

STRATEGIC PLAN FOR FISCAL YEARS 2000 – 2005



FEDERAL ENERGY REGULATORY COMMISSION

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The Strategic Plan in Brief

At the core of the strategic plan are the Commission's vision, mission, and values. Within this basic framework, high-level goals and objectives define the Commission's priorities. Together, these statements are the foundation of the strategic plan.

Vision, Mission, and Values

Vision

- Promoting Competitive Markets
- Protecting Customers
- Respecting the Environment
- Serving and Safeguarding the Public

Mission

The Commission regulates key interstate aspects of the electric power, natural gas, oil pipeline, and hydroelectric industries. The Commission chooses regulatory approaches that foster competitive markets whenever possible, assures access to reliable service at a reasonable price, and gives full and fair consideration to environmental and community impacts in assessing the public interest of energy projects.

Values

- *Employees* – People are our most valued asset. We provide the support needed for all employees to excel.
- *Integrity* – We maintain the highest level of professionalism and an environment of fairness, trust, respect, and honesty.
- *Diversity* – We value diversity in people and ideas.
- *Working Together* – We clearly communicate expectations, encourage cooperation and teamwork, and share responsibility.
- *Progress and Innovation* – We are creative and flexible, and seek out opportunities to improve.
- *Action* – Prompt and fair resolution of matters before the Commission is essential to our mission.
- *Reaching Out* – Two-way communication with the public is key to our effectiveness.
- *Public Service* – Our ultimate objective is to provide valued services to the public.

Goals and Objectives

The Commission has one comprehensive goal and three goals supporting it: one for each of the two core processes – energy markets and energy projects – and a management goal that applies to both. Several objectives support each of these three goals.

Commission

Meet the Nation’s needs for energy markets and infrastructure through responsive, flexible regulation.

Energy Markets

Benefit consumers by providing a fair, open, and efficient regulatory foundation for competition.

Objectives:

1. Increase pricing efficiency.
2. Nurture competitive market institutions.
3. Constrain market power.
4. Resolve disputes quickly and fairly.

Energy Projects

Foster economic and environmental benefits for the Nation through the approval and oversight of hydropower and natural gas energy projects that are in the public interest.

Objectives:

1. Foster a regulatory environment that facilitates the responsible development of transportation capacity to meet potential increases in market demands for natural gas to 25 tcf in 2005 and 30 tcf in 2010.
2. Optimize hydropower benefits by improving the environmental performance of projects while preserving hydropower as an economically viable energy source.
3. Maintain and improve the safety of hydropower projects.

Management

Develop Commission-wide efficient, effective, accountable business practices to support evolving agency priorities.

Objectives:

1. Align human resources to achieve strategic goals.
2. Provide effective information and technology resources.
3. Practice fiscal responsibility.
4. Foster communication and information-sharing.

Introduction

Commission Goal: **Meet the Nation's needs for energy markets and infrastructure through responsive, flexible regulation.**

The Commission's Leadership Role

The Commission is the main catalyst in changing the North American energy industries' monopoly structure, bringing competition to these massive markets in a context of global economic change. Worldwide, state-owned or regulated energy monopolies are transforming into competitive enterprises. The United States is moving faster and further than other countries to create competitive energy industries.

Over the last 10 to 20 years, North America has enjoyed strong economic growth. Regulatory reform, led by the United States, contributes to this growth by creating competitive industries, often providing better services at lower cost. Such reform has already achieved successful restructuring of many regulated industries, such as telecommunications, airlines, and railroads. Now underway is the restructuring of the immensely complex, networked energy industries: natural gas and electricity. The Commission recognizes that the natural gas and electric industries' complex infrastructure makes realizing the promise of competition more challenging.

Readily available, reliable, and economically priced energy is fundamental to a strong economy. Therefore, the Commission's role in creating competitive energy markets significantly contributes to sustaining economic growth. Those markets, in turn, depend on responsive and responsible development of underlying physical infrastructure. The Commission's regulation of natural gas pipeline construction and hydropower projects is a key support for the Nation's overall energy policies.

