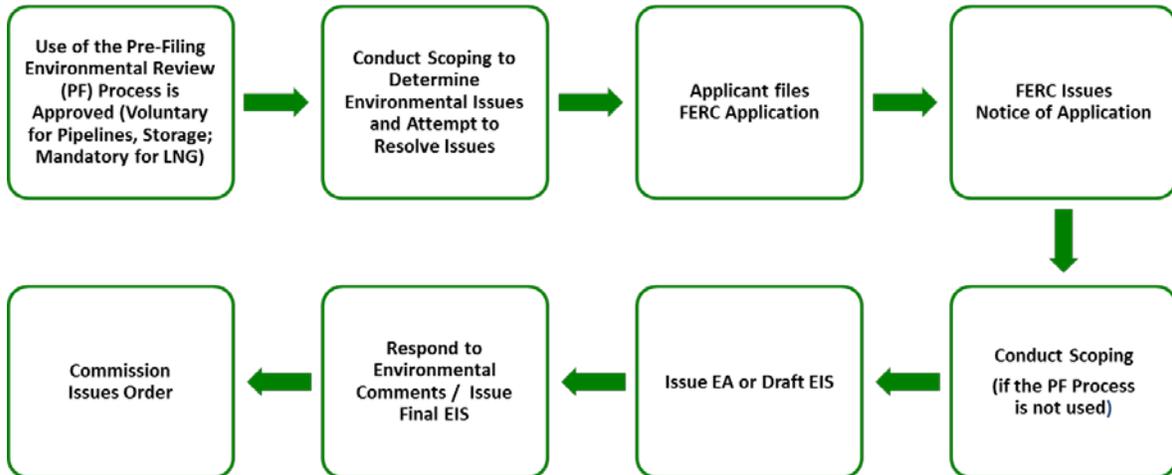
In order to ensure that licensees properly manage licensee-owned lakeshore lands, some licensees prepare and file shoreline management plans. A shoreline management plan is essentially a land use plan, in which a licensee, in consultation with stakeholders and subject to Commission approval, determines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

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

Environmental Inspections.

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

Process for Natural Gas Certificates



Natural Gas Pipelines & Storage Projects.

The Commission is responsible for reviewing applications for the construction and operation of natural gas pipelines and other related facilities.¹⁰ To meet the growing demand for natural gas, the Commission must respond to these applications in a timely manner. As in hydropower siting, the pre-filing process engages stakeholders in the identification and resolution of concerns prior to a company filing a certificate application with the Commission. The Commission staff's participation and initiative in these efforts allows for the filing of more complete certificate applications and enables more efficient and expeditious determination by the Commission. As part of the natural gas pipeline certificate application process, the Commission reviews applications to ensure that the proposals are in the public interest. Among other things, the Commission reviews each application to establish initial recourse rates as well as to ensure that the proposed tariff complies with

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

the Commission's policies and regulations. The Commission also assesses applications for embedded accounting issues in pipeline construction, acquisition purchase, and abandonment transactions. Commission staff will identify deficiencies in proposed accounting practices and will recommend appropriate corrective action. These accounting reviews in certificate filings provide greater certainty to pipelines by providing upfront guidance on accounting entries prior to the pipeline seeking formal Commission approval.

Applications.

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

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

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

Alaska Natural Gas Pipeline Project.

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

Environmental Inspections.

The Commission includes environmental protection, mitigation, and enhancement measures in authorizations for natural gas pipelines and storage facilities. While major pipeline facilities are under construction,

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

Commission staff conducts inspections at least once every 28 days to ensure adherence to the prescribed environmental measures. In FY 2012, 313 natural gas facility compliance inspections were completed at pipeline, storage, and LNG project sites. The Commission expects to complete a similar number in each of FYs 2013 and 2014.

Outreach.

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

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

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

LNG Facilities.

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

Pre-Filing & Applications.

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

Based upon industry filings with the Department of Energy, the Commission

expects 16 LNG terminal applications (15 export and one import) to be under review by the Commission through FY 2014.

Electric Transmission Siting.

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

Gas-Electric Coordination.

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

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PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 2.1

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

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

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

OBJECTIVE 2.2: SAFETY

Minimize risk to the public.

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

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

ensure or enhance operational reliability of the LNG terminals.

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

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

STRATEGY 1

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

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

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

Commission, developed policies and procedures to guide their use of RIDM.

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

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

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FY 2014 to incorporate RIDM into the Commission's dam safety program. As a result of performing a Screening Level Portfolio Risk Assessment of the Commission's dams in FY 2012, a determination was reached that RIDM could be incorporated into the Commission's dam safety program. During FY 2014, the Commission will continue the effort to develop the necessary risk assessment guidelines, procedures and policies, and train Commission staff, dam owners and

consultants in the risk assessment procedures, methodologies and tools. Development of the guidelines and procedures will be done in an open, collaborative process with representatives of the hydropower industry, including FERC-regulated licensees. All current Commission dam safety program components will continue as scheduled during this entire development period.

PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 2.2

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

CORE FUNCTIONS

Execute additional statutory requirements to advance strategic goals and objectives

Hydropower Facilities.

Dam Safety Program.

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

In addition to conducting inspections, the Commission's dam safety program includes other components to minimize risk to the public. Dam safety engineering guidelines are published to provide guidance to licensee- or consultant-conducted inspections and analyses. The guidelines include the procedures and criteria for the engineering evaluation and analysis of hydropower projects. The Commission's surveillance and monitoring component provides methods to better identify and solve dam safety issues

and improves coordination, abilities, and trust among all stakeholders. Another component of the dam safety program is the emergency action plans (EAP), which are required for all jurisdictional dams. These plans require the development, maintenance, and periodic testing of project-specific plans, and they help ensure coordination and cooperation among the dam owners, state and local emergency management agencies, and the Commission.

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

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

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

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LNG Facilities.

Construction & Operational Inspections.

The Commission is responsible for inspecting LNG facilities during construction and subsequently, during their operation, to ensure compliance with the safety and reliability requirements put into place by the Commission. While facilities are under construction, Commission engineers conduct inspections at least once every eight weeks. In FY 2012, seven construction and pre-operational inspections were conducted for one terminal expansion and one peak-shaving plant expansion. The number of construction and pre-operational inspections

that may occur in FYs 2013 and 2014 may be more than FY 2012, but will ultimately be determined by market conditions, as well as the number of approved LNG export facilities that move forward with construction in the next 18 months.

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

OBJECTIVE 2.3: RELIABILITY

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

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

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

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

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

STRATEGY 1

Process Reliability Standards in a timely manner

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

The ERO, among other tasks, is responsible for proposing mandatory Reliability Standards and interpretations of approved standards for the Commission's review and approval. All Reliability Standards and interpretations must

be submitted for Commission approval in order to become mandatory and enforceable in the United States.

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

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

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

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

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

A review of bulk-power system disturbances and events may necessitate development of a new Reliability Standard or modifications to the existing Standards. For example,

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

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

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

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

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

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

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

STRATEGY 2

Monitor, audit, and enforce Reliability Standards

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

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

The Commission also fulfills its role by participating in selected Regional Entity-led compliance audits and investigations of users, owners and operators of the bulk power system. The Commission will also perform

several independent compliance audits and conduct independent investigations of significant blackouts, system disturbances, cyber security incidents, and other reliability and security issues, as warranted.

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

Audits and Investigations.

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

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

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

Event Inquiries.

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

Arizona-Southern California.

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

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

Northeast Snow Storm.

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

Texas, New Mexico, and Arizona.

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

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

Enforcement.

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

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

Cooperation with EPA.

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

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

STRATEGY 3

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

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

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

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

In FY 2012, the Commission reviewed the comments filed by industry and other

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

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

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PERFORMANCE MEASURES AND ANNUAL TARGETS FOR OBJECTIVE 2.3

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

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

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

AGENCY ADMINISTRATION AND SUPPORT

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

Strategic Plan Update

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

Hiring Reform

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

eLibrary Upgrade

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

FERC Remote Work Capability

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

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

Cloud First

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

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

Modernization of Administrative Support Systems

Since FY 1998, the Commission has utilized the PeopleSoft Human Resources application to support key administrative functions. In FY 2012, the Commission completed an assessment focused on decommissioning its PeopleSoft HR suite. The assessment provided a roadmap which identified alternate approaches for timekeeping, training administration, background investigation

management and data archiving needs. Specifically, this roadmap identified business systems within the Interior Business Center (IBC) as viable options to support its comprehensive needs. In FY 2013, the Commission will migrate to the IBC’s WebTA application to modernize and streamline its timekeeping function. Additionally, the Commission is planning to utilize other IBC offerings such as its hosted Learning Management System, existing investigation management capabilities within its Federal Personnel and Payroll System, and data warehousing and reporting capabilities available in its Datamart application. These efforts will commence in FYs 2013 - 2014 and will allow the Commission to leverage more cost-effective solutions to support varied administrative processes.

E-Gov Travel System 2 (ETS2)

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

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APPENDIX A

Historical Performance Results FY 2010 – FY 2011

Goal 1: Just and Reasonable Rates, Terms and Conditions

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

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

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

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

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

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

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

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

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

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

Goal 2: Infrastructure

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

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

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

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

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

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

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

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APPENDIX B

Workload Tables

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

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

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

Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

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

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

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

Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

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

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

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

Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

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

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

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

APPENDIX C

Guiding Principles

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

Organizational Excellence.

Above all, the Commission strives to use its resources efficiently and effectively to achieve its strategic priorities. This includes its human resources. The Commission performs targeted recruiting and hiring and has developed a markets-oriented training curriculum for entry-level as well as experienced staff. The Commission also makes efficient use of information technology to receive filings, produce reports and orders, and maintain data repositories. The Commission tracks the activities of its staff to ensure that they are directed at meeting the Commission's strategic goals and objectives.

Due Process and Transparency.

Paramount in all of its proceedings is the Commission's determination to be open and fair to all participants. Filings are publicly accessible through the Commission's website, and filings to change rates, terms and conditions of service are announced by way of public notice published in the Federal Register. Material issues of fact are resolved through hearings governed by due process rules; the Commission also encourages the use of ADR procedures, which provide for more informal public participation in resolution of a proceeding. The Commission often holds public conferences at which it receives input from members of the public on controversial issues of national importance. Finally, many of the Commission's major decisions are discussed and announced at meetings that are open to the public and also are webcast at no charge on its website.

Regulatory Certainty.

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

Stakeholder Involvement.

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

Timeliness.

The Commission's goal is to reach an appropriate resolution of each proceeding in an expeditious manner. Toward that end, the Commission has steadily decreased the time it takes to act on proposed projects, such as

Federal Energy Regulatory Commission
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LNG import terminals, gas storage facilities, and interstate natural gas pipelines. It has done so without compromising its environmental protection and public participation responsibilities. The Commission

also sets and tracks compliance with goals for timely resolution of filings for cost recovery, new services or changes to existing services, as well decisions on initial decisions, complaints, and FPA section 203 applications.

Federal Energy Regulatory Commission
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APPENDIX D

Acronyms and Abbreviations

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

Federal Energy Regulatory Commission
FY 2014 Congressional Performance Budget

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**People's Dossier: FERC's Abuses of Power and Law
→ Budget Issues**

Budget Issues Attachment 2, *Congressional Performance Budget Request, Fiscal Year 2017, pgs. ii-iii.*



Federal Energy Regulatory Commission

Fiscal Year Congressional Performance
2017 Budget Request

Fiscal Year Annual Performance
2015 Report



Chairman Norman C. Bay





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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.

GOAL 2

PROMOTE SAFE, RELIABLE, SECURE, AND EFFICIENT INFRASTRUCTURE

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

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.

PROPOSED APPROPRIATION LANGUAGE

For necessary expenses of the Federal Energy Regulatory Commission to carry out the provisions of the Department of Energy Organization Act (42 U.S.C. 7101 et seq.), including services as authorized by 5 U.S.C. 3109, the hire of passenger motor vehicles, and official reception and representation expenses not to exceed \$3,000, \$346,800,000, to remain available until expended: Provided, That notwithstanding any other provision of law, not to exceed \$346,800,000 of revenues from fees and annual charges, and other services and collections in fiscal year 2017 shall be retained and used for necessary expenses in this account, and shall remain available until expended: Provided further, That the sum herein appropriated from the general fund shall be reduced as revenues are received during fiscal year 2017 so as to result in a final fiscal year 2017 appropriation from the general fund estimated at not more than \$0.

FULL COST RECOVERY

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

| | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request |
|-------------------------------|-------------------|---------------------|--------------------|
| Appropriation | \$304,389,000 | \$319,800,000 | \$346,800,000 |
| Offsetting Collections | (\$304,389,000) | (\$319,800,000) | (\$346,800,000) |
| Net Appropriation | \$ - | \$ - | \$ - |

FAST ACT

Title 41 of the Fixing America’s Surface Transportation Act, H.R. Rep. No. 114-357 (2015) (Conf. Rep.), enacted on December 4, 2015, establishes a Federal Permitting Improvement Steering Council, composed of designated agencies, including FERC, with the goal of coordinating federal review of covered infrastructure projects. The act provides that member agencies, with the guidance of the Office of Management and Budget, may issue regulations establishing a fee structure for project proponents to reimburse the United States for reasonable costs incurred in conducting environmental reviews and authorizations for covered projects.

FY 2017 REQUEST SUMMARY

The Federal Energy Regulatory Commission (FERC or the Commission) requests \$346,800,000 and 1,480 full-time equivalents (FTEs) to execute its mission in fiscal year (FY) 2017. This funding request is an increase of \$27,000,000, or about 8.4 percent, above the FY 2016 enacted appropriation.

The FY 2017 request supports an overall 3 percent increase in base operating costs. The Commission's request reflects the necessary resources to support increases in salaries and benefits associated with a 1.3 percent pay raise in both FY 2016 and FY 2017. The request also supports funding for increased rental rates in the lease renewal that became effective in FY 2016. The Commission anticipates program cost increases associated with statutorily required hydropower environmental workload, LNG construction inspections, and expert witness contractor assistance in the Commission's enforcement program. Over the last several years, the Commission has reduced costs through streamlining processes and improving efficiency in administrative and programmatic areas and continues to do so through FY 2017. The Commission is also requesting a nominal increase in critical travel funding above the FY 2016 levels to support requirements in hydropower pre-filing activities, dam safety inspections, LNG and gas compliance inspections, investigations, and infrastructure security programs. Furthermore, the Commission continues to pursue innovative information technology initiatives to help achieve better performance and future cost savings. To that end, the Commission's request level includes continued investment in cost-effective information technology (IT) solutions and lower IT support services costs through FY 2017.

In addition to our base operating expenses, this budget request includes additional funding required to continue a multi-year building modernization project. The FY 2017 request includes \$16,276,000 to fund construction, furniture, IT and security equipment, logistical services, and administration costs to support the modernization project. Funding in FY 2017 will support the modernization of two floors within the FERC Headquarters building. The Commission is expecting to fund the first phases of construction, which includes the build-out and move to the construction swing space located at 999 North Capital Street in FY 2016. The Commission will fund \$10,351,000 of the \$79 million project in FY 2016 with the use of unobligated prior year balances. Congress approved a Prospectus for the 10-year lease option on the 888 First Street Building (FERC Headquarters). As part of the terms of the Prospectus, the Commission is required to consolidate within the FERC Headquarters building to reduce its overall space utilization by 12 percent, which would include relocating employees currently located at 1100 First Street back to FERC Headquarters. The new lease term began on October 1, 2015. The building modernization project is expected to take approximately four years to complete. It entails multiple employee moves to renovate the building and requires external swing space occupancy to effectively reposition personnel in a more efficient housing scheme.

COMPARISON OF FYs 2016 and 2017

| Major Category (Dollars in thousands) | FY 2016 Estimate | FY 2017 Request | Difference | Percent Change FY 2016 to FY 2017 |
|---|---------------------|--------------------|------------------|---|
| Salaries & Benefits | \$ 233,545 | \$ 240,434 | \$ 6,888 | 2.9% |
| Environmental and Program Contracts | 8,283 | 9,711 | 1,429 | 17.2% |
| Rent | 31,923 | 31,314 | (609) | -1.9% |
| Information Technology | 28,379 | 29,963 | 1,584 | 5.6% |
| Administrative (including Travel and Training) | 18,757 | 19,102 | 346 | 1.8% |
| Building Modernization | 10,351 | 16,276 | 5,926 | 57.3% |
| Subtotals | \$ 331,237 | \$ 346,800 | \$ 15,563 | 4.7% |
| Application of Prior Year (PY) Budget Authority | (11,437) | - | | |
| Totals | \$ 319,800 | \$ 346,800 | \$ 27,000 | 8.4% |

Note: Numbers may not add up due to rounding.

RESOURCES BY STRATEGIC GOALS AND OBJECTIVES

The Commission's budget request and associated justification is aligned with its updated Strategic Plan for FY 2014 – FY 2018. The first two goals are mission critical and correspond to key aspects of FERC's statutory authority. The third goal is a mission support goal focused on establishing a foundation of organizational excellence that enables the achievement of the FERC's mission.

| Strategic Goal and Objectives (Dollars in thousands) | | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request | Percent Change FY 2016 to FY 2017 |
|---|---------|-------------------|---------------------|--------------------|--|
| Goal 1 | Funding | \$ 147,246 | \$ 152,891 | \$ 159,650 | 4.4% |
| | FTE | 685 | 694 | 694 | 0.0% |
| Objective 1.1 | | 115,189 | 119,978 | 125,420 | 4.5% |
| | | 543 | 550 | 550 | 0.0% |
| Objective 1.2 | | 32,057 | 32,913 | 34,230 | 4.0% |
| | | 142 | 145 | 145 | 0.0% |
| Goal 2 | Funding | 110,257 | 117,451 | 123,576 | 5.2% |
| | FTE | 490 | 500 | 500 | 0.0% |
| Objective 2.1 | | 57,298 | 62,333 | 66,076 | 6.0% |
| | | 252 | 257 | 257 | 0.0% |
| Objective 2.2 | | 52,959 | 55,118 | 57,500 | 4.3% |
| | | 238 | 243 | 243 | 0.0% |
| Goal 3 | Funding | 57,864 | 60,895 | 63,574 | 4.4% |
| | FTE | 281 | 286 | 286 | 0.0% |
| Objective 3.1 | | 29,908 | 31,360 | 32,730 | 4.4% |
| | | 146 | 148 | 148 | 0.0% |
| Objective 3.2 | | 12,299 | 12,919 | 13,483 | 4.4% |
| | | 59 | 60 | 60 | 0.0% |
| Objective 3.3 | | 15,657 | 16,616 | 17,361 | 4.5% |
| | | 75 | 78 | 78 | 0.0% |
| TOTAL | Funding | \$ 315,367 | \$ 331,237 | \$ 346,800 | 4.7% |
| | FTE | 1,456 | 1,480 | 1,480 | 0.0% |
| Application of PY Budget Authority | | - | (11,437) | - | |
| TOTAL | Funding | \$ 315,367 | \$ 319,800 | \$ 346,800 | 8.4% |
| | FTE | 1,456 | 1,480 | 1,480 | 0.0% |

Note: Numbers may not add up due to rounding.

RESOURCES BY INDUSTRY

| Regulated Industry (Dollars in thousands) | | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request | Percent Change FY 2016 to FY 2017 |
|--|----------------|-------------------|---------------------|--------------------|---|
| Electric | Funding | \$ 176,355 | \$ 184,031 | \$ 192,136 | 4.4% |
| | FTE | 818 | 829 | 829 | 0.0% |
| Hydro | Funding | 68,459 | 73,454 | 77,483 | 5.5% |
| | FTE | 314 | 321 | 321 | 0.0% |
| Natural Gas | Funding | 61,496 | 64,104 | 67,113 | 4.7% |
| | FTE | 281 | 285 | 285 | 0.0% |
| Oil | Funding | 9,057 | 9,648 | 10,068 | 4.3% |
| | FTE | 43 | 44 | 44 | 0.0% |
| Subtotal | | \$ 315,367 | \$ 331,237 | \$ 346,800 | 4.7% |
| Application of PY Budget Authority | | - | (11,437) | - | |
| Total | Funding | \$ 315,367 | \$ 319,800 | \$ 346,800 | 8.4% |
| | FTE | 1,456 | 1,480 | 1,480 | 0.0% |

Note: Numbers may not add up due to rounding.