The Commission's approach is to promote competition whenever possible and use efficient regulation when necessary. With this approach, the Commission fosters competition in the largely unregulated natural gas and electric commodity markets through its regulation of gas and electric transportation systems. Supporting these markets requires the Commission to take a regulatory role in certain areas, including regional market structure, transportation pricing, natural gas pipeline siting, and hydropower licensing. Given the central role of energy in today's economy, the Commission's success in bringing competition to these industries can produce enormous benefits.

Statutory Authority

The Commission regulates essential aspects of the electric, natural gas and oil pipeline, and nonfederal hydropower industries. It ensures that the rates, terms and conditions of service for segments of the electric and natural gas and oil pipeline industries are just and reasonable. It authorizes the construction of natural gas pipeline facilities. It ensures that hydropower

licensing, administration, and safety actions are consistent with the public interest. The Commission's main areas of responsibility are:

The Commission's primary sources of authority:

- Federal Power Act
- Natural Gas Act
- Natural Gas Policy Act
- Interstate Commerce Act
- Public Utility Regulatory Policies Act
- Public Utility Holding Company Act
- Pacific Northwest Electric Power Planning and Conservation Act
- Outer Continental Shelf Lands Act

Energy Markets:

- Transmission and sales for resale of electric energy in interstate commerce;
- Transportation of natural gas in interstate commerce;
- Transportation of crude oil and petroleum products by pipeline in interstate commerce;
- Corporate transactions, mergers, interlocking directorates, and security issues of electric public utilities; and
- Certification of exempt wholesale generators and qualifying facilities.

Energy Projects:

- Licensing and safety inspection of nonfederal hydropower projects;
- Construction and operation of natural gas pipelines; and
- Oversight of related environmental matters.

The scope of the Commission's jurisdiction and related responsibilities of other agencies appear in the Appendix.

Evolving Energy Markets

Competitive energy markets have been evolving for almost 25 years. In the late 1970s, the Congress acted to deregulate natural gas commodity prices. As initial successes appeared in the natural gas commodity market, the Commission acted with far reaching restructuring orders to assure equal access for all market participants to natural gas pipelines and, later, to electric transmission facilities. These successful Commission actions brought the need for further reforms. External factors, such as technological change and increasingly dynamic markets, also provided a continuing impetus for change. Market forces themselves became a key element, requiring the Commission to continue rethinking its regulatory approach.

The Commission's first strategic plan, issued in September 1997, anticipated the move away from traditional command and control approaches to economic regulation. That plan responded to the evolving electric and natural gas industries and the increased environmental concerns surrounding energy projects. The Commission judged that open access to essential facilities would be the underpinning of competitive electric and natural gas commodity markets and would require ongoing adjustment to fit the changing industries. Accordingly, the Commission planned to encourage restructuring in the electric industry, as it had in the natural gas pipeline industry. In the process, the Commission anticipated reduced regulation over the commodity portion of electric energy transactions, but continued or refined regulation of interstate electric transmission and natural gas transportation grids.

The 1997 strategic plan also anticipated the need to respond to a changing industry with increased flexibility and speed. Of particular importance were

the convergence of the electric and natural gas industries and the need to coordinate with states and other federal agencies. To carry out its plans and meet these needs, the Commission has written and is implementing rules and regulations that promote competitive markets and appropriate construction of energy infrastructure, while protecting energy consumers' interests. For example, the Commission:

- encouraged the formation of regional transmission organizations (RTOs);
- increased pricing options for natural gas pipeline transportation;
- allowed for natural gas pipelines to participate in a collaborative process before filing a certificate application;
- ensured the early participation of landowners in the pipeline certification process;
- gave clear guidance on how the Commission evaluates proposals for new pipeline construction;
- established procedures to handle complaints in a timely, efficient, and fair manner;
- clarified *ex parte* ground rules concerning communication among the Commission and other parties; and
- took several steps to encourage consensual resolution of disputes.

Comprehensive Management Review

The 1997 strategic plan prompted the agency's leadership to undertake a major management review. The review examined the adequacy of Commission processes, employee development practices, IT infrastructure, communication, and other Commission business practices. As a result, the agency now focuses on three major processes: energy markets, energy projects, and the management services needed to support them. Finally, the agency developed a formal strategic management process, expanding participation in the development of goals, objectives, and strategies. Strategic management also will help the Commission align its resources to achieve its goals.