OBJECT CLASS SUMMARY

| OBJECT CLASS SUMMARY (Dollars in thousands) | | | | |
|--|---|-------------------|---------------------|--------------------|
| | | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request |
| 11.9 | Personnel Compensation | \$ 171,665 | \$ 179,350 | \$ 183,221 |
| 12.1 | Benefits | 53,240 | 54,195 | 57,212 |
| 13.0 | Benefits for Former Personnel | 59 | - | - |
| | Sub Total, Personnel Compensation & Benefits | \$ 224,964 | \$ 233,545 | \$ 240,433 |
| 21.0 | Travel and Transportation of Persons | 2,931 | 3,251 | 3,394 |
| 22.0 | Transportation of Things | 22 | 3 | 3 |
| 23.1 | Rental Payments to GSA | 23,462 | 31,923 | 31,314 |
| 23.2 | Rental Payments to Others | 712 | 729 | 759 |
| 23.3 | Communications, Utilities & Misc. Charges | 1,892 | 1,816 | 1,953 |
| 24.0 | Printing and Reproduction | 1,740 | 1,929 | 1,966 |
| 25.1 | Advisory and Assistance | 8,493 | 9,094 | 11,016 |
| 25.2 | Non-Federal | 8,279 | 8,495 | 8,526 |
| 25.3 | Federal | 1,544 | 1,410 | 1,440 |
| 25.4 | Operation & Maintenance of Facilities | 1,702 | 1,734 | 1,776 |
| 25.7 | Operation & Maintenance of Equipment | 35,581 | 23,990 | 22,198 |
| 26.0 | Supplies and Materials | 2,460 | 2,617 | 2,707 |
| 31.0 | Equipment | 1,288 | 3,879 | 6,270 |
| 32.0 | Leasehold Improvements | - | 6,741 | 12,963 |
| 41.0 | Grants, Subsidies & Contributions | 49 | 49 | 49 |
| 42.0 | Insurance Claims and Indemnities | 248 | 31 | 33 |
| | TOTAL, OBLIGATIONS | \$ 315,367 | \$ 331,237 | \$ 346,800 |
| | Application of PY Budget Authority | - | (11,437) | - |
| | GROSS BUDGET AUTHORITY | 315,367 | 319,800 | 346,800 |
| | Offsetting Receipts | (315,367) | (319,800) | (346,800) |
| | NET BUDGET AUTHORITY | \$ - | \$ - | \$ - |

Note: Numbers may not add up due to rounding.

VERIFICATION AND VALIDATION OF PERFORMANCE INFORMATION

FERC collects, uses and reports performance data on its activities to inform decision making, track progress and meet statutory reporting requirements. The Commission believes the capacity and skill to measure performance is critical to maintaining operational effectiveness. FERC implemented a process to verify and validate performance measure data to support the development of this capability, establish internal controls over performance information, and ensure the completeness and reliability of FERC performance measure data.

FERC's FY 2015 Annual Performance Report has been combined with its FY 2017 Congressional Performance Budget Request, which continues to serve as its Annual Performance Plan, to provide more complete and meaningful data on past performance and the Commission's efforts to improve performance in the coming fiscal years. The report is organized by strategic goals and objectives established in the FY 2014 – FY 2018 Strategic Plan. The performance goals and indicators expressed in this report are aligned to the objectives in the strategic plan and define the level of performance to be achieved.

FERC ensures that the performance data presented in this report meet the verification and validation criteria of being valid, complete, consistent, accurate, and timely based upon the following assessment steps:

1. The Commission applies logic modeling to develop performance measures through its strategic planning process.
2. FERC's program offices document procedure manuals to ensure confidence in the reported performance data. The procedure manuals define:
 - the purpose and interpretation of the measure,
 - external factors that may impact the measure,
 - data collection and storage procedures,
 - data quality controls,
 - and reporting requirements.
3. Performance results are calculated and reported according to established procedures and approved by the office director.
4. Performance measures undergo an independent Verification and Validation Assessment during the four year performance reporting cycle. An Independent Review Team prepares a report evaluating each performance measure based on the five verification and validation criteria.

OVERVIEW OF THE FEDERAL ENERGY REGULATORY COMMISSION

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

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

FERC is composed of up to five commissioners who are appointed by the President of the United States with the advice and consent of the Senate. Commissioners serve staggered five-year terms and have an equal vote on the orders through which the Commission takes action. To avoid any undue political influence or pressure, the Commission is a bi-partisan body and no more than three commissioners may belong to the same political party. The President appoints one of the Commissioners to be the Chairman of FERC and the Chairman is the administrative head of FERC.

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

**Chairman
Norman C. Bay**

Sworn In: August 4, 2014
Term Expires: June 30, 2018



**Commissioner
Tony Clark**

Sworn In: June 15, 2012
Term Expires: June 30, 2016



**Commissioner
Cheryl A. LaFleur**

Sworn In: July 13, 2010
Term Expires: June 30, 2019



**Commissioner
Colette D. Honorable**

Sworn In: January 5, 2015
Term Expires: June 30, 2017



COMMISSION OFFICES

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 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 Electric Reliability Organization (ERO) dealing with its budget, rules of procedure, and bylaws.

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 Policy and Innovation** (OEPI) advises the Commission on policies to ensure the efficient development and use of transmission, generation, and demand-side resources, remove barriers to the participation of emerging technologies and resources, and create a platform for innovation in wholesale energy markets.

The **Office of Electric Reliability** (OER) oversees the development and review of mandatory reliability and security standards by the ERO and ensures compliance with the approved mandatory standards by the users, owners, and operators of the bulk power system.

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 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 the Commission; and negotiating settlements that achieve prompt rate reductions, provide rate certainty, and conserve Commission resources.

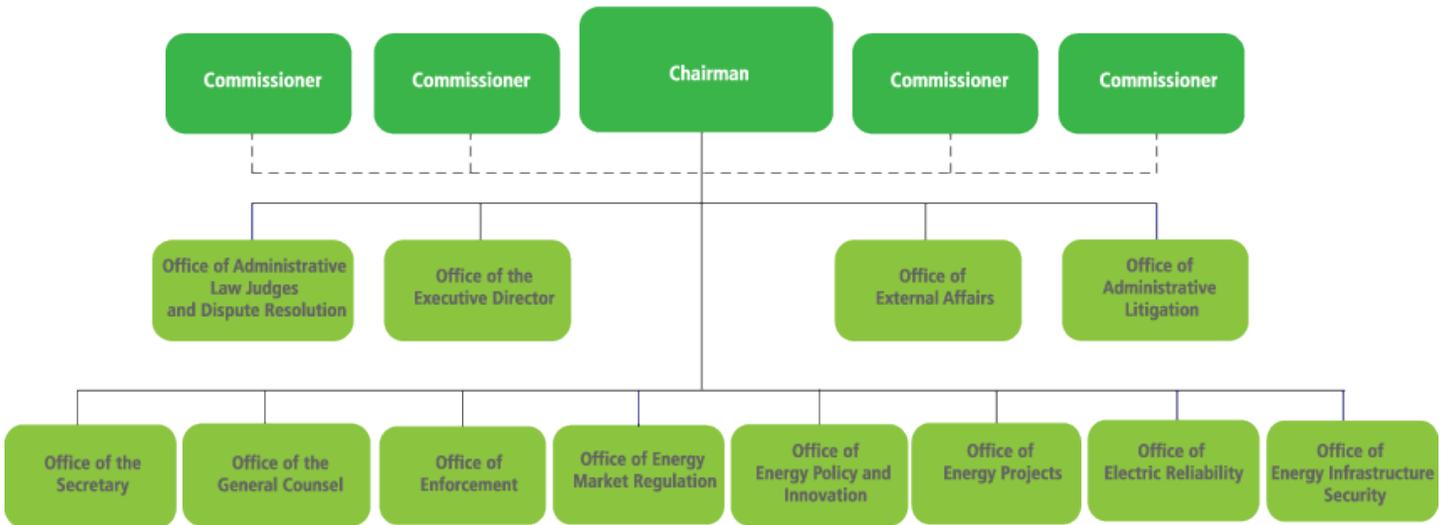
The **Office of Administrative Law Judges and Dispute Resolution** (OALJDR) develops an evidentiary record in contested cases as directed by the Commission. Through trial-type hearings and the issuance of an initial decision, OALJDR ensures that the rights of all parties are preserved. In addition, the 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 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 External Affairs** (OEA) is responsible for communications and public relations of the Commission. OEA provides informational and educational services to Congress; federal, state and local governments; the news media and the public; regulated industries; and consumer and public interest groups. This office also is the Commission's liaison with foreign governments.

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.

COMMISSION ORGANIZATIONAL CHART



REGULATORY AUTHORITY HISTORY AND OVERVIEW

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

Hydropower

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

Electric

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

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

The Commission also has other electric regulatory responsibilities under portions of the Public Utility Regulatory Policies Act of 1978 and the Public Utility Holding Company Act of 2005 pertaining to qualifying facilities, exempt wholesale generators, and books and records access requirements. Under the Energy Independence



and Security Act of 2007 (EISA), the Commission, along with the Department of Energy and National Institute of Standards and Technology (NIST), has a role to play in ensuring awareness, coordination, and integration of the federal government's diverse activities related to smart grid technologies and practices.

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

Natural Gas and Liquefied Natural Gas

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

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

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

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

Oil

The Interstate Commerce Act (ICA) gives the Commission jurisdiction over the rates, terms and conditions of transportation services provided by interstate oil pipelines. Oil pipelines transport crude oil, natural gas liquids (NGLs: ethane, propane and butane), refined petroleum products (gasoline, jet and fuel oils), and liquefied petroleum gas (LPG). The Commission has no authority over the construction of new oil pipelines or over other aspects of the industry such as production, refining or wholesale or retail sales of oil.

In addition to ensuring oil pipelines comply with the Commission's regulations governing oil pipelines' tariffs subject to section 6 of the ICA, the Commission's responsibilities include the establishment of equal service conditions to provide shippers with equal access to pipeline capacity, and analyzing market-based, cost-of-service and anchor shipper contract rate applications to provide reasonable rates for transporting petroleum and petroleum products by pipeline.

Enforcement

Through the Energy Policy Act of 2005 (EPAc 2005), Congress gave the Commission broad authority to prohibit manipulation in wholesale energy transactions. Congress also enhanced civil penalties for violations of the FPA, NGA, and NGPA. EPAc 2005 made three major changes to the Commission's civil penalty authority.

1. Congress expanded the Commission's FPA civil penalty authority to cover violations of any provision of Part II of the FPA, as well as of any rule or order issued there under.
2. Congress extended the Commission's civil penalty authority to cover violations of the NGA or any rule, regulation, restriction, condition, or order made or imposed by the Commission under NGA authority.
3. Congress established the maximum civil penalty the Commission may assess under the NGA, NGPA, or Part II of the FPA as \$1,000,000 per violation for each day that it continues.

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

GOAL 1

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.

INTRODUCTION

Electricity, natural gas, and oil are vital resources that fuel economic activity and help to meet the nation’s energy needs. Through the FPA, NGA, and ICA, among other laws, Congress gave FERC authority to regulate the transmission and wholesale sale of electricity and natural gas in interstate commerce, and to regulate the transportation of oil by pipeline in interstate commerce. The Commission’s responsibility in the exercise of this authority is to ensure that rates, terms, and conditions for wholesale sales and transmission of electric energy in interstate commerce and transportation of natural gas in interstate commerce, as well as for transportation of oil by pipeline in interstate commerce, are just and reasonable and not unduly discriminatory or preferential. As part of this responsibility, the Commission balances the economic viability of energy suppliers with the protection of energy customers. Through these efforts, FERC ensures that consumers have reasonable access to the resources they need and that service providers are appropriately compensated. To achieve this goal, the Commission uses a range of ratemaking activities, including regulatory and market means, as well as market oversight and enforcement.

| Strategic Goal and Objectives (Dollars in thousands) | | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request | Percent Change FY 2016 to FY 2017 |
|---|---------|-------------------|---------------------|--------------------|--|
| Objective 1.1 | FTE | 543 | 550 | 550 | 0.0% |
| | Funding | 115,189 | 119,978 | 125,420 | 4.5% |
| | Program | 85,449 | 88,587 | 91,402 | 3.2% |
| | Support | 29,740 | 31,392 | 34,018 | 8.4% |
| Objective 1.2 | FTE | 142 | 145 | 145 | 0.0% |
| | Funding | 32,057 | 32,913 | 34,230 | 4.0% |
| | Program | 24,270 | 24,657 | 25,283 | 2.5% |
| | Support | 7,786 | 8,256 | 8,947 | 8.4% |
| Goal 1 Subtotal | FTE | 685 | 694 | 694 | 0.0% |
| | Funding | 147,246 | 152,891 | 159,650 | 4.4% |
| Application of PY Budget Authority | | - | (5,279) | - | |
| Goal 1 Total | Funding | 147,246 | 147,612 | 159,650 | 8.2% |

Note: Numbers may not add up due to rounding.

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.

To establish rules and policies, FERC draws on both market and regulatory means. When competitive markets exist and there are adequate assurances against the exercise of market power, FERC leverages competitive market forces to promote efficiency for consumers while taking measures to mitigate inappropriate or excessive market power. 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. These techniques produce just, reasonable, and not unduly discriminatory or preferential rates, terms, and conditions.

Rate and Tariff Filings

A significant portion of the Commission'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 Commission action from regulated entities and interested stakeholders. All jurisdictional public utilities, natural gas pipelines, and oil pipelines are required to have their rates, terms and conditions on file with the Commission. The Commission must review proposed changes to filed rates, terms, and conditions and all comments filed in response before determining whether to accept, conditionally accept subject to modifications, or reject the proposed changes. The Commission expects to use quantitative analysis, as appropriate, to help inform the Commission's decision-making on both an ex-ante and ex-post basis.

Commission staff also performs regular reviews of cost-based electric transmission rates. In FY 2014, Commission staff performed a comprehensive electric utility formula rate review. Based on the findings of that review, the Commission initiated FPA section 206 proceedings to require utilities to make annual informational filings to implement their formula rates. Staff prepared written guidance that was posted on the Commission's website to assist all utilities in complying with Commission policies on formula rate updates. Staff has devised a plan for monitoring and reviewing such filings in an organized fashion and will continue to review these filings in FYs 2016 and 2017.

The Commission reviews applications for market-based rate authorizations for the sale for resale of electricity, capacity, or ancillary services by public utilities; for storage services provided by natural gas companies; and for transportation services provided by oil pipelines. The Commission also

permits natural gas pipelines to charge negotiated rates, subject to the availability of a cost-based recourse rate. Also, the Commission may grant merchant transmission developers authorization to sell transmission services at negotiated rates under certain circumstances. The Commission grants market-based rate authorization where the ability to exercise market power either is not present or has been adequately mitigated and where other conditions are met.

Public utilities and natural gas pipelines that have not been granted market-based rate authority must establish their rates using a cost-based rate structure. Oil pipelines that have not been granted market-based rates may establish their rates using a cost-based rate structure or by filing a sworn affidavit stating that the initial rate is agreed to by at least one non-affiliated person who intends to use the new service. When reviewing cost-based rate proposals, the Commission considers the opportunity to recover investments in energy infrastructure and the fair allocation of costs among ratepayers.

From a broader geographic perspective within the electric industry, the Commission also regularly reviews proposals from regional transmission organizations (RTOs) and independent system operators (ISOs) to reform organized wholesale energy markets to ensure that the dynamics for buying, selling and transmitting energy are robust and working as intended and to promote operational efficiency in wholesale markets. In particular, the Commission engages the RTOs/ISOs and stakeholders to ensure that energy, capacity and ancillary services markets provide appropriate price signals, support market evolution, and provide appropriate opportunities to participate for all eligible resources, including emerging technologies.

In reviewing some filings, the Commission determines that a trial-type evidentiary hearing or other procedures are needed to bolster the factual record on which the Commission will base its decision. In these instances, the Commission recognizes the value of resolving issues through consensual means where possible. Settling cases benefits energy consumers as it dramatically limits the time, expense, and resources that the Commission and outside parties would otherwise devote to litigating these cases. A settlement not only provides ratepayers reduced rates and refunds far more quickly than litigation, but also provides business certainty and facilitates the construction of needed infrastructure in a timely manner. Further, the resolution of a case through settlement is likely to be more acceptable to the parties than a litigated result, and therefore,

reduces the likelihood of an appeal. The Commission’s administrative law judges (serving as settlement judges), trial staff, and dispute resolution staff all play important roles in resolving matters without full litigation. In instances where a settlement cannot be achieved, the trial staff and the parties develop evidentiary records that the presiding judges and the Commission use to determine just and reasonable, and not unduly discriminatory or preferential, rates, terms and conditions of service.

In FYs 2016 and 2017, the Commission will continue to dedicate a significant amount of resources to the analysis of rate and tariff filings because of the large number of such filings received annually.

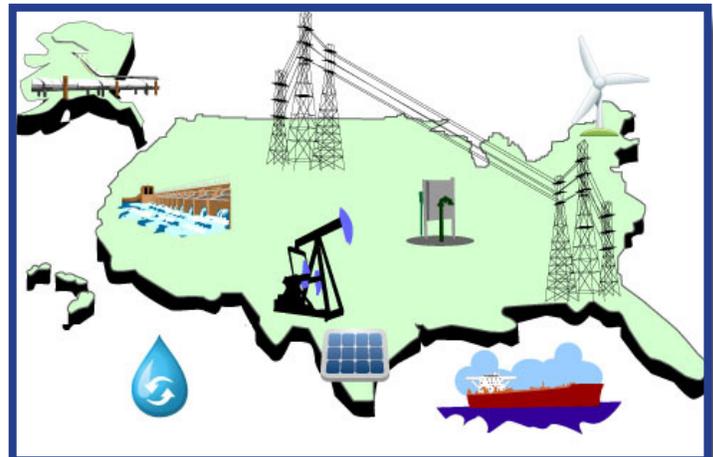
RATE AND TARIFF FILINGS BY INDUSTRY

| | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2016 Estimate | FY 2017 Estimate |
|-----------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| Electric | 5,305 | 6,018 | 6,054 | 6,100 | 6,100 |
| Gas | 1,767 | 1,503 | 1,634 | 1,725 | 1,725 |
| Oil | 628 | 770 | 735 | 750 | 750 |

Note: Estimates are based on historical data and expected filings.

Electric Market Based Rates

In accordance with Order No. 697, the Commission grants market-based rate authorization for wholesale sales of electric energy, capacity, and ancillary services by sellers that can demonstrate that they and their affiliates lack or have adequately mitigated horizontal and vertical market power. In FY 2016, the Commission issued a Final Rule, Order No. 816, to clarify and streamline certain aspects of its market-based rate program for wholesale sales of electric energy, capacity and ancillary services. The changes will increase transparency while continuing to ensure that the program results in market-based rates that are just and reasonable. Among other things, the Final Rule streamlined the program by eliminating a requirement that market-based rate sellers file quarterly land acquisition reports for new generation sites. The Final Rule became effective January 28, 2016.



Pipeline Rate Review

In FY 2009, the Commission began an in-depth review of information filed annually by natural gas pipelines in their financial reports to determine whether the pipelines' returns are just and reasonable. Based on the findings, since FY 2010, the Commission has initiated 14 NGA section 5 actions to determine the justness and reasonableness of existing transportation and storage rates. In FYs 2016 and 2017, the Commission will continue to review the pipelines' financial reports to determine whether the pipelines' returns are just and reasonable. If any pipeline's returns appear to be excessive, the Commission will consider what additional steps may be warranted. Similarly in FYs 2016 and 2017, the Commission will review the information filed by jurisdictional oil and product pipelines in their financial reports to determine whether these pipeline earnings

are just and reasonable. If any pipeline's earnings appear excessive, the Commission will consider what additional steps may be warranted.

The Commission has established an indexing rate methodology that is designed to enable oil pipelines to recover costs by allowing pipelines to raise rates at the same pace as they are predicted to experience cost increases. This oil pipeline indexing rate methodology was established consistent with the Energy Policy Act of 1992. In FY 2016, the Commission completed its five year review of the index and adopted a new index to establish annual rate ceiling levels for oil pipeline rate changes for the period July 1, 2016, through June 30, 2021.

ORDER NO. 1000 IS A FINAL RULE THAT REFORMS THE COMMISSION'S ELECTRIC TRANSMISSION PLANNING AND COST ALLOCATION REQUIREMENTS FOR PUBLIC UTILITY TRANSMISSION PROVIDERS. THE RULE BUILDS ON THE REFORMS OF ORDER NO. 890 AND CORRECTS REMAINING DEFICIENCIES WITH RESPECT TO TRANSMISSION PLANNING PROCESSES AND COST ALLOCATION METHODS.

Electric Transmission Planning

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

Following an extensive rulemaking process, the Commission issued Order No. 1000 in July 2011, Order No. 1000-A in May 2012, and Order No. 1000-B in October 2012. This rulemaking was designed to correct deficiencies in transmission planning processes and to ensure that Commission-jurisdictional transmission services are provided at just and reasonable rates and on a basis that is just and reasonable and not unduly discriminatory or preferential. Specifically, Order No. 1000 requires public utility transmission providers to improve transmission planning processes and allocate

costs for new transmission facilities to beneficiaries of those facilities, thereby aligning transmission planning and cost allocation. The Order No. 1000 transmission planning reforms require each public utility transmission provider to participate in a regional transmission planning process that produces a regional transmission plan and provides for consideration of transmission needs driven by public policy requirements established by local, state or federal laws or regulations. Order No. 1000 also requires that each public utility transmission provider participate in a regional transmission planning process that has a regional cost allocation method that meets six cost allocation principles for the cost of new transmission facilities selected in a regional transmission plan for purposes of cost allocation. In addition, Order No. 1000 establishes interregional coordination and cost allocation requirements for public utility transmission providers in neighboring transmission planning regions. The rule also promotes competition in regional transmission planning processes by removing from Commission-approved tariffs and agreements a federal right of first refusal for transmission facilities selected in a regional transmission plan for purposes of cost allocation, subject to certain limitations.

Public utility transmission providers in all of the proposed Order No. 1000 transmission planning regions submitted their compliance filings addressing the Order No. 1000 requirements in FY 2013. In FY 2013, the Commission issued orders addressing all of the initial regional compliance filings and requiring further compliance filings. In FY 2014, the Commission addressed the requests for rehearing of the orders addressing the initial regional compliance filings and the second round of regional compliance filings. In FY 2015, the Commission issued orders addressing the requests for rehearing of the second round of regional compliance orders and the third round of regional compliance filings,

as well as a few of the fourth round of regional compliance filings. In addition, in FY 2015 the Commission addressed the compliance filings made to address the interregional requirements to ensure they meet the requirements of Order No. 1000, and addressed further regional compliance filings. The Commission will continue to review and address any further regional or interregional compliance filings in FY 2016 and 2017. The Commission will also monitor the implementation of the transmission planning reforms adopted in Order No. 1000 to evaluate their effectiveness in FYs 2016 and 2017.



Electric Transmission and Open Access

The Commission requires all public utilities that own, control or operate facilities used for transmitting electric energy in interstate commerce to file open access non-discriminatory transmission tariffs. Open access transmission tariff reform contributes to the Commission's goal of removing impediments to competition in the wholesale bulk power marketplace and bringing more efficient, lower cost power to the Nation's electricity consumers. The Commission will continue to evaluate and make improvements to the open access transmission tariff through FYs 2016 and 2017, as needed.

Increasingly, the Commission is asked to approve requests from prospective developers of transmission facilities based on non-traditional business models, including merchant transmission development. In FY 2013, the Commission issued a policy statement which clarified and refined policies governing the allocation of capacity for new merchant

transmission projects and new non-incumbent, cost-based, participant-funded transmission projects. In May 2014, the Commission initiated a rulemaking proceeding to revisit its rules governing the use of capacity on facilities interconnecting generating units to the transmission grid. In March 2015, the Commission issued Order No. 807, a final rule to remove regulatory inefficiencies and burdens by granting a blanket waiver from Open Access Transmission Tariff requirements to public utilities that would only be subject to those requirements because of their ownership, control, or operation of Interconnection Customer's Interconnection Facilities. The Commission will continue to act on applications by merchant transmission project developers applying the policies as clarified in the new policy statement and will continue to evaluate its policies in FYs 2016 and 2017, including possible consideration of a final rule to address concerns with third-party access to interconnection facilities.

Capacity Markets

The Commission has approved forward-looking, auction-based markets in the PJM Interconnection, L.L.C. (PJM) and ISO New England Inc. (ISO-NE) regions to allow load-serving entities to procure adequate capacity to meet the long-term electricity needs of consumers. In the region operated by the New York Independent System Operator, Inc. (NYISO), the Commission has approved a monthly auction-based capacity market. In other regions, including those operated by the California Independent System Operator Corp. (CAISO) and the Midcontinent Independent System Operator, Inc. (MISO), the Commission has approved alternative approaches to the mandatory forward-capacity procurement design.

The Commission continually evaluates how current centralized capacity market rules and structures are supporting the procurement and retention of resources necessary to meet future reliability and operational needs established by the regions. While the capacity market mechanisms the Commission approves often vary in design, all are intended to provide the proper price signals to, where appropriate, retain existing efficient resources and encourage the entry of new resources in areas where they are needed to meet electric supply needs.

In August 2013, the Commission released a staff report on Centralized Capacity Market Design elements, and in September 2013 (Docket No. AD13-7-000) the Commission held a technical conference to explore these issues. In April 2014, the Commission held a technical conference on Winter 2013-2014 operations and market performance in RTOs and ISOs that considered, among other things, the performance of capacity resources during the 2013-2014 winter period (Docket No. AD14-8-000). Separately, in November 2014, the Commission held jointly, with the New York Public Service Commission, a technical conference to discuss issues of mutual interest and concern regarding the installed capacity markets and energy infrastructure in New York.

In November 2014, after considering the comments received in response to the Docket Nos. AD13-7-000 and AD14-8-000 conferences, the Commission issued an order directing regional electric power market operators to file reports on their efforts to address fuel assurance in their respective regions. The reports were filed in February 2015 and comments on the reports were filed in March 2015. The Commission is reviewing the reports and the comments on the reports to determine the appropriate next steps in FYs 2016 and 2017.

Wholesale Energy and Ancillary Services Market Rules

The Commission reviews proposed market rules to ensure just and reasonable rates, terms, and conditions, and to maintain open access for diverse energy resources, including demand response, energy efficiency, and renewable energy sources. In FYs 2016 and 2017, the Commission will review wholesale energy and ancillary services market rules to ensure that they provide efficient price signals and incentivize performance for all eligible resources.

Ancillary services are necessary for the reliable and efficient transmission of electric power. These services, as defined in Order No. 888, include: Scheduling, System Control and Dispatch; Reactive Supply and Voltage Control from Generation Sources; Regulation and Frequency Response; and Energy Imbalance. As the energy mix changes in response to renewable energy portfolio requirements, there is a growing need for ancillary services to support grid functions and the integration of intermittent resources.

In July 2013, the Commission issued Order No. 784, Third-Party Provision of Ancillary Services; Accounting and Financial Reporting for New Electric Storage Technologies, which aims to reduce unnecessary barriers for ancillary service providers wishing to make market-based rate sales to public utility transmission providers, and also provides for greater transparency in reserve requirements for Regulation and Frequency Response service. Order No. 784 also adopts reforms to the Commission's accounting and reporting regulations to better account for transactions with energy storage devices. Compliance filings were filed in FYs 2014 and 2015, and the Commission processed these filings in FYs 2014, 2015 and 2016.

In February 2015, the Commission proposed to allow the sale of primary frequency response service at market-based rates by sellers with market-based rate authority for energy and capacity. In November 2015, after reviewing the comments filed in response to its proposal, the Commission issued Order No. 819, Third-Party Provision of Primary Frequency Response Service, to foster competition in the sale of primary frequency response service. The final rule permits the sale of primary frequency response service at market-based rates by sellers with market-based rate authority for sales of energy and capacity. The rule will promote competition in anticipation of growing demand for primary frequency response service as a result of a reliability standard taking effect in 2016 that requires balancing authorities to meet a minimum frequency response obligation. Primary frequency response service is one of the tools available to ensure reliable operation of the North American electric system.

In November 2015, the Commission proposed to require all new interconnecting generators, including wind generators, to provide reactive power by revising both the pro forma Large Generator Interconnection Agreement (facilities larger than 20 megawatts) and the pro forma Small Generator Interconnection Agreement (Docket No. RM16-1-000). Reactive power is needed to control system voltage for efficient and reliable operation of the transmission system. The Commission will review the comments in response to this rulemaking to determine next steps in FY 2016 and 2017.

In June 2014, the Commission initiated a proceeding to evaluate issues regarding price formation in the organized wholesale electric energy and ancillary services markets operated by RTOs and ISOs. The goals of proper price formation are to: maximize market surplus for consumers and suppliers; provide correct incentives for market participants to follow commitment and dispatch instructions, make efficient investments in facilities and equipment, and maintain reliability; provide transparency so that market participants understand how prices reflect the actual marginal cost of serving load and the operational constraints of reliably operating the system; and ensure that all suppliers have an opportunity to recover their costs.

The Commission directed its staff to engage in outreach and convene workshops to explore improvements to market designs and operational practices of the organized markets. In September 2014, the Commission convened a workshop to discuss with industry uplift payments in energy and ancillary service markets operated by RTOs and ISOs.

In October 2014, the Commission convened a workshop on technical operational, and market issues related to offer price mitigation and offer price caps as well as scarcity and shortage pricing in energy and ancillary services markets operated by RTOs and ISOs.

In December 2014, the Commission convened a workshop to address technical, operational, and market issues related to operator actions in energy and ancillary services markets operated by RTOs and ISOs. Following these workshops the Commission solicited additional stakeholder comments on various aspects of price formation in RTO and ISO markets that were discussed at the technical conferences. The Commission is reviewing those comments and considering potential improvements, with work in this area continuing in FYs 2016 and 2017.

In September 2015, the Commission issued its first proposal on price formation to address two practices that fail to provide appropriate signals for resources to respond to the actual operating needs and properly reflect system conditions and costs to serve consumers when compensating

resources within organized markets. In its Notice of Proposed Rulemaking on Settlement Intervals and Shortage Pricing in Markets Operated by Regional Transmission Organizations and Independent System Operators (Docket No. RM15-24-000), 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. In FY 2016, Commission staff will evaluate the comments submitted in response to its proposal to determine the appropriate next steps with work continuing into FY 2017.

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 (Docket No. AD14-14-000). In addition to providing an update on the RTO/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 FY 2016, Commission staff will analyze these reports, which are due in February 2016, and comments in response to these reports, to determine the appropriate next steps. Related work will continue in FYs 2016 and 2017.

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 and ISOs to either raise their offer cap or permit cost recovery above their offer cap through uplift. In the proposed rule, the Commission is taking a generic action and proposing 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 expected to 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, Commission staff will evaluate the comments submitted in response to its proposal to determine the appropriate next steps with work continuing into FY 2017.

Barriers to Efficient Trading Between Markets

The Commission seeks to identify and remove barriers to efficient trading between regional markets to ensure that trades result in just and reasonable rates. To this end, the Commission in several proceedings is considering issues related to seams between organized wholesale energy markets. For example, at the June 2013 Commission meeting, PJM, MISO, the Organization of MISO States, the Organization of PJM States, and the independent Market Monitors of each RTO made presentations to the Commission on efforts to identify and address any barriers to trade between the PJM and MISO markets through the PJM/MISO Joint and Common Market process. At the meeting, the Commission encouraged PJM, MISO, and their stakeholders to develop an action plan for addressing any barriers to trade between the PJM and MISO markets. In September 2013, PJM and MISO submitted to the Commission a work plan developed with their stakeholders for addressing various initiatives to promote greater coordination of their market operations, through their Joint and Common Market process. In December 2013, the Commission issued an order addressing the proposed work plan and directed staff to participate in the RTOs' Joint and Common Market meetings to aid the Commission in

monitoring the RTOs' progress in addressing the initiatives. Consistent with that directive, staff attended meetings and provided feedback to the Commission regarding progress being made. The Commission invited PJM and MISO, their respective market monitors and state commissioner representatives from both regions to provide a status report at the Commission's January 2015 Commission meeting. In February 2015, the Commission issued an order requesting that PJM, MISO, and their independent market monitors provide further information on certain specific initiatives being addressed in the Joint and Common Market process, and provided an opportunity for interested parties to comment on the information provided by PJM, MISO, and their independent market monitors. The Commission is reviewing this information to understand what, if any, additional steps it should take to improve the efficiency of operations at the PJM/MISO seam. Another example of Commission consideration of such issues is found in several proceedings that involve the seam between MISO and the Southwest Power Pool. The Commission will continue to seek to identify and address barriers to efficient trade between markets as appropriate during FYs 2016 and 2017.



Energy Imbalance Market

In FY 2014, the Commission approved CAISO's implementation of an Energy Imbalance Market allowing neighboring balancing area authorities in the western states to participate in the imbalance energy portion of CAISO's real-time market. The Commission continues to work with CAISO and the Energy Imbalance Market participants to address problems as they arise, and approve market design improvements which address identified deficiencies. In May 2015, the Commission conditionally accepted NV Energy's tariff provisions to allow for its participation subject to further compliance obligations. NV Energy has since joined PacifiCorp as the second entity to

participate in the Energy Imbalance Market. In FY 2016, the Commission will address further outstanding compliance obligations of NV Energy and CAISO. Puget Sound Energy and Arizona Public Service Company have both entered into implementation agreements with CAISO to join the Energy Imbalance Market and they plan to file tariff provisions to allow for their participation beginning in October 2016. Other western utilities continue to explore joining the Energy Imbalance Market. The Commission will continue to monitor the implementation, performance and integration of existing and new balancing authority areas participating in the Energy Imbalance Markets in FYs 2016 and 2017.

Gas-Electric Coordination

Due to historically low natural gas prices, environmental considerations, and other factors, the electric industry has become increasingly reliant on natural gas as a fuel for generation. To explore the interdependencies of these industries, the Commission held five regional technical conferences in August 2012.

In November 2012, the Commission issued an order directing Commission staff to hold additional technical conferences on information sharing and communication issues between natural gas and electric entities and on natural gas and electric scheduling issues. Technical conferences were held in February and April 2013 on these issues. In November 2013, the Commission issued Order No. 787, Communication of Operational Information between Natural Gas and Electric Transmission Operators. Order No. 787 allows interstate natural gas pipelines and electric transmission operators to share non-public operational information to promote the reliability and integrity of their systems. Specifically, the final rule authorizes interstate natural gas pipeline and electric transmission operators to voluntarily share non-public, operational information. To protect against undue discrimination and ensure that the shared information remains confidential, the rule also adopts a No-Conduit Rule that prohibits recipients of the information from disclosing it to an affiliate or a third party. ISO-NE, PJM, and NYISO have voluntarily submitted tariff revisions to allow for the sharing of non-public, operational information with interstate natural gas pipelines consistent with Order No. 787.

In March 2014, the Commission initiated further steps to improve the coordination and scheduling of natural gas pipeline capacity with electricity markets culminating into a final rule, Order No. 809, issued in April 2015 to improve coordination of wholesale natural gas and electricity market scheduling. Order No. 809 adopted North American Energy Standards Board standards to revise the interstate



natural gas nomination timeline. These standards move the Timely Nomination Cycle deadline for scheduling gas transportation from 11:30 a.m. to 1 p.m. Central Clock Time and add a third intraday nomination cycle during the gas operating day to help shippers adjust their scheduling to reflect changes in demand. The Commission also revised its regulations to provide additional contracting flexibility to firm natural gas transportation customers through the use of multi-party transportation contracts. However, the Commission declined to adopt the Notice of Proposed Rulemaking proposal to move the start of the gas operating day earlier. In FY 2016, the Commission will review and take appropriate action on the Order No. 809 compliance filings interstate pipelines are required to submit in February 2016.

Also in March 2014, in two separate but related orders, the Commission established proceedings under the FPA and NGA. In one order, the Commission established proceedings under section 206 of the FPA to ensure that the scheduling practices of RTOs and ISOs correlate with the revisions to the natural gas scheduling practices adopted by the Commission in Order No. 809. Each ISO and RTO was required to make a filing in July 2015 that proposed tariff changes, or show cause why such changes were not necessary. The RTOs and ISOs made filings in July and August 2015, which the Commission addressed in November and December 2015.

Settlements and Trial-Type Evidentiary Hearings

As noted earlier, some filings lack the necessary facts for summary Commission action. These cases are set for trial-type evidentiary hearings and, in some instances, also for settlement judge procedures. When such cases are set for hearing, trial staff and parties conduct comprehensive discovery to develop facts relevant to the issues set for hearing and to create a complete and accurate record for the presiding judges and the Commission. After discovery is complete, trial staff and parties file several rounds of expert testimony and exhibits addressing the issues that are the subject of the hearing. Following a hearing at which witnesses are cross-examined, trial staff and the parties file briefs addressing the factual, legal and policy issues presented by the proceeding. Thereafter, the presiding judge issues an Initial Decision and further briefs are filed by the trial staff and parties with the Commission, after which the Commission issues its final decision in the case. In FY 2015, such proceedings resulted in the issuance of five Initial Decisions and four Commission opinions or orders on Initial Decisions. In one of these decisions, the judge found that traders manipulated the natural gas next day markets resulting in financial losses of approximately \$1.4 million to \$1.9 million.

Settlement of cases set for hearing is always explored, either through settlement judge procedures or by trial staff and the parties. Settlement negotiations frequently take months, often involve numerous highly technical issues, and require a delicate balancing of many different interests. The settlement judge and/or trial staff play a lead role in facilitating the settlement of cases set for hearing. The Commission encourages settlements, and the majority of cases result in settlements approved by the Commission as in the public interest. Such settlements result in faster, less expensive resolutions of cases and frequently also earlier refunds and rate reductions to ratepayers. The Commission also benefits by limiting the time, expense and resources needed to achieve a fair result for all parties.

Savings to ratepayers from settlements that occurred in FY 2015 totaled approximately \$296 million (\$146 million in electric utility matters and \$150 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, and thus provide long-term benefits beyond just the savings that occurred from these cases in FY 2015.

In addition, many matters, docketed and non-docketed, are resolved through the intervention of the administrative law judges and/or dispute resolution staff serving as mediators of facilitators. For example, during FY 2015, the dispute

resolution staff successfully resolved 36 disputes. There were also five proceedings that were successfully resolved through negotiated settlement, but the parties chose to withdraw their filing with the Commission rather than to file a settlement agreement.

In FYs 2016 and 2017, the Commission will continue to: (i) scrutinize filings to ensure that customers pay just and reasonable rates that ensure continued access to adequate energy supplies; (ii) actively encourage settlement of proceedings to secure prompt benefits for ratepayers, jurisdictional entities, and the Commission; and (iii) assure fair and thorough hearings of those cases that cannot be resolved through settlement.



Corporate Activities and Mergers

The Commission also takes action to improve competitiveness in wholesale electric markets by preventing the accumulation and exercise of market power as it reviews proposed mergers, dispositions, and acquisitions, thereby ensuring that all such transactions are consistent with the public interest. The Commission ensures that the disposition, consolidation, or acquisition of jurisdictional facilities is in the public interest by reviewing each proposed transaction to determine its potential effect on rates, regulation, competition, and cross-subsidization.

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

Smart Grid

The Commission continues to encourage the efficient operation of the electric grid, which includes the development of a smart grid. The smart grid concept involves automating the electric grid by outfitting it with smart controls, and two-way communications systems. These technologies have the potential to reduce power consumption through demand response, and to improve grid reliability.

The EISA provides roles for NIST and the Commission with respect to development of smart grid interoperability

standards. Section 1305 of the EISA directs the Commission to determine if NIST's work in this area has led to sufficient consensus on smart grid interoperability standards and, if so, to initiate a rulemaking through which it may adopt standards and protocols developed by the NIST process to govern the implementation of smart grid technologies. In FYs 2016 and 2017, the Commission will monitor the development of interoperability standards in the NIST framework process and evaluate standards as appropriate to determine whether there is sufficient consensus for adoption.

Performance Goal 1.1.1

Reduce Interchange Flows that are Uneconomic

Description

The percentage change in uneconomic interchange flows (i.e., electricity flowing from a high-cost market to a low-cost market) between adjacent organized markets is one indication of market inefficiency. The extent to which interchange flows move in the economic direction is one indicator of the Commission’s success in accomplishing Objective 1.1 of the Commission’s Strategic Plan, which focuses on ensuring just and reasonable rates, terms and conditions.

The reported percentage change for this measure represents the change in the degree to which participants in adjacent organized markets schedule uneconomic interchange. Positive values reported for percentage change indicate that the uneconomic interchange flows increased from the previous year, while negative values reported indicate that

uneconomic interchange flows decreased. Since decreases in uneconomic interchange flow are what are desired, this means that negative values for this measure are desired. As organized markets increase coordination and implement policies and rules that better promote efficiency between adjacent organized markets and remove incentives to schedule uneconomic interchange, the percentage change in uneconomic interchange flow should become negative. However, realistic expectations for improvements from policies that can be implemented from year to year are limited. In fact, there are likely declining marginal returns to such policies, such that the less costly and/or most effective policies are implemented first, and subsequent policies have marginally less effect. As such, this document sets a target for year-over-year improvement, but does not expect the rate of improvement to increase every year.

| Fiscal Year | FY 2011 Actual | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|--|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Performance Indicator: Lost firm load megawatts resulting from bulk power system transmission related events, excluding weather related outages | Data not available | -2.98% | -1.99% | 1.09% | -1.76% | -1.25% | -1.25% | -1.25% |
| FY 2015 Target: Met | | | | | | | | |

Analysis

The frequency of economic flows improved on all the measured interfaces, particularly the interface between the Southwest Power Pool (SPP) and the MISO, which reflects the effects of operating experience and change in market rules. This will be especially important as the footprint of SPP expands with the integration of the Western Area Power Administration and the associated utilities, which will increase the size of SPP and the amount of interchange

that will occur between SPP and MISO. On the interface between the NYISO and PJM, Coordinated Transaction Scheduling was implemented, which provided a way to more efficiently schedule hourly interface transactions. The Joint and Common Market process between PJM and MISO continued, which has worked to smooth issues regarding inter-RTO scheduling.

Performance Goal 1.1.2

Participation of stakeholders in regional transmission planning meetings

Description

The measure captures the level of participation of stakeholders in regional transmission planning meetings. Recognizing the importance of transmission planning, the Commission issued Order No. 1000, which requires public utility transmission providers to collaborate in regional transmission planning and take steps to encourage

participation by all stakeholders in those planning activities. This measure provides an indication of the potential effectiveness of Order No. 1000 in encouraging greater participation in the regional transmission planning process, which could result in more efficient and cost-effective transmission solutions.

| Fiscal Year | FY 2014 Actual | FY 2015 Actual | FY 2016 Target | FY 2017 Target |
|---|--------------------|----------------|----------------|----------------|
| Performance Indicator: Average attendance across all the regions | Data not available | 111.6 | 111.6 | 111.6 |

FY 2015 Target: Baseline

Analysis

Staff estimates a measure of the annual level of participation based on the number of participants attending regional transmission planning meetings. To calculate the level of participation, staff calculated an average attendance number across all the regions based on the total number of stakeholders⁶ attending the various meetings that staff monitored in each region during FY 2015 divided by the number of regions. The average attendance across all the regions for FY 2015 was 111.6 which is the baseline figure for this measure. Averaging the attendance numbers for the various meetings monitored by staff is a more accurate reflection of attendance than a simple count because stakeholder participation fluctuates between meetings held at different times in the transmission planning cycles. The Order No. 1000 monitoring effort began in earnest during FY 2015. Monitoring for most regions covered only the last nine months of FY 2015 because, during the first part of FY 2015, the Commission was still in the process of addressing the final regional compliance proposals. Staff monitored 41 meetings during FY 2015 and expects to monitor at least the same number of meetings in FY 2016. Staff found that the stakeholders were active and engaged in the Order No. 1000 process.

As the Order No. 1000 transmission planning meetings continue, the target is expected to stay the same. The FYs 2016 and 2017 targets are based on the Commission’s belief that the Commission’s Order No. 1000 efforts will lead to a consistent base level of stakeholders in regional transmission planning meetings. While effective transmission planning requires at least a base level of participation, it does not require 100 percent participation. Although the Commission anticipates a consistent base level required for effective planning and targets the same average participation, staff anticipates that attendance for each region will vary based on size and interest by non-incumbents.

⁶Representatives from the same entity are counted as one participant at a particular meeting regardless of the number of representatives in attendance.

Performance Goal 1.1.3

Cases resolved by settlements

Description

In reviewing some filings, the Commission determines that a trial-type evidentiary hearing or other procedures are needed to bolster the factual record on which the Commission will base its decision. In these instances, the Commission recognizes the value of resolving issues through consensual means where possible. Settling cases benefits energy consumers as it dramatically limits the time, expense, and resources that the Commission and outside parties would otherwise devote to litigating these cases. A settlement not only provides ratepayers reduced rates and refunds far more quickly than litigation, but also provides

business certainty and facilitates the construction of needed infrastructure in a timely manner. Further, the resolution of a case through settlement is likely to be more acceptable to the parties than a litigated result, and therefore, reduces the likelihood of an appeal. While the majority of cases set for hearing in any given fiscal year have traditionally been settled, many factors affect the percentage of cases settled in a given fiscal year. These include: i) the type and complexity of issues presented; ii) whether the issues are novel or have been addressed by the Commission in the past; and iii) the parties' willingness to settle.

| Fiscal Year | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|---|--------------------|--------------------|----------------|----------------|----------------|----------------|
| Performance Indicator: Percentage of cases set for hearing, settlement procedures or otherwise resolved by settlements ² | Data not available | 78.4% ³ | 92.40% | 75% | 75% | 75% |

FY 2015 Target: Met

Analysis

The Commission exceeded the target goal of 75 percent for achieving settlements during FY 2015. FERC staff settled 61 cases (54 full settlements, three partial settlements, and four settlement negotiations resulting in withdrawal or Alternative Dispute Resolution settlements in a docketed proceeding) out of 66 resolved cases during the fiscal year.

² In FY 2015, the performance indicator was changed to include docketed matters that were not set for hearing or settlement processes by the Commission but may have resulted in a settlement or motion to dismiss or withdraw. Docketed cases which have not been set for hearing or settlement procedures may nonetheless be settled, withdrawn or dismissed through the efforts of the FERC Staff.

³ The FY 2014 result reported in the FY 2014 Performance and Accountability Report was recalculated to include two withdrawn cases meeting the criteria of the revised measure. The change had no effect on the reported result.

Objective 1.2

INCREASE COMPLIANCE WITH FERC RULES; DETECT AND DETER MARKET MANIPULATION.

Oversight and enforcement are essential tools for ensuring that rates, terms and conditions of service are just, reasonable, and not unduly discriminatory or preferential. Whereas regulatory and market means focus on establishing rules and policy, oversight and enforcement focus on increasing compliance of regulated entities and detecting and deterring market manipulation. The Commission's oversight and enforcement program takes proactive steps to detect problems in energy markets and to reduce the probability that violations of applicable laws, the Commission's regulations, or market rules will occur. FERC uses a balanced approach to oversight and enforcement efforts: conduct surveillance and analysis of market trends and data; promote internal compliance programs; employ robust audit and investigation programs; and, when appropriate, exercise 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.

Market Oversight

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, requiring in-depth and time consuming data analysis, to relatively straightforward one-to-one interactions. The Commission examines and monitors many elements of the physical energy markets, including the structure and operations of, and interaction between, the natural gas and electric markets, among other things. This regular monitoring of energy markets is designed to maintain market intelligence to identify market anomalies, participant misbehavior, and to promote market efficiency.

Market Monitoring and Surveillance

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

In an effort to improve the Commission's ability to identify market misbehavior as it happens, Commission staff continues the use of algorithmic screening methods to identify inappropriate market participant activity. This expanded screening allows the Commission to incorporate data already generated in the markets to more acutely determine market health. To enhance this ability, the

Commission collects detailed market-participant level activity data from the RTOs, pursuant to Order No. 760. Commission staff also performs detailed transaction analysis throughout the lifecycle of market manipulation investigations. This forensic analysis, which requires the assessment of millions of lines of sensitive data, allows the Commission to create a complete picture of the trading activities under review. Commission staff is using natural gas market modeling software to aid in uncovering market participant behavior that may be of interest from an enforcement and market efficiency standpoint and is seeking to do the same with electric market software that will also aid the Commission in understanding the interplay between the gas and electric markets. The models will help the Commission achieve the next level of providing robust market oversight and surveillance.

Outreach and Communication

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

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

During FY 2016, Commission staff will meet with natural gas pipelines and shippers to discuss liquidity underlying price indices used in natural gas pipeline contracts.

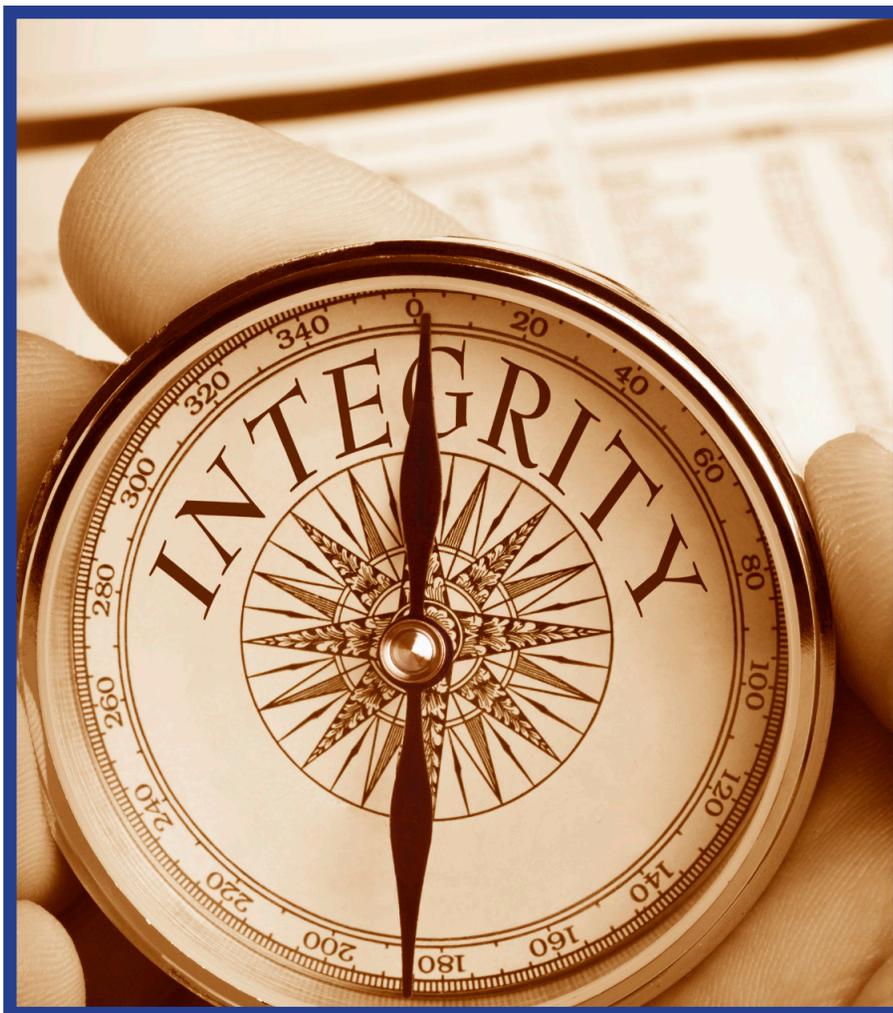
Transparency

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

Of note is the Electric Quarterly Report which provides the Commission and the public a record of each transaction under the Commission’s jurisdiction in the electric market. Electric Quarterly Report filings are used for ex-post analysis of entities with market based rate authority. The Commission staff also analyzes the Electric Quarterly Report data to identify participant level activities in the electric market. The Commission staff is currently enhancing aspects of the ex-post analysis to include use of other data streams to create a more comprehensive analysis.

Pursuant to Order No. 768, to increase transparency and to adapt to changes in the market, the Commission is collecting Electric Quarterly Report submissions from market participants that are excluded from the Commission’s jurisdiction under FPA section 205 and that have more than a de minimis market presence. These added data strengthen the Commission’s ability to identify potential exercises of market power or manipulation and aids the Commission in the evaluation of applications for market-based rates, proposed mergers and acquisitions, and enforcement proceedings.

In response to a petition for rulemaking filed by several oil pipeline shippers asking the Commission to require changes to the annual reports filed by oil pipeline companies, in FY 2015, Commission staff held a technical conference to discuss the issues raised in the petition. Subsequently, entities filed comments on the petition. In FY 2016, Commission staff will evaluate the comments and recommend what additional action, if any, the Commission should take in response to the petition.





Audits

The Commission will continue to use audits to work actively to identify and appropriately address areas of risk. The Commission conducts a variety of audits including, but not limited to, compliance, operational, and financial audits. These audits are undertaken to ensure that jurisdictional companies comply with the Commission's authorizing statutes, orders, rules, and regulations. Also, audits of jurisdictional entities are performed to address accountability, transparency, and any other objectives and goals of the Commission. To enhance industry compliance, the Commission staff reviews jurisdictional entities' compliance programs and provides guidance on enhancing these programs. The Commission will continue to use a risk-based approach in the preparation of its annual audit plan to address areas of highest priority identified by the Commission.

In FY 2015, the Commission completed 22 audits of public utilities and natural gas pipelines. These audits resulted in 360 recommendations for corrective actions and directed over \$26.3 million in refunds and recoveries. The recommended corrective actions improve and strengthen jurisdictional companies' compliance programs. The major topic areas of the Commission's FY 2016 audits and those anticipated for FY 2017 include: Order No. 1000, oil pipeline carriers, market-based rates, RTOs/ISOs formula rates, mergers and acquisitions, gas pipeline tariffs, nuclear decommissioning, open access transmission tariffs, affiliated transactions, and accounting and reporting audits.

Implementation of Recommendations

The Commission continues to stress the importance of timely implementation of audit recommendations.

Prompt implementation of recommendations ensures that potential risks or negative impacts of noncompliance are minimized and any refunds are promptly returned. Timely implementation of recommendations also demonstrates a commitment to improve compliance with FERC precedents and strengthen regulatory operations and internal compliance programs. Finally, timely implementation evidences a stronger compliance culture within a company, lowering the risk of future noncompliance.

Outreach

The Commission continues to stress the importance of having a robust compliance program and the timely implementation of audit recommendations, and to discuss trends of noncompliance at industry conferences, meetings, and speaking engagements and in the annual Report on Enforcement. The Commission will continue to engage in formal and informal outreach efforts to promote effective compliance programs and work to ensure that jurisdictional companies properly implement recommended corrective actions.

As a result of these efforts, the Commission anticipates that potential risks of noncompliance will be minimized and any refunds will be promptly issued. The Commission further expects that emphasizing prompt implementation of recommendations and robust compliance programs will lead to a greater culture of compliance and will lead to entities actively addressing and minimizing areas of systematic noncompliance. In support of these goals, the Commission will strive for prompt implementation of the recommendations in its reports.

Accounting

The Commission processes accounting filings timely and analyzes accounting matters in other filings submitted by regulated entities to ensure compliance with Commission accounting and related financial reporting regulations and to bolster the accuracy, transparency, and usefulness of accounting information for the Commission, regulated entities, and interested parties in the development and oversight of rates. The Commission's accounting program is an instrumental component in ensuring that rates established for jurisdictional companies are just and reasonable and not unduly discriminatory or preferential. The program is designed to evaluate financial, market, and other information filed or reported to the Commission for compliance with the Commission's accounting rules. Additionally, the program will modify its accounting and financial reporting rules, as necessary, to support the development and oversight of rates. The accounting function also is engaged in, and informs the Commission of, emerging accounting issues that affect jurisdictional industries such as the proposed changes in U.S. Generally Accepted Accounting Principles and International Financial Reporting Standards. The Commission also provides informal accounting guidance related to various aspects of Commission accounting, financial reporting, and record retention regulations.

These inquiries come from jurisdictional entities, industry stakeholders, and consultants, as well as through the Commission's Compliance Help Desk, Office of External Affairs, Enforcement Hotline, and other Commission offices.

Outreach and Communication

The Commission is also actively engaged in emerging accounting issues that affect jurisdictional industries such as the U.S. Securities and Exchange Commission's pending decision that may require U.S. companies to adopt International Financial Reporting Standards; the International Accounting Standards Board's project on Rate-Regulated Activities; and the impacts of changes to the natural gas and oil industries related to pipeline integrity management testing requirements imposed by other regulators. The Chief Accountant and other Commission staff also regularly engage in informal meetings with representatives of the regulated industries to discuss relevant accounting topics and Commission actions. Additionally, topics of wide generic interest to the industries are highlighted in the annual Report on Enforcement to better inform them of areas of high risk of noncompliance that the Commission addressed in the current fiscal year.



Investigations

In FYs 2016 and 2017, the Commission will continue to focus on the following investigation and enforcement priorities:

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

Conduct involving fraud and market manipulation poses a significant threat to the markets overseen by the Commission and, therefore, to the Commission's efforts to ensure just, reasonable, and not unduly discriminatory or preferential rates, terms, and conditions. Further, anticompetitive conduct and behavior that threatens market transparency undermines the confidence that market participants and consumers have in the energy markets.

While most market participants act in good faith and observe the relevant rules and regulations, there are instances in which some participants engage in manipulative behavior or violate known requirements when it is in their economic interest to do so. When such instances are suspected or identified, the Commission conducts an investigation.

While investigations are non-public activities, the Commission provides guidance to the regulated community where possible, including in the annual Report on Enforcement. The Commission staff also has regular interactions with regulated entities, conducts outreach efforts, encourages companies to implement effective compliance programs, and releases reports of investigations of alleged fraud or manipulation, when appropriate. Moreover, if Commission staff finds a violation after the non-public investigation, matters become public through a notice of alleged violations, an order approving settlement or an order to show cause. These actions, and the Commission's demonstrated willingness to impose civil penalties or other sanctions where circumstances warrant, act as a deterrent to fraud, market manipulation and other violations. During FY 2015, the Commission approved settlements in six investigative matters. These FY 2015 settlements amounted to over \$26.25 million in civil penalties, nearly \$1 million in disgorged unjust profits plus interest. A substantial portion (\$17.4 million) of the civil penalties in three of these settlements was offset by the companies' agreement to make additional investments that will enhance reliability of the grid. The Commission also issued Orders Assessing Civil Penalties in three Federal Power Act-related investigations, ordering assessed penalties of over \$49 million.

In FY 2015, a hearing before an Administrative Law Judge was conducted on an investigation of BP America, Inc. for alleged market manipulation involving natural gas

trading. The hearing concluded on April 15, 2015, and the Administrative Law Judge issued her Initial Decision on August 13, 2015. Currently pending in federal district court are reviews of Orders to Show Cause issued in FY 2013 against Barclays Bank, PLC and some of its traders for engaging in market manipulation involving the trading of electricity contracts, and against Lincoln Paper and Tissue, LLC, Richard Silkman, and Competitive Energy Services, LLC, for fraud in participation in an RTO's demand response program. Also pending in federal district court are reviews of Orders Assessing Civil Penalties issued in FY 2015 against Maxim Power Corporation, Maxim Power (USA) Inc., Pawtucket Power Holding Co., LLC, Pittsfield Generating Company, LP, and Kyle Mitton, for fraud in the collection of make-whole payments, and against Houlian Chen, Powhatan Energy Fund, LLC, HEEP Fund, LLC, and CU Fund, Inc. for fraud in the collection of marginal loss surplus allocation payments in PJM energy markets.

In FY 2015, Commission staff issued four notices of alleged violations, opened 19 new investigations and brought 22 investigations to closure. The length of an investigation depends upon its nature and complexity; some close in a few months while others may be ongoing for multiple years. From time to time, the Commission also brings subpoena enforcement actions in federal district court, when appropriate, against entities who do not comply with investigation requests.

The Commission continues to receive self-reports of violations from regulated entities and market participants, many of which are resolved without any sanctions. In FY 2015, the Commission received 122 such self-reports. Information gathered from these self-reports is provided to the public and regulated entities in the Commission's annual report on enforcement activities, which is released following the close of the fiscal year.

ENFORCEMENT HOTLINE

THE COMMISSION OPERATES AN ENFORCEMENT HOTLINE WHEREBY THE PUBLIC OR INDUSTRY PARTICIPANTS CAN ANONYMOUSLY PROVIDE INFORMATION TO THE COMMISSION CONCERNING POTENTIAL REGULATORY VIOLATIONS, MARKET ANOMALIES, OR MARKET PARTICIPANT MISCONDUCT.

IN FY 2015, THE COMMISSION OPENED 195 ENFORCEMENT HOTLINE MATTERS, MOST OF WHICH RESULTED IN PROMPT, INFORMAL RESOLUTION. OF THESE, NINE ARE STILL PENDING.

Performance Goal 1.2.1

Audit recommendations are implemented within six months of issuance

Description

FERC issues audit reports to regulated entities that include a number of recommendations for corrective actions. These recommendations enforce FERC’s regulations of the interstate transmission of electricity, natural gas, and oil. The desired outcome is timely implementation of audit recommendations because it ensures greater compliance with Commission regulations and re-enforces a strong compliance culture throughout the industry.

Although a significant majority of recommendations can be implemented within six months, the timeline for

completing corrective actions for certain recommendations may exceed the six month target, especially if they involve significant changes to current practices, policies, or procedures (e.g., major software upgrades). FERC considers a recommendation implemented when a company has been presented with the recommendation and it has fully implemented the recommended corrective action or, for particularly complex recommendations, the company has actively and continuously taken steps to implement the recommendation.

| Fiscal Year | FY 2010 Actual | FY 2011 Actual | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|--|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Performance Indicator: Percentage of audit recommendations implemented within six months of issuance | Data not available | 96% | 95% | 92% | 95% | 96% | 95% | 95% | 95% |
| FY 2015 Target: Met | | | | | | | | | |

Analysis

In FY 2015, 96 percent of the 308 recommendations issued by FERC were implemented within a six month timeframe.

Achieving the future target results is anticipated to be challenging for several reasons. For example, the Commission is undertaking audits of increasing complexity. As a function of more complex audit topics, the recommendations will likewise be more complex and time consuming. Larger

and more complex audits will translate into fewer audit completions and potentially fewer recommendations. This means that the actions, or inactions, of one company have a far greater influence on the measure. The long-term effects of these developments remain to be seen; however, maintaining a high goal of 95 percent reflects our effort to maintain a consistently high level of performance.

GOAL 2

PROMOTE SAFE, RELIABLE, SECURE, AND EFFICIENT INFRASTRUCTURE

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

INTRODUCTION

The NGA and FPA, among other statutory authorities, charge the Commission with the responsibility to promote the development of strong 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, LNG facilities, and non-federal hydropower projects. Other Commission responsibilities include ensuring the safety of non-federal hydropower projects and ensuring compliance with Commission-imposed conditions on 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.

| Strategic Goal and Objectives (Dollars in thousands) | | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request | Percent Change FY 2016 to FY 2017 |
|---|---------|-------------------|---------------------|--------------------|--|
| Objective 2.1 | FTE | 252 | 257 | 257 | 0.0% |
| | Funding | 57,298 | 62,333 | 66,076 | 6.0% |
| | Program | 43,493 | 47,666 | 50,181 | 5.3% |
| | Support | 13,806 | 14,668 | 15,895 | 8.4% |
| Objective 2.2 | FTE | 238 | 243 | 243 | 0.0% |
| | Funding | 52,959 | 55,118 | 57,500 | 4.3% |
| | Program | 39,899 | 41,228 | 42,448 | 3.0% |
| | Support | 13,060 | 13,890 | 15,052 | 8.4% |
| Goal 2 Subtotal | FTE | 490 | 500 | 500 | 0.0% |
| | Funding | 110,257 | 117,451 | 123,576 | 5.2% |
| Application of PY Budget Authority | | - | (4,055) | - | |
| Goal 2 Total | Funding | 110,257 | 113,397 | 123,576 | 9.0% |

Note: Numbers may not add up due to rounding.

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, and natural gas production continues to increase due to the development of shale gas.⁴ 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. 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.

Interest in developing hydropower projects has also increased, in part because hydropower offers the benefits of a renewable, domestic energy source that supports efficient, competitive electric markets by providing low-cost energy reserves and ancillary services. Hydropower projects may also provide other public benefits such as environmental protection and enhancement, water supply, irrigation, recreation and flood control.

Natural Gas and LNG Programs

Pre-Filing and Applications

As part of the natural gas pipeline certificate and LNG facility authorization process, the Commission reviews applications to ensure that the proposals are in the public interest. The established pre-filing process engages stakeholders in the identification and resolution of concerns prior to a company filing a formal application with the Commission. Commission staff's participation and initiative in these efforts allows for the filing of more complete applications. Once the application is filed, the Commission is committed to the expeditious completion of the required environmental review consistent with the NEPA. At the same time as the environmental review is occurring for natural gas pipeline applications, the Commission is also performing an engineering analysis of proposed facilities and reviewing the application to establish initial recourse rates, as well as to ensure that the proposed tariff complies with the Commission's policies and regulations. The Commission assesses applications for embedded accounting issues in pipeline construction, acquisition, and abandonment transactions, and Commission staff will identify deficiencies in proposed accounting practices and recommend appropriate corrective action. These accounting reviews in certificate filings provide greater certainty to pipelines by providing upfront guidance on accounting entries. Together, these activities enable more efficient and expeditious determination by the Commission.

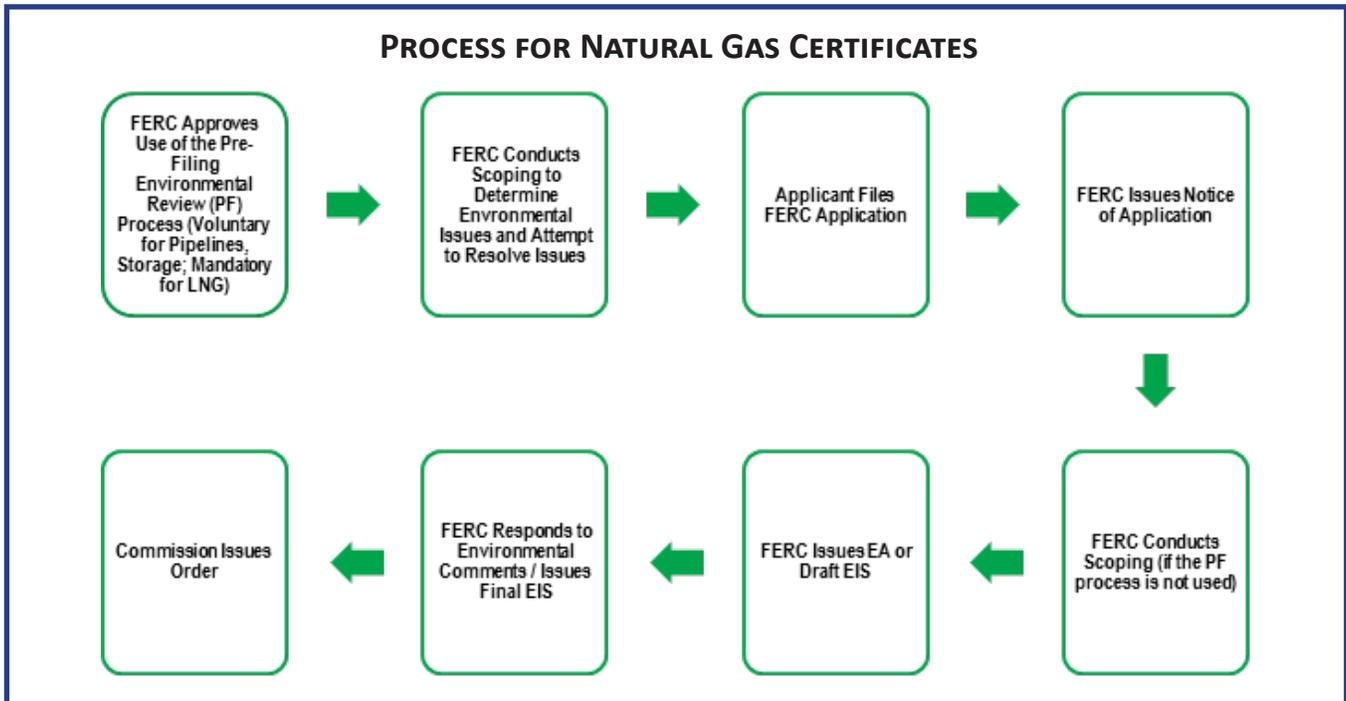
In FY 2015, 45 percent of major pipeline projects used the voluntary pre-filing process.⁵

Of the projects that used the pre-filing process, all but one of the environmental documents were issued by Commission staff within eight months of determining that the application was complete. During this same time, the Commission authorized 43 major natural gas pipeline projects, which resulted in approximately 667 miles of additional pipeline and over 467,000 horsepower of mainline compression. Four storage projects were also authorized, resulting in approximately 3 billion cubic feet of working gas capacity. As the supply and market areas continue to develop and expand, the Commission expects the number of natural gas pipeline project applications to increase in FY 2017. In addition, the increase in the demand for gas-fired electric generation and new or expanded manufacturing is spurring the development of greenfield projects.

In FY 2015, the Commission conducted the pre-filing review of 15 LNG projects, consisting of both new LNG terminals and modifications of existing LNG facilities. Three of those projects subsequently filed applications, and the remaining 12 are in pre-filing environmental review process. In addition to other pending LNG projects, this resulted in the Commission's processing of 16 applications for new LNG facilities or modifications to existing LNG facilities. Based upon industry filings with the Department of Energy and industry information provided during pre-filing meetings with Commission staff, the Commission expects 10 LNG export terminal applications and one LNG peak-shaving facility application to be under review by the Commission through FY 2017.

⁴ Shale is a fine grained sedimentary rock which can contain natural gas. Hydraulic fracturing of this rock may release trapped natural gas that can be produced and shipped to consumers. Geologic formations containing shale gas occur throughout the country and are referred to as shale plays.

⁵ Use of the pre-filing process is mandatory for LNG projects.



Outreach

The Commission regularly conducts natural gas environmental training seminars to provide guidance and insight on the Commission’s environmental review process and compliance-related matters. These sessions, which provide an opportunity for open dialogue between Commission staff and stakeholders, are attended by state, local and federal agency officials, natural gas company representatives, construction contractors, and consulting firm staff. These sessions provide information on the filing requirements for environmental reports, reporting requirements for blanket certificate projects, new regulations, overview of the Commission’s baseline construction and mitigation measures, and more. The seminars are instrumental in developing the understanding of and successful adherence to the Commission-issued certificates and authorizations. In FY 2015, Commission staff conducted four training seminars and participated in several outreach sessions to natural gas companies and federal permitting agencies, addressing the Commission’s certificate and environmental review processes. In FY 2017, the Commission proposes to conduct four seminars.

In FY 2015, Commission staff compiled Suggested Best Practices for Industry Outreach Programs to Stakeholders with the goal of effectively engaging stakeholders to identify and resolve issues over the entire course of the FERC project review process. The document was developed based on staff experience and with the input from natural gas companies with proactive outreach programs.

Commission staff has also continued to extend its outreach efforts to Native American tribes to enhance their participation in the Commission’s environmental review process. In FY 2015, contacts were made with 74 tribes and meetings were held with six tribes. These included Commission staff’s participation in several meetings with representatives of various Indian tribes in the New England Region interested in the review of natural gas projects. In addition, Commission staff provided a training seminar attended by tribal representatives and representatives of the natural gas industry entitled “Commission’s Section 106 Process and Tribal Consultation for Natural Gas Facilities,” and consulted Native American tribes in an effort to update the Commission’s Guidelines for Reporting on Cultural Resources Investigations for Pipeline Projects, dated December 2002.

Alaska Natural Gas Pipeline Project

In FY 2015, Commission staff engaged in the pre-filing review of the Alaska LNG Project, which consists of a planned LNG export terminal and associated pipeline facilities. As part of the pre-filing review, staff attended and participated in Alaska LNG’s open house meetings, received and reviewed the first full set of draft resource reports, issued a Notice of Intent to initiate formal scoping, initiated government-to-government consultations with Native Alaskans, conducted field reviews, and participated in numerous interagency meetings. If the project sponsors file a formal application for the Alaska LNG Project in FY 2017, as projected, Commission staff will promptly identify any remaining data gaps, and begin preparing a draft environmental impact statement.

THE COMMISSION REGULATES OVER 1,600 NON-FEDERAL HYDROELECTRIC PROJECTS AT OVER 2,500 DAMS AND IMPOUNDMENTS.

TOGETHER, THESE PROJECTS REPRESENT 54 GIGAWATTS OF HYDROELECTRIC CAPACITY, MORE THAN HALF OF ALL THE HYDROPOWER IN THE UNITED STATES.

Hydropower Program

Pre-Filing and Applications

The pre-filing process typically begins three years prior to the filing of a license application.⁶ Throughout this process, Commission staff consults with stakeholders to identify issues, develop study plans, address any issues, and ensure that the licensing proposal is complete by the time the application is filed. The Commission anticipates 94 pre-filing processes in FY 2017. In the course of these processes, the Commission expects its staff to attend 105 scoping and study plan meetings, a 176 percent increase from FY 2015, and to participate in numerous tribal consultations.

Commission staff conducts NEPA environmental analyses for all hydropower project applications. The Commission is responsible for ensuring that the environmental document analyzes the project's effects on potentially affected resources, including geology and soils, aquatic resources (including water quality), terrestrial resources, threatened and endangered species, recreation, land use and aesthetic resources, cultural resources, and examines alternatives and makes recommendations for protection, mitigation, and enhancement measures to be included in any license issued. In FY 2015, Commission staff issued 26 draft and final environmental documents. Commission staff issued 20 final environmental documents, on average about 13 months after the date that reply comments were due on the Notice of Ready for Environmental Analysis; all but three were issued within 24 months of when reply comments were due. The Commission expects its staff to issue about 40 environmental documents and participate in 10 post-filing public meetings associated with its environmental analysis of applications in FY 2017. The Commission expects to increase the use of the hydropower environmental and engineering services contract to respond to the anticipated increase in workload.

⁶ The Federal Power Act requires that a relicense application must be filed with the Commission no later than two years before the license expires.

In FY 2015, the Commission acted on 15 applications representing a total capacity of 780 megawatts. In FY 2015, the Commission received seven license applications of which six were for original projects and the remaining one was for a project with an expiring license. In FY 2017, the Commission expects to receive 10 original applications due to a continued interest in developing new projects, and 17 relicense applications.

In addition to license applications, the Commission processes preliminary permit applications and monitors compliance with issued permits. A permit guarantees the holder "first-to-file" status for a particular site in cases where multiple applications are received by the Commission for a hydropower license. Permits also allow the holder to study a particular site for up to three years. A permit does not authorize construction, nor is it required to apply for, or receive, a license. In FY 2015, there were over 150 permits in effect.

The Hydropower Regulatory Efficiency Act of 2013 made a number of changes regarding the Commission's regulation of hydropower projects, such as directing the Commission to investigate the feasibility of a two-year licensing process for hydropower development at non-powered dams and closed-loop pumped storage projects. Consistent with this directive, in FY 2014, the Commission solicited public opinion; developed a two-year process plan, schedule, and criteria for identifying projects that may be appropriate for a two-year licensing process; and approved one conventional hydroelectric pilot project to test a two-year licensing process. In FY 2015, the Commission received and accepted a license application for the approved pilot project to test a two-year process. In FY 2016, the Commission anticipates completing the processing of the license application for the two-year process and reporting to Congress on the results of these efforts.

The Hydropower Regulatory Efficiency Act also exempts certain conduit hydropower facilities from the licensing requirements of the Federal Power Act. The Commission is required to determine whether proposed projects meet the criteria to be considered “qualifying conduit hydropower facilities.” Qualifying conduit hydropower facilities are not required to be licensed or exempted by the Commission, however, any person, State, or municipality proposing to construct a facility that meets the criteria must file a Notice of Intent to Construct a Qualifying Conduit Hydropower Facility with the Commission. In FY 2015, the Commission issued 33 letters on these qualifying conduits. In FY 2017, the Commission expects to issue 20-30 qualifying conduit letters.

Outreach

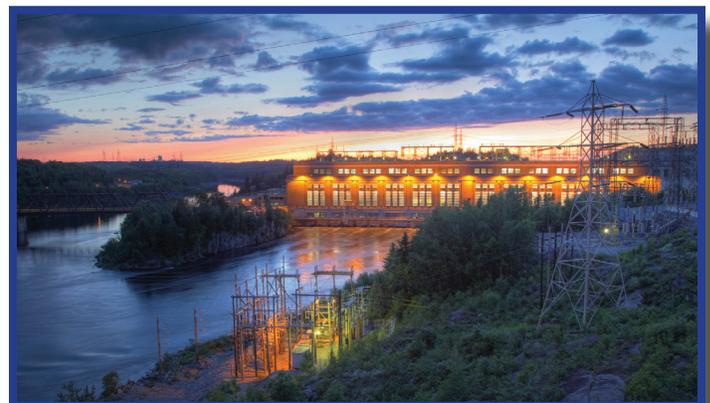
In the past several years, Commission staff has held workshops to assist licensees with specific issues. In FY 2015, staff held a Shoreline Management Workshop in Bend, Oregon that was attended by over 90 individuals representing approximately 60 licensees from across the country to discuss shoreline uses and management along the reservoirs. Staff also held a recreation workshop in Ontario, California to assist licensees in completing the Commission’s Licensed Hydropower Development Recreation Report (Form 80), which tracks recreational amenities and use at hydropower projects; developing recreation plans and monitoring use, and ensuring public safety at the sites. In addition, staff has been working with a number of licensees on-site to review recreation plans and compliance. These workshops and site visits also provide an opportunity to discuss innovations and trends in public recreation, as well as discuss safety of recreation users. Based on the feedback from these workshops and site visits, Commission staff anticipates providing additional recreation and shoreline management workshops and site visits in FY 2017.

The Commission also regularly conducts hydropower licensing training sessions to provide guidance on how to obtain a license or exemption and how to effectively participate in the licensing and exemption processes. The sessions are typically attended by prospective licensees, federal and state natural resource agency personnel, Indian tribes, and members of the public, and cover such topics as what licensing process to use, when to file comments and recommendations for license or exemption conditions, and how to officially intervene in a license or exemption proceeding. In FY 2015, Commission staff conducted outreach sessions with Indian tribes, federal and state agencies, and hydropower industry personnel to prepare for an increasing relicensing workload beginning in FY 2016.

Shoreline Management and Recreation

Licensees may, with Commission approval, authorize specific uses and occupancies of the licensee-controlled lands along the project reservoir shoreline that are not related to hydroelectric power production or other project purposes. Examples of non-project uses include, but are not limited to: commercial marinas, private residential boat docks and marinas, shoreline erosion control structures, water withdrawal facilities, utility lines, access roads, bridge crossings, and significant dredging activities. In FY 2015, Commission staff processed 54 applications for non-project uses of project lands and waters. Commission staff is seeing fewer applications for new facilities, but is seeing an increase in the number of applications for reconfigurations and/or improvements at already approved existing facilities (24 of the 54 applications). These applications seek to reduce the number of large docks to allow for an increase in docking slips for smaller boats and/or personal watercraft (PWCs). Commission staff is also processing requests for changes/reductions to previously approved facilities where marinas are seeing less demand for docking locations.

In order to ensure that licensees properly manage licensee-owned lakeshore lands, some licensees prepare and file shoreline management plans. A shoreline management plan is essentially a land use plan, in which a licensee, in consultation with stakeholders and subject to Commission approval, determines what types of development and environmental protection are appropriate on the licensee’s shoreline lands. Shoreline management plans typically guide development and use of project shorelines for recreation, habitat protection, erosion control, and other uses. Not all projects require shoreline management plans; these plans are generally required where it appears that the project’s shoreline may be subject to competing developmental pressures such that public access or environmental resources are at risk. A shoreline management plan is only applicable to lands owned or controlled by a licensee, and has no effect on privately-owned lands in which a licensee has no interest.



Performance Goal 2.1.1

Hydropower and Natural Gas Orders Issued Within Established Timeframes

Description

FERC-regulated entities must obtain authorization before beginning the construction of natural gas pipeline, natural gas storage, LNG, and hydropower facilities and before implementing measures required from relicensing a hydropower facility. In order to maximize both the economic and environmental benefits of these projects, the

Commission must process applications in an efficient and timely manner and ensure that its authorizations are based on thorough environmental analysis. FERC has established timeframes that balance the competing demands of timeliness and thorough analysis.

| Fiscal Year | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|---|--------------------|----------------|----------------|----------------|----------------|----------------|
| Performance Indicator: Percent of hydropower orders issued within 24 months | Data not available | 80% | 94% | 75% | 75% | 75% |
| FY 2015 Target: Met | | | | | | |
| Performance Indicator: Percent of natural gas orders issued within the appropriate timeline depending upon the category of the filing | Data not available | 92% | 88% | 90% | 90% | 90% |
| FY 2015 Target: Not Met | | | | | | |

Analysis

The FY 2015 result reflects the Commission’s emphasis on consistently meeting its established timeframes in order to maximize the economic and environmental benefits of the proposed for hydropower and natural gas pipeline projects. While each program is required to conduct thorough analysis in an efficient and timely manner, the processes in which to do so have different elements and unique requirements.

In FY 2015, the Commission expected to issue 75 percent of hydropower orders within 24 months of issuance of either the Ready for Environmental Analysis Notice or the Notice of Application (as appropriate) when all required agency materials have been received. For the 13 hydropower applications where required agency documentation was filed prior to the issuance of the NEPA document, 100

percent of the orders were issued within 24 months from the date of Ready for Environmental Assessment notice or the Notice of Application is issued by the Commission. For the four hydropower applications where required agency documentation was filed after the issuance of the NEPA document, 75 percent of the orders were issued within 24 months from the date of the filing of final required documentation by the agencies. In total, 16 out of 17, or 94.1 percent of hydropower orders were issued within the established timeframe.

Gas orders are separated into four categories, based on scope of the facilities proposed and complexity of the case. Each category has a separate established timeframe, allowing additional time for increasing scope and complexity. In FY 2015, 51 out of 58, or 88 percent of gas orders were

issued within the established timeframes. Applications that utilized the pre-filing process effectively, providing robust applications with a well-defined/finalized project, thorough and complete responses to all comments made during the scoping period and on the draft resource reports, and who consulted with other agencies early in the process were issued timely. All of the untimely orders involved facilities that were larger in scope and complexity. Three of the seven orders that did not meet the established timeframe required several requests for additional information to be provided by the applicants, and/or significant changes to the project or new information was provided after the applicant filed

its application. Three of the seven untimely orders required the applicant to coordinate with the U.S. Department of Transportation before FERC could issue the NEPA document and proceed with issuing an order. Two of the seven cases involved extensive protests or significant conflict over land use/siting between the applicant and another utility, both requiring additional time to resolve. Another factor in four of the seven orders issued untimely was several changes in Commission staff evaluating the projects. The Commission continues to emphasize the value of the pre-filing process and has taken action to ensure transitions to different staff, if needed, occurs more seamlessly.

Objective 2.2

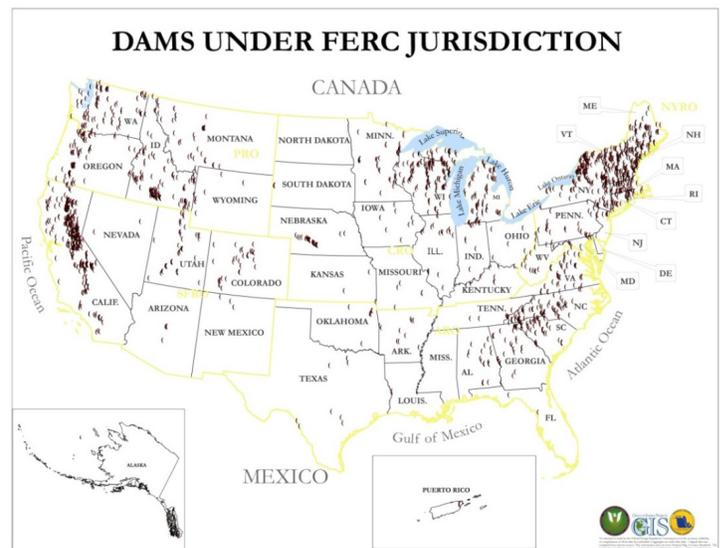
MINIMIZE RISKS TO THE PUBLIC ASSOCIATED WITH FERC-JURISDICTIONAL ENERGY INFRASTRUCTURE.

In addition to reviewing applications and issuing orders with respect to construction, operation, and modification of natural gas facilities and non-federal hydropower facilities, the Commission has other responsibilities concerning energy infrastructure subject to its jurisdiction. For LNG facilities, the Commission evaluates the design of proposed facilities to assess whether the facilities would have a public safety impact, and ensures that appropriate mitigation or protection measures are included in the design. These responsibilities also include ensuring the safety of non-federal hydropower projects 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 governmental agencies at the federal and state levels to identify and seek solutions to threats to FERC-jurisdictional infrastructure from cyber and physical attacks. Through these actions, the Commission minimizes risks to the public associated with jurisdictional infrastructure.

Hydropower

Failure of a non-federal hydropower project potentially can result in significant safety, environmental and economic consequences. To fulfill its responsibility for ensuring the safety of these facilities, the Commission relies on physical inspections for detecting and preventing potential catastrophic structural failures, thereby protecting the public against the risk associated with such an event. Commission engineers are highly trained and work closely with local and other federal officials at all stages of project development and operation. Before projects are constructed, the designs, plans, and specifications of the proposed facility are reviewed and approved. Through regularly scheduled and comprehensive inspections during construction and operation, Commission engineers verify that dams meet stipulated design criteria, identify necessary remedial modifications or required maintenance, and ensure compliance with requirements. This approach allows the Commission to ensure the safety of the public, as well as the continued operation of the facilities to meet the energy demands of the nation. In FY 2017, the Commission expects to conduct approximately 2,100 inspections.

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



specific plans for emergency response, including ensuring coordination and cooperation among the dam owners, state and local emergency management agencies, and the Commission.

The Commission also requires comprehensive inspections and engineering evaluations of the high and significant hazard potential dams by independent consultants every five years. All independent consultant inspection reports are thoroughly reviewed and evaluated by the Commission to determine whether additional studies are required or if remedial measures are necessary. The Commission reviews approximately 200 independent consultant reports each year to make certain the structural integrity of the jurisdictional dams is maintained or improved as appropriate. The Commission expects the number of independent consultant inspection report reviews to remain steady through FY 2017.

**THE FREQUENCY OF DAM INSPECTIONS
AS DETERMINED BY ITS HAZARD POTENTIAL CLASSIFICATION**

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

Risk-informed decision making provides the capability to assess non-traditional failure modes, levelize risk across different loading conditions, focus inspections and surveillance on the specific potential failure modes and monitoring programs at projects, and guide remediation projects to provide an overall reduced level of risk to the public. In FY 2017, the Commission will continue implementation of Risk-informed decision making through pilot projects, and continue to train Commission staff, dam owners, and consultants in risk assessment procedures, methodologies and tools. Refinement of the guidelines and procedures will continue to be carried out in an open, collaborative process with representatives of the hydropower industry, including Commission-regulated licensees. These efforts will run parallel to the traditional dam safety inspections and together will ensure public safety.

Liquefied Natural Gas

The Commission’s LNG review and oversight program evaluates the design of proposed LNG facilities to assess whether the facility would have a public safety impact. This is done through a comprehensive environmental and engineering review process that includes working very closely with other federal agencies such as the U.S. Coast Guard and the Department of Transportation, which establish and enforce the LNG safety and security standards. If a facility is authorized, the Commission is responsible for conducting inspections during construction and subsequently, during facility operation, to ensure compliance with the requirements included in the Commission authorization. While facilities are under construction, Commission engineers conduct inspections at least once every eight weeks. In FY 2015, 29 inspections were conducted at the four terminal expansions and one new LNG terminal under construction. At a minimum, 35 construction and pre-operational inspections are anticipated for both FYs 2016 and 2017. The FY 2017 number may also increase depending on market conditions, as well as the number of approved

LNG export facilities that move forward with construction in the next 18 months.

Once in operation, jurisdictional peak-shaving plants are inspected once every other year and LNG import or export terminals are inspected once each year. In FY 2015, 15 operational inspections were conducted at six peak-shaving facilities and nine LNG terminals. The number of operational inspections is expected to be 14 in FY 2017.

Reliability of the Bulk Power System

EPA 2005 amended the FPA to charge FERC with overseeing the development and enforcement of mandatory reliability standards applicable to the bulk power system through an ERO. The Commission draws on the substantial experience of its staff, including electrical engineers with many years of experience in the utility industry, to facilitate its oversight of those standards. Commission staff analyzes standards proposed by the ERO to determine whether those standards support the reliable operation of the grid. Once the standards are approved, the Commission oversees the compliance with and enforcement of reliability standards that apply to all users, owners and operators of the bulk power system. The Commission also reviews major blackouts and events to determine whether standards were violated or should be changed to help prevent future blackouts. In addition to conducting its own audits, investigations, and enforcement actions, the Commission oversees audits, investigations, and proposed penalties of the ERO and the ERO regional entities to help ensure that their efforts will result in strong compliance with mandatory standards. The Commission also communicates with various federal and state agencies, international entities and industry participants on emergency reliability and security issues.

The Commission will continue to encourage innovative approaches to system reliability, security, and resilience that will improve the bulk power grid’s ability to withstand and recover from abnormal events.

Reliability Standards

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

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

The ERO develops these standards through an open and inclusive process that involves extensive negotiation, consultation and coordination among many stakeholders. The eight Regional Entities may also develop and propose regional Reliability Standards. The Commission does not have statutory authority to write Reliability Standards. If the Commission does not approve a Reliability Standard or interpretation filed, it may remand the filing to the ERO for reconsideration. The Commission may direct the ERO to develop and submit a new or modified Reliability Standard on a specific matter.

One illustration of this process involves the ERO's Critical Infrastructure Protection (CIP) Reliability Standards. The Commission previously approved Version 5 of the CIP Reliability Standards, which focuses on cyber security, while concurrently directing modifications. In February 2015, the ERO submitted a proposal to modify the CIP Reliability Standards, seeking approval of additional reliability standards and security controls to address Commission directives. In July 2015, the Commission issued a Notice of Proposed Rulemaking on the ERO's proposal. In addition, the Commission's Notice of Proposed Rulemaking proposed the development of a new Reliability Standard for supply chain management security controls to protect the bulk electric system from security vulnerabilities and malware threats. Commission staff intends to provide continuing support to oversee the development of these revised and new cyber security Reliability Standards through FY 2017, including attendance of a technical conference on CIP supply chain risk management issues in January 2016. Commission staff will also undertake through FY 2017 the processing of subsequent compliance filings, as well as several oversight activities to support the transition to compliance with the revised Reliability Standards.

A review of bulk power system disturbances and risks may necessitate development of a new Reliability Standard or modifications to the existing Reliability Standards. For

example, during FY 2013 the Commission approved a Final Rule directing the ERO to develop a set of Reliability Standards to address the impact of geomagnetic disturbances (GMD) on the bulk power system in two stages. In November 2013, the ERO submitted a Geomagnetic Disturbance (GMD) Operations Reliability Standard (Stage 1). In June 2014, the Commission issued a Final Rule approving the GMD Reliability Standard. In January 2015, the ERO submitted the Stage 2 Reliability Standard (Transmission System Planned Performance for Geomagnetic Disturbance Events). In May 2015, the Commission issued a Notice of Proposed Rulemaking to approve the Stage 2 Reliability Standard with modifications. Commission staff's processing of the Stage 2 Reliability Standard will be undertaken through early FY 2016.

The Commission issued a Final Rule in early FY 2013 approving the ERO's proposed revisions to the Reliability Standard for Vegetation Management. This Reliability Standard was developed to protect the bulk power system against vegetation-related transmission outages. In the Final Rule, the Commission directed the ERO to obtain empirical data on the appropriate clearance distances between vegetation and transmission lines for various voltage ratings. In August 2015, the ERO submitted to the Commission a technical report of the analysis of this empirical data, which concluded that the Minimum Vegetation Clearance Distances (MVCD) in the proposed Reliability Standard, based on a gap factor of 1.3, should be increased, and the corresponding gap factor reduced to a more conservative value of 1.0. In FY 2016, the ERO expected to modify the reliability standard to reflect the results of the empirical data analysis. Commission staff's oversight of the effort, as well as the processing of any subsequent filings, is expected through early FY 2017.

In November 2013, the Commission issued a Notice of Proposed Rulemaking to remand the ERO's proposed revisions to the Transmission Operations and Interconnection Reliability Operations and Coordination Standards. The Transmission Operations Reliability Standards address the reliability goal of ensuring that the transmission system is operating within appropriate limits. The Interconnection Reliability Operations and Coordination Standards detail the responsibilities and authorities of a reliability coordinator. In March 2015, the ERO filed revisions to the standards in response to the Notice of Proposed Rulemaking. In November 2015, the Commission issued a Final Rule approving the ERO's revisions to the Transmission Operations and Interconnection Reliability Operations and Coordination Standards and directed the ERO to make modifications to the standards. Commission staff's oversight of the ERO's efforts to address the concerns identified in the Final Rule will be ongoing through early FY 2017.

The Commission issued a Final Rule in April 2015 approving the ERO's revisions to the Reliability Standards for Communications and Operating Personnel Communications Protocols. The Reliability Standards were developed to enhance reliability by, among other things, requiring adoption of predefined communication protocols, annual assessment of those protocols and operating personnel's adherence thereto, training on the protocols, and use of three-part communications. In the Final Rule, the Commission directed the ERO to develop a modification to the Communications Reliability Standard that addresses internal communications capabilities that could involve the issuance or receipt of Operating Instructions or other communications that could have an impact on reliability. Commission staff's oversight of the ERO's development of directed modifications is expected through FY 2016.

The Commission will continue to explore ways to improve the efficiency and effectiveness of the Reliability Standards development and implementation process. For example, the Commission annually holds a reliability technical conference to discuss the state of reliability, ERO performance and emerging issues related to the bulk power system. Also, Commission and ERO staff initiated a joint staff review to assess and verify the electric utility industry's bulk power system recovery and restoration planning, and to test the efficacy of the relevant Reliability Standards in achieving and maintaining reliability. Staff selected a sample of registered entities with bulk power system significance to participate in the voluntary review, which will be completed in FY 2016 and may result in recommendations to modify existing Reliability Standards.



Reliability Compliance and Enforcement

The Commission monitors and participates in the enforcement of the Reliability Standards, primarily through its oversight of the ERO and Regional Entities. As part of that role, the Commission monitors the ERO's reports on the performance of the bulk power system from information gathered from the ERO, Regional Entities, and registered entities.

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

The Commission also performs independent compliance audits and conducts independent or joint investigations or inquiries of significant blackouts, system disturbances, cyber security incidents, and other reliability and security issues, as warranted. For example, in FY 2016 and FY 2017,

the Commission will work with the ERO and the regional entities while conducting a joint audit of the CIP Version 5 Critical Infrastructure Protection Reliability Standards and Reliability Standard CIP-014-1 pertaining to physical security of critical assets.

Rigorous audits and investigations of potential violations coupled with appropriate and adequate mitigation plans should lead to a culture of compliance, self-reporting and internal controls, which should produce better reliability and fewer blackouts or system disturbances.

As the electric grid grows in complexity and technological sophistication, the rate of emerging reliability issues is likely to accelerate. The Commission continues to monitor and analyze the performance of the bulk power system to assess the impact of emerging issues. Although the Commission attempts to maintain awareness of these emerging issues and associated reliability risks, including system disturbances or outages, they are extremely difficult to anticipate. In FY 2015, to improve its understanding of system disturbances, the Commission initiated a notice of proposed rulemaking to obtain certain transmission

and generation outage data, as well as protection system misoperation data, maintained by the ERO. Related analysis and a determination of potential actions will be an ongoing effort through FY 2017.

The ERO is authorized to impose, after notice and opportunity for a hearing, penalties for violations of the Reliability Standards, subject to Commission review and approval. When a Regional Entity or the ERO identifies a violation of a Reliability Standard, whether through self-reports, audits, investigations, or complaints, the ERO either processes it outside of its enforcement processes as a compliance exception or through its enforcement processes using its Find, Fix Track and Report program, or by filing a notice of penalty for Commission approval. All of these processes include a record supporting a finding of noncompliance with one or more Reliability Standards, and a description of actions taken or to be taken to remedy the violation(s) and prevent a recurrence. Notices of penalty add the proposed penalties and sanctions, as well as documentation and rationale supporting the penalties. The entity subject to a notice of penalty may appeal the violations or penalty to the Commission.

Energy Infrastructure Security

Growing cyber and physical security threats, along with increasing operational automation and a rapidly changing energy supply mix, demand an agile and focused approach to energy infrastructure security. The Commission is actively coordinating with its federal partners as well as regulated entities to create awareness of threats, activities, and capabilities of entities that may initiate a cyber or physical attack on jurisdictional energy infrastructure. These partners include Department of Defense, Department of Homeland Security, Department of Energy, and the Federal Bureau of Investigation among many others. This collaboration allows the Commission to support the development and encourage implementation of effective tools and techniques to enhance protection of jurisdictional infrastructure. Commission staff, with its extensive technical expertise including highly-skilled electrical engineers and IT specialists, provides a unique perspective that draws on both decades of regulatory experience as well as extensive operational experience. These contributions from the Commission help reduce the risk of cyber and physical security threats to vital energy infrastructure. This collaboration also facilitates the sharing of best practices, and it promotes an important complement to FERC's related responsibilities for both regulatory requirements and enforcement.

In coordination with its collaborative role, Commission staff proactively examines threats and potential vulnerabilities in the cyber and/or physical security posture of jurisdictional facilities through onsite security assessments. These

The Commission anticipates changes to the ERO's compliance monitoring and enforcement program through FY 2017. Notably, in FY 2015, the Commission approved subject to conditions the ERO's implementation of its reliability assurance initiative, which has a goal of focusing compliance monitoring on areas that pose the greatest risk to reliability while gaining efficiencies by reducing the administrative burdens of the compliance and enforcement program on industry. This initiative has created major changes in audit approaches, both in breadth and depth, and in how registered entities report noncompliance. The Commission also approved the ERO's risk-based registration initiative. Its aim is to ensure entities are registered and made subject to Reliability Standards based on the risk they pose to reliability, by eliminating certain functional registration categories, including the purchasing-selling entity, interchange authority, and load-serving entity functional registration categories; modifying the threshold for registration, and implementing certain procedural improvements to the registration process. Related Commission activity will occur in FY 2016 and succeeding years.

assessments better enable facility owners and operators to recognize current threats, potential attack vectors, potential counter measures and effective practices to minimize potential impacts and recovery time should a facility be compromised. In FY 2015, the Commission conducted nine of these onsite assessments and will continue to perform these in FY 2017. In addition, the Commission also provides timely and effective security threat briefings and presentations in both classified and unclassified settings to strategic partners, including state commissions that also have jurisdictional oversight of the energy infrastructure. The Commission conducted 15 of these briefings in FY 2015 and has already performed several classified and unclassified briefings in FY 2016 with plans to continue in FYs 2016 and 2017.

Lastly, it is important to understand the impact that some individual facilities may have on the resilience of critical infrastructure systems, as well as the risk of disruption to those systems from threats and vulnerabilities through cyber and physical attacks. To these ends, the Commission will use its analysis and assessment capabilities as appropriate in support of analyzing infrastructure threats and vulnerabilities to identify particularly critical equipment across the Commission's jurisdictional infrastructures. The Commission will then conduct outreach to facility owners and operators to promote security improvements at those facilities.

Performance Goal 2.2.1

Hydropower facilities have approved dam safety programs

Description

To safeguard public safety, environment, and hydroelectric facilities, licensees with hydropower dams designated as high and significant hazard potential are required to implement an Owner’s Dam Safety Program that complies with Commission regulations. In 2012, FERC began requiring licensees with high and significant hazard potential dams to develop and implement an acceptable Owner’s Dam Safety Program that is robust and focused, which acknowledges

the dam safety responsibilities at each level of the licensee’s organization, establishes protocols for internal and external dam safety communication, and has clear designation of dam safety responsibilities among the licensee’s staff. The effectiveness of Objective 2.2 is evident by the total percentage of licensees that are able to maintain compliant Owner’s Dam Safety Programs.

| Fiscal Year | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|---|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Performance Indicator: Percent of high or significant hazard hydropower facilities that have approved dam safety programs | Data not available | 64% | 78% | 75% | 80% | 85% |
| FY 2015 Target: Met | | | | | | |

Analysis

FERC continues to emphasize the requirement for licensees to have an acceptable Owners Dam Safety Program at every annual inspection of a high or significant hazard dam. FERC is monitoring and providing assistance to help the licensees develop and implement a complete program. As a

result of these efforts, 31 Dam Safety Programs were found acceptable in FY 2015 resulting in a 14 percent increase from FY 2014. Currently, several licensees have Owners Dam Safety Programs that are under review and are expected to be approved in FY 2016.

Performance Goal 2.2.2

LNG facility recommendations implemented by established time frames

Description

In order to minimize risks to the public and to ensure reliable infrastructure, LNG terminals are inspected annually to ensure that they are being maintained and operated in a manner consistent with the Commission’s certificate/ authorization for the life of the facility. FERC issues a letter after each LNG inspection that lists any recommendations for safe and reliable operation and a timeline for completing these items. Companies are responsible for completing these items on time to ensure that the facility continues to be in compliance with the Commission’s certificate/

authorization. FERC makes a concerted effort to craft recommendations that clearly identify equipment or operational issues/improvements with practical timelines for completion. FERC also works with the facilities as needed to ensure that they understand the recommendations and how they can be implemented. Accordingly, the percentage of recommendations implemented within established timeframes provides a measure of FERC’s impact on LNG facility safety and reliability and thus serves as an indicator of the Commission’s effectiveness in achieving Objective 2.2.

| Fiscal Year | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|--|--------------------|----------------|----------------|----------------|----------------|
| Performance Indicator: Percent ⁷ of LNG facility recommendations implemented by established time frames | Data not available | 91% | 70% | 90% | 90% |

FY 2015 Target: Met

Analysis

The reported percentage for this measure represents timely compliance with FERC issued LNG recommendations for in-service Section 3 LNG facilities. FERC conducted nine inspections at the eight operational LNG terminals under FERC jurisdiction in FY 2015. One terminal was inspected twice due to being rescheduled from FY 2014. In FY 2015, 23 recommendations were due to be implemented to improve

the safety and reliability of the facilities. Ninety one percent (21 of 23) of the recommendations were implemented in the established time frames. Two recommendations were completed less than 30 days after the due date. The 23 recommendations were due to be implemented at five of the eight terminals inspected. The remaining three terminals had no recommendations due for implementation in FY 2015.

⁷ In the Commission’s FYs 2014-2018 Strategic Plan, the title for this performance measure indicates that the “number” of LNG recommendations will be assessed. However, during the development of the baseline and targets in FY 2014, the measure was changed to the “percentage” of LNG facility recommendations implemented by established timeframes.

Performance Goal 2.2.3

The amount of lost firm load megawatts in a given year resulting from bulk power system transmission related events (unplanned outages), excluding weather related outages

Description

The annual amount of lost load resulting from unplanned disturbances on the bulk power system other than severe weather provides a measure of FERC’s impact on system reliability and serves as an indicator of the Commission’s effectiveness in achieving its Objective 2.2 to minimize risks to the public associated with FERC-jurisdictional energy infrastructure.

The maximum desired threshold of bulk power system, non-weather related megawatt lost in the US is set to be 0.5 percent normalized on an annual US actual peak load value. Based on this metric, any fiscal year with a major blackout event that has more than 0.5 percent of load loss or multiple events of lesser magnitude that cumulatively exceed 0.5 percent will be considered a poor performance year (weather-related events are not included in this calculation).

This threshold is established so that an event equivalent in size to past major blackouts (such as those experienced in the Northeast in 2003, Florida in 2008, or the Southwest in 2011) would indicate a poor performance year. Monitoring and re-evaluating this threshold is needed as more data and experience is gained in next several years. In addition, the threshold is a representative of average grid performance from 2009-2013, excluding major blackout events. In general, the number of bulk power system level outage events captured by this metric (uncontrolled outages directly impacting end-user customers in excess of 50 megawatts) has been small, indicating the bulk power system reliability remains adequate. However, even these small events can be an indicator of an emerging issue that may require the Commission to take action.

| Fiscal Year | FY 2010 Actual | FY 2011 Actual | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2017 Target | FY 2017 Target |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|-------------------|
| Performance Indicator: Lost firm load megawatts resulting from bulk power system transmission related events, excluding weather related outages | 0.70% | 1.50% | 0% | 0.30% | 0.08% | 0.31% ⁸ | Below 0.5% | Below 0.5% | Below 0.5% |

FY 2015 Target: Met

Analysis

The cumulative FY 2015 ratio of lost firm load is 0.31 percent, which is below the cumulative annual target (0.5 percent). A total of seven firm load loss events met the metric criteria in FY 2015. The cumulative lost firm load is 2,207 megawatts, out of 709,123 megawatts. The total energy not served is approximately 3,091 megawatt-hours. Equipment failure is an initiating cause

for five of these seven events; and protection system misoperations are identified as contributing factors in three of these seven events, increasing event severity.

Although the Commission met the FY 2015 annual target, staff recommends monitoring equipment failure and misoperation trends in the next two years, and considering reasonable mitigation solutions if warranted.

⁸ Result is based on the January 7, 2016, event report submitted by North American Electric Reliability Corporation (NERC). Staff has a quarterly verification process with NERC to assess the running total of loss-of-load events, amount of load loss, and event root causes, and will revise the metric data if updates become available.

GOAL 3

MISSION SUPPORT THROUGH ORGANIZATIONAL EXCELLENCE

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

INTRODUCTION

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. The Commission staff, while serving in different component offices, must work collaboratively and execute processes that work in concert with each other to produce the high quality results expected by the American people. In accomplishing this state, the Commission will use its resources efficiently, empower its employees, and earn the public trust. These essential outcomes are indicative of a model regulatory agency.

| Strategic Goal and Objectives (Dollars in thousands) | | FY 2015 Actual | FY 2016 Estimate | FY 2017 Request | Percent Change FY 2016 to FY 2017 |
|---|---------|-------------------|---------------------|--------------------|--|
| Objective 3.1 | FTE | 146 | 148 | 148 | 0.0% |
| | Funding | 29,908 | 31,360 | 32,730 | 4.4% |
| | Program | 21,900 | 22,928 | 23,592 | 2.9% |
| | Support | 8,008 | 8,432 | 9,138 | 8.4% |
| Objective 3.2 | FTE | 59 | 60 | 60 | 0.0% |
| | Funding | 12,299 | 12,919 | 13,483 | 4.4% |
| | Program | 9,044 | 9,472 | 9,748 | 2.9% |
| | Support | 3,255 | 3,446 | 3,734 | 8.4% |
| Objective 2.3 | FTE | 75 | 78 | 78 | 0.0% |
| | Funding | 15,657 | 16,616 | 17,361 | 4.5% |
| | Program | 11,531 | 12,165 | 12,537 | 3.1% |
| | Support | 4,126 | 4,451 | 4,823 | 8.4% |
| Goal 3 Subtotal | FTE | 281 | 286 | 286 | 0.0% |
| | Funding | 57,864 | 60,895 | 63,574 | 4.4% |
| Application of PY Budget Authority | | - | (2,103) | - | |
| Goal 3 Total | Funding | 57,864 | 58,792 | 63,574 | 8.1% |

Note: Numbers may not add up due to rounding.

Objective 3.1

MANAGE COMMISSION RESOURCES EFFECTIVELY AND EFFICIENTLY.

The Commission continues to prioritize resource allocations and make prudent investments in relation to specific program activities and challenges, and these investments are expected to yield returns that directly benefit the agency's mission. Additionally, 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, IT resources, and physical infrastructure. These investments will facilitate mission accomplishment while providing measurable efficiencies in future operating cycles. The following projects and initiatives detail the types of investments the Commission is planning to make.

Human Capital Management

In FY 2015, the Commission continued human capital mitigation strategies to account for the potential loss of approximately 30 percent of its staff to retirement by FY 2018. The agency developed extensive analyses of recruiting and employment data which it leveraged to formulate strategic hiring plans. This approach has enabled the agency to target and mitigate critical staffing vulnerabilities ahead of forecasted attrition. Additionally, this strategic process has enabled the Commission to target additional skill sets required to meet evolving mission related demands. With the agency increasing its use of analytics and data-modeling to inform regulatory policy decisions, the Commission has

been aggressively recruiting professionals that possess the capabilities to analyze and evaluate complex energy data. In FYs 2016 and 2017, the Commission will continue to aggressively recruit and hire staff to meet its current and future needs. The agency will increasingly leverage social media platforms to market employment opportunities in addition to its use of more traditional recruiting strategies. Finally, the Commission will execute its hiring processes in a manner that minimizes hiring cycle times in line with established targets and maximizes the use of allocated financial resources.

Information Technology Management

While evaluating the need to modernize and upgrade legacy Commission applications to align more closely with current business needs, the Commission continues to make strategic IT investments that provide for lower operating costs. In FY 2016, the Commission plans to migrate a major business application to a cloud-based service solution. The Commission uses a suite of hardware and software called eLibrary that functions as the system of record for all FERC-issued orders, industry filings, and public comments. This system is used by all Commission staff and is the single entry point for the public to access docketed information. The system was put into production over 10 years ago and is no longer optimal for the Commission's IT infrastructure. Concurrently, integration design efforts for several workflow applications that interact with the eLibrary solution began in FY 2015 and will continue into FY 2017. These integration projects will automate redundant manual entry processes providing greater efficiencies to agency operations.

The Commission plans to continue to promote a federal Cloud First strategy by initiating pilots for the implementation of cloud-based processing and storage infrastructure. In

addition, the Commission will balance its financial and security needs to find appropriate solutions that will span the next few years. It is the Commission's expectation that these pilots will assist in the design of solutions that will ultimately decrease the costs associated with maintaining its technology environment.

In addition to implementing more cost-effective IT solutions, the Commission awarded a new multi-year contract which provides for lower IT support services costs beginning in FY 2016. The Commission awarded a seven year services contract to a major service provider which is projected to yield millions in annual savings. The Commission was able to accomplish such significant savings through a comprehensive solicitation that leveraged competitive rates available in the current market. Additionally, the Commission transitioned from a cost reimbursable vehicle to a firm-fixed price solution that clearly sets service level expectations and provides sufficient cost controls. Financial resources saved from reduced support costs can support other mission-critical IT requirements.



Headquarters Modernization

In August 2014, the Commission and GSA executed a 10-year renewal option on the Commission's Headquarters building. Congressional authorization for the lease extension requires the Commission to reduce the amount of space it currently utilizes to support its Washington, D.C., based operations. As required by the Prospectus, GSA and the Commission have developed a plan to consolidate its occupancy within the Commission's Headquarters building by vacating approximately 52,000 square feet. Additionally, as part of this consolidation effort, the Commission will relocate employees currently housed within a separate facility in downtown Washington, D.C., to the Commission's Headquarters building. In total, the Commission will release approximately 90,000 square feet that it currently utilizes to house its Washington, D.C., operations. This reduction will yield approximately \$4.5 million to \$6.75 million in savings annually to the federal government based on forecasted market rates for the local area.

While achieving the required space reductions, the Commission will modernize the floor configurations to an open environment that will leverage more natural light and provide for enhanced collaboration and additional conferencing capabilities.

The project will require substantial renovation to the headquarters building and is currently in the design phase. The Commission has funded initial project requirements

associated with planning, design and contractor support necessary to reconfigure the Commission's office space in a manner that meets the mandated reduction goals by the end of the project schedule. Construction is planned to commence in the summer of 2016 and conclude in 2019. The total project, including the purchase of furniture, is estimated to cost approximately \$79.4 million. In FY 2016, planned project requirements total approximately \$10.4 million and the Commission will fund these costs with its unobligated carryover balance from the previous fiscal year. In FY 2017, FERC requests approximately \$16.3 million to support project requirements.

The Commission is utilizing all available options to limit the impact the project has on its budget request in any one fiscal year. To this end, the Commission will take advantage of the building owner's tenant improvement allowances to spread approximately \$8.5 million of these project costs over the next 10 years. Also, the Commission will consider options to take advantage of furniture programs to amortize the estimated \$14.2 million of furniture costs. Finally, the Commission will aggressively manage the associated project schedule to avoid additional costs that may be realized due to any project delays. The timely funding of project requirements will mitigate the risks of such costs as the effort progresses forward. Current contractor estimates factor in an additional 10 percent contingency to mitigate associated risks.

Performance Goal 3.1.1

Average Hiring Cycle Time

Description

The Commission must ensure planned staffing levels are sufficiently maintained to ensure efficient utilization of its financial resources. The Commission allocates over two-thirds of its budget to employee compensation. Any undue lapse in recruiting and hiring new employees impacts the ability of the agency to balance its expenditures with its recovery of its annual appropriation, as required by statute.

The Commission will take action to reduce the amount of time it takes to fill vacancies. Accordingly, the average hiring cycle time is a measure of FERC’s performance in this regard and serves as an indicator of the Commission’s success in achieving Objective 3.1. The target for this measure is to maintain the average hiring cycle time of 55 days from need validation to offer.

| Fiscal Year | FY 2010 Actual | FY 2011 Actual | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|--|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Performance Indicator: Average Hiring Cycle Time | Data not available | 69 days | 56 days | 54 days | 55 days | 50 days | 55 days | 55 days | 55 days |

FY 2015 Target: Met

Analysis

Since the implementation of the Smart Hire automated hiring system by Monster Government Solutions in April 2011, the Commission continues to improve the hiring process. Prior to Smart Hire’s implementation, the hiring process was completed manually. Over the four years since implementation, the staffing and recruiting teams partnered with FERC program offices to develop ways to strategically decrease the hiring cycle time while hiring

increasing numbers of highly qualified candidates. In FY 2015, 198 total hires were made with an average hiring cycle time of 50 days; this demonstrates the progress made and success in reducing the overall hiring cycle time. With a continued focus on strategic recruitment initiatives and streamlined hiring processes, we expect to continue meeting and/or exceeding the 55-day target in the future.

Performance Goal 3.1.2

Reduction in targeted information technology costs

Description

In order to support the Commission’s operations, we must deliver secure and effective technology solutions at a reasonable cost. With the ability to deploy emerging technologies that provide for lower cost IT solutions, the Commission is targeting a reduction in current costs for labor acquired through its IT support services contract. These savings will allow the Commission to reprogram funding to meet other mission-critical IT needs. Accordingly,

the ability of the Commission to reduce targeted IT costs is a measure of its performance and serves as an indicator of the Commission’s success in achieving Objective 3.1.

The percent reduction in targeted IT costs is calculated cumulatively on FY 2015 baseline costs. A higher percent is an indication of greater savings as compared to the base year.

| Fiscal Year | FY 2014 Actual | FY 2015 Actual | FY 2016 Target | FY 2017 Target |
|--|----------------|----------------|----------------|----------------|
| Performance Indicator: Cumulative percent reduction in targeted IT costs | - | Baseline | 22.80% | 24.40% |
| Supplemental Information: Targeted IT costs (in millions) | \$24.30 | \$24.50 | \$18.90 | \$18.50 |

FY 2015 Target: Met

Analysis

Reductions (savings) planned in FY 2014, which will begin to accrue in the out-years, were driven by leveraging market competition to obtain lower cost IT support contractual services. Transition of contractors for IT Support Services occurred during FY 2015 during which time both were employed for purposes of knowledge transfer and continuity of services. In FY 2016, the Commission expects

to achieve a 22.8 percent reduction as compared to the FY 2015 baseline spend levels, which is primarily accounted for by the change in IT support services.

These savings are for services and projects in place in FY 2014 and exclude potential new IT investments.

Performance Goal 3.1.3

Time and cost of building modernization on schedule and budget

Description

The Commission must establish a design plan and budget for an extensive consolidation effort within its headquarters facility. This multi-million dollar renovation effort will span the next five to six years. The Commission will partner with the GSA, private contractors and the facility owner to execute the required work. It is imperative that management closely monitor project performance relative to schedule and resources given the significant investment and the numerous entities involved.

Accordingly, the extent to which the modernization effort is completed within budget is the primary measure of FERC’s performance in managing the project and serves as an indication of its effectiveness in achieving Objective 3.1. While schedule performance remains important to the overall effort, there are a number of constraints and external factors that make the measurement and reporting of schedule performance less of an indicator of the overall project’s performance. The project funding will be requested in phases, primarily to limit the amount of resources required in each fiscal year for project construction. This strategy enables the Commission to spread the recovery of these

costs over the life of the project, thereby more effectively aligning its assessment methodology with its requirement to recover its annual appropriation from regulated entities. Although this funding approach enables the Commission to amortize and recover the project’s costs, it also creates a high risk of uncertainty in the schedule for later phases of the project, as annual appropriation decisions are beyond the control of the Commission and GSA. To mitigate the impact of these risks, the Commission will factor in sufficient contingency within the project budget. Moreover, the Commission will provide supplemental data to report on the project’s schedule.

The Cost Performance Index (CPI) is used as the primary indication of project performance relative to managing cost and budget. Specifically, Earned Value (EV), the value of the work completed, and Actual Cost (AC), the actual cost incurred to complete the work will be assessed in order to produce the Cumulative CPI. Cumulative CPI is calculated as follows: $Cumulative\ CPI = EV / AC$. A value higher than one indicates a favorable condition, while a value under one would be considered unfavorable.

| Fiscal Year | FY 2014 Actual | FY 2015 Actual ⁹ | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|---|--------------------|-----------------------------|----------------|----------------|----------------|
| Performance Indicator: Cost Performance Index (CPI) | Data not available | 1.0 | 1.0 | 1.0 | 1.0 |

FY 2015 Target: Met

Analysis

The activities planned and completed this performance period consist of design activities for both the FERC Headquarters and offsite Swing Space (SS). The current CPI for this performance period is one (0.99997). While the target was met for this performance period, certain external factors could have negative schedule implications in future performance periods, and it is uncertain how those implications would translate to the CPI for those periods. The factors included budgetary uncertainty caused by a continuing resolution and a lease issue related to the SS that caused design efforts to be suspended. This suspension of design work on the SS did not affect the FERC

Headquarters design effort, but may impact the overall construction schedule in future periods. There were six major milestones scheduled for the FY 2015 performance period which includes procurement of architectural and engineering services, program of requirement validation, part one design intent drawings, part two design intent drawings, SS design completion, and SS delivery. Four of the six milestones were accomplished, though approximately one month later than scheduled, attributable to review and revision periods taking longer than anticipated. The two SS related milestones were delayed primarily due to lease issues and funding uncertainty.

⁹Based on timing of when the values used to calculate the CPI were made available, the FY 2015 performance period captures information through the first quarter of FY 2016.

Objective 3.2

EMPOWER COMMISSION EMPLOYEES TO DRIVE SUCCESS.

Commission employees are directly responsible for achieving FERC’s mission. On an annual basis, the Commission allocates over two-thirds of its budget to directly cover the compensation costs of its employees. Given this significant investment, the Commission places extremely high value on its employees and is focused on ensuring their success. The Commission seeks to become an employer of choice for individuals who can contribute a diverse set of needed skills. 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.

Corporate Knowledge Management

The Commission will invest heavily in succession and knowledge management activities to ensure the agency equips employees with the requisite knowledge to meet strategic demands going forward. It will develop a knowledge management program to mitigate the risks associated with 30 percent of the agency’s workforce being eligible for retirement in the next five years. In FY 2016, the agency will continue to implement knowledge collaboration tools that will serve as the vehicle to capture critical organizational knowledge and promote learning. The Commission will develop a uniform approach that will seek to preserve corporate information and make it accessible to all Commission employees. These delivery mechanisms will provide information and training to Commission employees in a cost-effective and easily repeatable fashion. Such a strategy will ensure employees possess the specialized skills and knowledge required to successfully support the agency’s mission.



FERC RANKED NO. 5 OUT OF 24 MID-SIZED AGENCIES IN EMPLOYEE SATISFACTION AND COMMITMENT, ACCORDING TO THE NONPROFIT PARTNERSHIP FOR PUBLIC SERVICE 2015 BEST PLACES TO WORK IN THE FEDERAL GOVERNMENT SURVEY.

Federal Employee Viewpoint Survey (FEVS) and Other Employee Outreach Activities

It is imperative that the Commission is fully aware of employees’ most critical needs and this knowledge will ensure that the agency adequately empowers its employees to meet their mission responsibilities. To this end, the Commission will utilize results from the annual FEVS to assess employee perceptions relative to performance management. In FY 2015, results showed that the Commission was one of the top agencies in the federal government, ranking fifth out of all mid-sized agencies and departments relative to employee engagement. Employees rated the agency’s leadership 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 conveyed through these results. Agency efforts in this regard further enhanced the importance of the survey and 74 percent of all eligible employees participated in the FY 2015 survey. 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.

Performance Goal 3.2.1

Deployment of a Knowledge Management Program¹⁰

Description

The deployment of this program ensures knowledge is shared across the Commission and an environment of continuous learning is present to address the retirement eligibility of 30 percent of the current workforce within the next five years. The Commission must maintain a highly skilled workforce to address its regulatory responsibilities. A knowledge management program provides employees a means to share critical information across the Commission and involves an analysis of the competencies necessary to

perform their job requirements. The Commission also will deploy automated collaboration tools to capture and share knowledge gathered across the Commission. The entire deployment of the knowledge management program will be tracked against pre-established milestones. The percent of those milestones that are met is a measure of FERC’s performance in deploying the program and an indication of its accomplishment of Objective 3.2.

| Fiscal Year | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|---|--------------------|------------------------------|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Performance Indicator: Percent of milestones that are met in the deployment of a knowledge management program using automated tools | Data not available | Resource planning completed. | 83% of planned milestones achieved. | 100% of planned milestones achieved. | 100% of planned milestones achieved. | 100% of planned milestones achieved. |

FY 2015 Target: Not Met

Analysis

The Commission completed five out of six planned milestones in the deployment of a Knowledge Management program. Knowledge Management ramped up in early 2015 after awarding the contract to ICF International LLC. A project plan was developed describing the planned schedule, technical approach, and steps in the work process, including the methodology and project tasks, critical linkages between tasks, staffing requirements, and the time requirements of FERC personnel that are necessary to complete each task. A kickoff meeting was conducted in October of 2015 with FERC’s stakeholders in which needs and expectations for the project, as well as preferences on receiving information, and anticipated roles were captured

and documented. The team has, and will continue in FY 2016, to deploy knowledge collaboration automated tools and conduct an analysis of the competencies necessary in Commission occupations. Due to time constraints, working groups were not established; however this is being addressed through conversations with the program offices. In FY 2016, FERC will identify key stakeholders and map their roles as impacted by Knowledge Management. Additionally, FERC will continue to work to understand specific requirements or concerns of each office, occupation, and role. From these efforts, a change management plan and communication plan will be developed that will endure throughout the life of the contract.

¹⁰ In the FY 2014 – 2018 Strategic Plan, this performance goal was established to measure the deployment of a competency based training program. In FY 2015, this measure was modified to measure the deployment of a knowledge management program to expand the scope of our original efforts to look broader at capturing critical organization knowledge and use it to promote learning.

Performance Goal 3.2.2

Employee Satisfaction Favorability Rating

Description

The Commission must ensure that employee performance is aligned with the Commission’s strategic goals and that employees have the resources they need to accomplish the Commission’s goals. Thus, this measure uses the results

of the FEVS to measure employee perceptions on the Commission’s performance management system and the adequacy of resources.

| Fiscal Year | FY 2010 Actual | FY 2011 Actual | FY 2012 Actual | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Performance Indicator: Employee Satisfaction Favorability Rating | 67% positive | 66% positive | 65% positive | 67% positives | 69% positive | 71% positive | 69% positive | 69% positive | 69% positive |

FY 2015 Target: Met

Analysis

This rating is defined as the weighted average of the percentage of employees who responded favorably to fifteen selected questions related to performance management and adequacy of resources in the FEVS. From FY 2014 to FY 2015, this rating increased by 2 percent. Of the 15 questions used to calculate this rating, the two highest rated and the two lowest rated questions in FY 2015 were also the highest rated and lowest rated, respectively, in FY 2014. The two highest rated questions (above 80 percent positive) were: i) “In the last six months, my supervisor has talked with me about my performance,” and ii) “employees are protected from health and safety hazards on the job.” The two questions with the lowest ratings (below 50 percent positive) were: i) “In my work unit, differences in performance are recognized in a meaningful way,” and ii) “Creativity and innovation are rewarded.” However, the scores for the lowest rated questions increased from FY 2014 by 4 and 6 percent, respectively, partially leading to the overall increase in the measure from FY 2014 to FY 2015.

Overall, the scores for 12 of the 15 increased (ranging from 0.2 to 6 percent) from last year, while the scores of three questions decreased (ranging from -0.4 to -1.9 percent). As such, the Commission exceeded the 69 percent target

for FY 2015. All questions relating to the performance management aspect of the measure increased while the three questions that decreased relate to the adequacy of resources employees have. However, it is important to note that the questions that had a decrease in score range between 82 to 88 percent positive and, based on Office of Personnel Management guidelines, are considered strengths. Given that the decrease in any individual score was less than 1.9 percent (regarding resources), and the highest increase was 6 percent, we cannot attribute them to any significant changes with Commission resources or performance management that may have led to these variances.

Each office and component within the Commission plays an important role in ensuring employee satisfaction and adequacy of resources (e.g., providing sufficient training to employees). To ensure continued success with meeting this target, the Commission has and will continue to communicate the results of each program office’s FEVS to the respective offices. FERC will also continue to provide each office with guidelines to help them develop action plans to address any areas not favorably rated and take corrective actions.

Objective 3.3

FACILITATE PUBLIC TRUST AND UNDERSTANDING OF COMMISSION ACTIVITIES BY PROMOTING TRANSPARENCY, OPEN COMMUNICATION, AND A HIGH STANDARD OF ETHICS.

Facilitating understanding of how the Commission carries out its responsibilities and maintaining public trust in the Commission are important components of the Commission’s commitment to organizational excellence. Trust and understanding increase acceptance of FERC decisions and reduce the potential for contentiousness toward FERC rules and regulations, thus enabling the creation and enforcement of policy. The Commission advances this objective by promoting transparency and open communication with respect to conduct of the Commission’s business, thereby increasing awareness and understanding of the Commission’s activities. The Commission furthers this objective by cultivating relationships with sister government agencies and stakeholder groups, which supports understanding of Commission procedures and actions. The Commission also promotes a high standard of ethics, which encourages public confidence in the Commission’s activities and ability to fulfill its responsibilities.

Commission staff is highly interactive and responsive to its stakeholders. For example, it is essential that Commission staff communicate clearly and concisely with the media so that stakeholders and the public can be aware of and understand the Commission’s actions. To that end, Commission staff consistently provides detailed background material on Commission meeting orders to help the media, stakeholders and the public understand complex matters, and posts links to the actual orders to the Commission’s web page as quickly as possible after each meeting.

With the Commission’s web page being its primary communication tool, staff worked in FY 2014 to improve its usability. Staff analyzed user data and redesigned the main web page to provide simpler access that makes it easier for the media, stakeholders and the public to get direct links to FERC orders, reports, meeting and hearing schedules, statements and other of the most on-demand information.

Communicating with Congress on the Commission’s actions also is 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, the Commission responds in a timely and transparent manner to all Congressional inquiries.

Finally, communicating with state officials, particularly state regulators, also is a priority for the Commission. Staff consistently notifies the appropriate regulators and other state officials of Commission actions that are of interest, and frequently offers briefings via conference calls or webinars on major issues.

Through the use of the Commission’s eLibrary and eSubscription web pages, the public can obtain extensive information concerning documents both submitted to and issued by the Commission. FERC seeks to ensure that all filings and Off-the-Record Communication (Ex Parte)

FERC LANDOWNER HELPLINE

THE COMMISSION’S LANDOWNER HELPLINE IS ANOTHER EXAMPLE OF HOW THE COMMISSION PROMOTES TRANSPARENCY. THE LANDOWNER HELPLINE ASSISTS LANDOWNERS WITH ISSUES RELATING TO THE CONSTRUCTION OR OPERATION FOR FERC JURISDICTIONAL FACILITIES.

ISSUES ADDRESSED INCLUDE, FOR EXAMPLE:

- RESPONDING TO REQUESTS FOR INFORMATION
- RESPONDING TO REQUESTS FOR ASSISTANCE TO FACILITATE RESOLUTION OF DISPUTES RELATING TO RESTORATION (SUCH AS LAND AFTER CONSTRUCTION)
- RESPONDING TO OTHER COMPLAINTS.

THE LANDOWNER HELPLINE ALSO FACILITATES RESOLVING LANDOWNER ISSUES INVOLVING ENVIRONMENTAL, RECREATIONAL, AND OTHER MATTERS RELATING TO A FERC JURISDICTIONAL HYDROELECTRIC PROJECT.

submitted to and from the Commission are publicly noticed timely and accurately. The Commission continues to make the maintenance and implementation of effective filing procedures a high priority, therefore, the timely processing of incoming documents ensures the information is channeled to Commission staff for prompt review and action. As a result, timely and accurate Commission issuances, such as notices, orders, and major rules, continue to promote the flow of information through all levels of the agency and to all interested parties.

Furthermore, the number of users and followers of the Commission’s social media efforts has grown significantly, to approximately 20,000 since the Commission launched these efforts, including Facebook, Twitter and Flickr, starting in FY 2011. In addition to following the Commission’s news-related postings, thousands of people and institutions are reposting Commission information to other websites, which further increases awareness and understanding of the Commission’s activities. In FY 2014, the Commission began using Flickr to share official photos from FERC’s public hearings and other official activities. In FY 2015, the Commission implemented advanced tracking software that will more thoroughly monitor and measure the effectiveness and reach of its social media.

In addition, the Commission’s ethics program aims to promote the highest standards of ethical conduct by determining whether employees’ activities conform to statutes and regulations that set standards of conduct for federal employees. The Commission continues to utilize innovative annual ethics training, which has been recognized repeatedly for excellence among government agencies. To promote transparency and public confidence in the Commission’s programs, Commission staff responds to requests under the Freedom of Information Act, 5 U.S.C. § 552. The Commission seeks to issue responses to 85 percent of such requests within the statutory time frame of 20 business days, excluding statutory extensions.



Performance Goal 3.3.1

Disseminate Commission filings and issuances to the public within established timeframes

Description

Timely communication with stakeholders helps to demonstrate a spirit of transparency and openness that is essential to maintaining public trust and understanding. Accordingly, FERC has established timeframes for responding to requests for information, for disseminating policy decisions and actions, for the issuance of approved orders, and for public notification of filings submitted to the Commission as well as Off-the-Record Communications (Ex Parte) submitted to and from the Commission. The extent to which FERC meets these timelines is an indication of its

performance with regard to timely communication and serves as an indicator of the Commission’s effectiveness in achieving Objective 3.3.

Targets are set for each filing channel, varying by channel. These differing thresholds reflect the relative importance of the type of document, the extent to which the documents are processed electronically, and the degree of control which FERC exercises over the document filing channel.

| Fiscal Year | FY 2013 Actual | FY 2014 Actual | FY 2015 Actual | FY 2015 Target | FY 2016 Target | FY 2017 Target |
|---|--------------------|----------------|----------------|----------------|----------------|----------------|
| Performance Indicator: Percent of Commission filings and issuances that are disseminated to the public within established timeframes | Data not available | 81% | 87% | 86% | 92% | 96% |

FY 2015 Target: Met

Analysis

While the FY 2015 results for all filing channels combined met the target, there is room for improvement for the regional office paper filings. Our plan for improving results on this metric relies upon moving these filings into the electronic arena. Enhancements and upgrades to both eFiling and to the issuance application (Publish Issuance

Workflow) will pave the way for migrating away from paper. This realignment will subject regional office filings to the electronic performance measures, which, while more challenging statistically, offer more realistic opportunities for meeting the higher goals.

Appendix A

WORKLOAD TABLES

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|---------------------------------|----------------|----------------|-----|----|------------------|-----|-----|------------------|-----|-----|
| Pipeline Certificates | P | R | C | P | R | C | P | R | C | P |
| Construction Activity | 67 | 87 | 59 | 95 | 120 | 120 | 95 | 120 | 120 | 95 |
| Prior Notice & Abandonments | 24 | 49 | 60 | 13 | 100 | 100 | 13 | 100 | 100 | 13 |
| Compliance Filings & Reports | 0 | 423 | 423 | 0 | 400 | 400 | 0 | 400 | 400 | 0 |
| Environmental Analysis | 35 | 188 | 139 | 84 | 190 | 160 | 114 | 190 | 160 | 144 |
| Compliance & Safety Inspections | 0 | 331 | 331 | 0 | 350 | 350 | 0 | 350 | 350 | 0 |
| LNG Inspections | 1 | 14 | 15 | 0 | 18 | 18 | 0 | 14 | 14 | 0 |
| Rehearings | 14 | 27 | 17 | 24 | 20 | 20 | 24 | 27 | 27 | 24 |
| Complaints | 2 | 1 | 2 | 1 | 2 | 2 | 1 | 1 | 1 | 1 |
| Declaratory Orders | 2 | 3 | 5 | 0 | 2 | 2 | 0 | 1 | 1 | 0 |
| Remands | 2 | 0 | 0 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Dispute Resolution | 7 | 100 | 103 | 4 | 125 | 120 | 9 | 135 | 137 | 7 |

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|-----------------------|----------------|----------------|----|----|------------------|----|----|------------------|----|----|
| Hydropower Licensing | P | R | C | P | R | C | P | R | C | P |
| Original Licenses | 49 | 5 | 10 | 44 | 10 | 30 | 24 | 10 | 22 | 12 |
| Relicenses | 55 | 1 | 6 | 50 | 18 | 25 | 43 | 20 | 30 | 33 |
| 5 MW Exemptions | 1 | 1 | 1 | 1 | 3 | 2 | 2 | 3 | 2 | 3 |
| Preliminary Permits | 29 | 94 | 79 | 44 | 85 | 85 | 44 | 50 | 75 | 19 |
| Rehearings | 14 | 18 | 21 | 11 | 25 | 25 | 11 | 25 | 25 | 11 |
| Declaratory Orders | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Remands | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Cases Set for Hearing | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 1 | 0 |
| Dispute Resolution | 1 | 1 | 1 | 1 | 2 | 3 | 0 | 2 | 2 | 0 |

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

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|--|----------------|----------------|-------|-----|------------------|-------|-----|------------------|-------|-----|
| | P | R | C | P | R | C | P | R | C | P |
| Project Compliance and Administration | | | | | | | | | | |
| Amendments | 577 | 2,389 | 2,435 | 531 | 2,485 | 2,696 | 320 | 2,597 | 2,600 | 317 |
| Jurisdiction | 6 | 5 | 5 | 6 | 5 | 5 | 6 | 5 | 5 | 6 |
| Federal Lands | 28 | 124 | 151 | 1 | 151 | 145 | 7 | 127 | 131 | 3 |
| Headwater Benefits | 4 | 99 | 100 | 3 | 105 | 104 | 4 | 110 | 107 | 7 |
| Compliance | 85 | 765 | 772 | 78 | 785 | 780 | 83 | 822 | 821 | 84 |
| Surrenders, Transfers | 23 | 26 | 22 | 27 | 31 | 26 | 32 | 34 | 34 | 32 |
| Conduit Exemptions | 2 | 34 | 32 | 4 | 31 | 28 | 7 | 25 | 29 | 3 |
| Environmental Inspections And Assistance | 0 | 57 | 57 | 0 | 63 | 63 | 0 | 68 | 68 | 0 |
| Rehearings | 2 | 25 | 11 | 16 | 15 | 25 | 6 | 15 | 15 | 6 |
| Complaints | 5 | 1 | 5 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Dispute Resolution | 1 | 5 | 6 | 0 | 3 | 3 | 0 | 3 | 3 | 0 |

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|-----------------------------------|----------------|----------------|-------|-------|------------------|-------|-------|------------------|-------|-------|
| | P | R | C | P | R | C | P | R | C | P |
| Dam Safety and Inspections | | | | | | | | | | |
| Operational Inspections | 1,148 | 1,460 | 1,369 | 1,239 | 1,460 | 1,396 | 1,303 | 1,460 | 1,396 | 1,367 |
| Prelicense Inspections | 1 | 14 | 5 | 10 | 11 | 12 | 9 | 11 | 10 | 10 |
| Construction Inspections | 37 | 120 | 106 | 51 | 147 | 160 | 38 | 142 | 148 | 32 |
| Exemption Inspections | 217 | 331 | 257 | 291 | 272 | 264 | 299 | 284 | 262 | 321 |
| Special Inspections | 51 | 192 | 171 | 72 | 163 | 158 | 77 | 169 | 160 | 86 |
| Engineering Evaluation & Studies | 1,903 | 9,518 | 8,483 | 2,938 | 9,500 | 8,960 | 3,478 | 9,500 | 8,865 | 4,113 |
| Part 12 Reviews | 156 | 179 | 147 | 188 | 175 | 150 | 213 | 175 | 150 | 238 |
| Dam Safety Reviews | 8 | 29 | 26 | 11 | 35 | 40 | 6 | 35 | 40 | 1 |
| EAP Tests – Functions | 34 | 64 | 66 | 32 | 65 | 63 | 34 | 65 | 63 | 36 |
| EAP Tests – Table Top | 12 | 41 | 27 | 26 | 40 | 36 | 30 | 40 | 36 | 34 |

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

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|---|----------------|----------------|-------|-------|------------------|-------|-------|------------------|-------|-------|
| Rates and Tariffs | P | R | C | P | R | C | P | R | C | P |
| Gas Certificates & Rate Evaluations | 107 | 81 | 48 | 140 | 85 | 55 | 170 | 85 | 65 | 190 |
| Market-Based Rates | 1,224 | 3,229 | 3,367 | 1,086 | 2,900 | 3,000 | 986 | 2,900 | 3,000 | 886 |
| Cogeneration/Small Power Producers (QF) | 418 | 2,079 | 2,390 | 107 | 1,375 | 1,375 | 107 | 1,375 | 1,375 | 107 |
| Dispute Resolution (Electric) | 6 | 12 | 14 | 4 | 15 | 17 | 2 | 18 | 18 | 2 |
| Rehearings (Electric) | 418 | 259 | 242 | 435 | 200 | 220 | 415 | 200 | 220 | 395 |
| Complaints (Electric) | 47 | 59 | 58 | 48 | 60 | 65 | 43 | 60 | 65 | 38 |
| Declaratory Orders (Electric) | 24 | 26 | 30 | 20 | 30 | 35 | 15 | 30 | 35 | 10 |
| Remands (Electric) | 6 | 0 | 2 | 4 | 0 | 2 | 2 | 0 | 2 | 0 |
| Negotiated Rates | 42 | 650 | 646 | 46 | 675 | 675 | 46 | 675 | 675 | 46 |
| Cost-Based Rates | 1,179 | 4,333 | 4,591 | 921 | 4,300 | 4,100 | 1,121 | 4,200 | 4,100 | 1,221 |
| Dispute Resolution (Gas) | 1 | 1 | 2 | 0 | 2 | 2 | 0 | 3 | 3 | 0 |
| Rehearings (Gas) | 45 | 15 | 30 | 30 | 20 | 30 | 20 | 15 | 30 | 5 |
| Complaints (Gas) | 3 | 1 | 2 | 2 | 1 | 3 | 0 | 1 | 1 | 0 |
| Declaratory Orders (Gas) | 0 | 3 | 3 | 0 | 2 | 2 | 0 | 1 | 1 | 0 |
| Remands (Gas) | 2 | 1 | 3 | 0 | 2 | 2 | 0 | 1 | 1 | 0 |
| RTO and ISO Filings | 88 | 211 | 229 | 70 | 300 | 300 | 70 | 300 | 300 | 70 |
| Dispute Resolution (Oil) | 0 | 2 | 2 | 0 | 1 | 1 | 0 | 1 | 1 | 0 |
| Rehearings (Oil) | 38 | 12 | 30 | 20 | 5 | 15 | 10 | 5 | 10 | 5 |
| Complaints (Oil) | 1 | 6 | 4 | 3 | 5 | 6 | 2 | 3 | 4 | 1 |
| Declaratory Orders (Oil) | 4 | 22 | 24 | 2 | 20 | 21 | 1 | 20 | 21 | 0 |
| Remands (Oil) | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 1 | 1 | 0 |

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|---|----------------|----------------|-----|----|------------------|-----|-----|------------------|-----|-----|
| Corporate Applications | P | R | C | P | R | C | P | R | C | P |
| Interlocking Positions, Other Corporate Filings | 107 | 695 | 708 | 94 | 820 | 800 | 114 | 820 | 800 | 134 |
| Mergers, Acquisitions & Dispositions | 30 | 222 | 210 | 42 | 235 | 235 | 42 | 235 | 235 | 42 |

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

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|--|----------------|----------------|----------|----------|------------------|----------|----------|------------------|----------|----------|
| Electric Grid Reliability | P | R | C | P | R | C | P | R | C | P |
| Reliability Standards | 103 | 166 | 159 | 110 | 99 | 101 | 108 | 129 | 136 | 101 |
| Interpretations/Erratas of Reliability Standards | 12 | 0 | 0 | 12 | 6 | 9 | 9 | 3 | 3 | 9 |
| Reliability Filings by ERO/RE | 42 | 20 | 17 | 45 | 19 | 15 | 49 | 18 | 20 | 47 |
| Standards Compliance Audits | 2 | 15 | 14 | 3 | 25 | 25 | 3 | 35 | 35 | 3 |
| Notices of Penalty-Violations | 89 | 1,157 | 1,205 | 41 | 825 | 791 | 75 | 770 | 775 | 70 |

| | FY 2014 Actual | FY 2015 Actual | | | FY 2016 Estimate | | | FY 2017 Estimate | | |
|------------------------------|----------------|----------------|----------|----------|------------------|----------|----------|------------------|----------|----------|
| Legal Matters | P | R | C | P | R | C | P | R | C | P |
| Cases Set for Hearing | 57 | 87 | 65 | 79 | 85 | 75 | 89 | 85 | 75 | 99 |
| Settlement Judge Proceedings | 28 | 69 | 57 | 40 | 75 | 65 | 50 | 75 | 65 | 60 |
| Appellate Review | 110 | 120 | 125 | 105 | 115 | 120 | 100 | 115 | 120 | 95 |
| Audits | 25 | 23 | 22 | 26 | 19 | 24 | 21 | 20 | 21 | 20 |
| Accounting | 64 | 407 | 376 | 95 | 380 | 388 | 87 | 385 | 390 | 82 |

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

Appendix B

ACRONYMS AND ABBREVIATIONS

| | |
|------------------------|---|
| CAISO | California Independent System Operator Corp. |
| CIP | Critical Infrastructure Protection |
| CPI | Cost Performance Index |
| EISA | Energy Independence and Security Act of 2007 |
| EPAct 2005 | Energy Policy Act of 2005 |
| ERO | Electric Reliability Organization |
| FERC or the Commission | Federal Energy Regulatory Commission |
| FEVS | Federal Employee Viewpoint Survey |
| FPA | Federal Power Act |
| FPC | Federal Power Commission |
| FTE | Full-Time Equivalent |
| FY | Fiscal Year |
| GSA | General Services Administration |
| ICA | Interstate Commerce Act |
| ISO | Independent System Operator |
| ISO-NE | Independent System Operator New England, Inc. |
| IT | Information Technology |
| LNG | Liquefied Natural Gas |
| MISO | Midcontinent Independent Transmission System Operator, Inc. |
| NEPA | National Environmental Policy Act |
| NERC | North American Electric Reliability Corporation |
| NGA | Natural Gas Act of 1938 |
| NGPA | Natural Gas Policy Act of 1978 |
| NIST | National Institute of Standards and Technology |
| NYISO | New York Independent System Operator, Inc. |
| PJM | PJM Interconnection, LLC |
| PY | Prior Year |
| RTO | Regional Transmission Organization |
| SPP | Southwest Power Pool |
| SS | Swing Space |



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