The Commission's Future Roles

The Commission's core responsibilities remain the same, but changes in the energy industries, economy, and societal values are causing the Commission to redefine its roles to meet these changes. The Commission is adapting to fulfil the following future roles:

- **Watchdog for market integrity.** In this role, the Commission promotes efficient markets and guards against abuse of market power. It promotes standardized business practices, and uncovers and deals with practices that prevent the market from serving the public interest.
- **Arbiter in the public interest.** In the midst of market forces and the clamor of diverse interests, the Commission must look at what is good for the Nation and consumers. In part, this view is to guarantee fair and smoothly operating markets; in part to find solutions that satisfy different groups and benefit society at large.

- **Agent of responsible change.** The Commission must be an agent for continuing renewal of the industries it regulates. As technology changes at ever increasing speed, markets will be able to develop in multiple new ways. One of the Commission's roles is to promote industry evolution to meet emerging possibilities.
- **Consensus builder.** The Commission must bring together the right groups to craft the answers, without litigation, that make sense for the public at large. Broad participation promotes agreement on change and direction.

Commission Processes

The Commission's new processes enable it to assume its new roles.

Energy Markets. The main thrust of energy markets is to provide benefits through real competition. Real competition results from the Commission enabling choices and markets, while continuing to protect consumers by limiting market power, when necessary. This approach means less involvement in setting prices and controlling transactions. The Commission will develop a systematic market assessment and oversight methodology to follow market developments and to react to developments it cannot predict.

Energy Projects. Energy projects focuses on managing the environmental and economic risks of energy projects – natural gas pipeline and hydropower facilities. The Commission's approach to energy project evaluation emphasizes both environmental and economic aspects. The Commission must facilitate systematic and principled tradeoffs in resource management.

Management. Achieving the Commission's energy markets and energy projects goals depends on effective and dynamic support programs. Management encompasses various functions and initiatives that share the common purpose of enabling the Commission to reach its goals and meet the needs of the public and of the industries it regulates.

Moving Forward: The Strategic Plan

This strategic plan lays the groundwork for the Commission's ongoing efforts to fulfill its mission. It is vital that the Commission focus its resources to bring maximum value to today's increasingly complex energy markets, and to balance sensible regulatory oversight with unimpeded market development. Over the next five years, the Commission expects to continue at the forefront of the fast-paced market development.

The following sections describe the Commission's programs and associated goals and objectives, the relationship of the strategic plan to the annual performance plan, external factors that could influence the Commission's success, and the program evaluation and consultation processes that led to the development of the strategic plan.

Energy Markets

Goal: Benefit consumers by providing a fair, open, and efficient regulatory foundation for competition.

Actions by the Congress, successive administrations, and the Commission have contributed to the emergence of more competitive energy markets. The Commission assisted market development by separating the operational control of energy production from the transportation networks and by unbundling wholesale services. Oil pipeline and natural gas commodity markets have been competitive for some time, while electric power markets are becoming more competitive. The Commission now must address key market issues by formulating new regulatory approaches. This is especially evident in the need to respond to the serious transitional challenges that are arising in the electric power industry. At the same time, the Commission will continue to regulate transportation to support competition.

The transition to competitive energy markets is likely to continue during the next 5 years. During this transition, the Commission's objectives and strategies will focus on relieving transitional stresses, reforming jurisdictional rates, nurturing market institutions, and minimizing the negative impacts of market power. Encouraging the entry of competing firms into energy markets is fundamental to the success of this approach.

Four objectives, and supporting strategies, aim at achieving the Commission's energy markets goal:

- Increase pricing efficiency.
- Nurture competitive market institutions.
- Constrain market power.
- Resolve disputes quickly and fairly.

Increase Pricing Efficiency

Cost-based ratemaking is not required by the Federal Power Act, the Natural Gas Act, or the Interstate Commerce Act. Rather, it is a means to ensure that consumers pay just and reasonable rates for energy services.

In a world of monopoly providers of energy services, cost-based ratemaking restrained the monopolist's revenues to a return of costs plus a reasonable return on investments. The costs and inefficiencies of this approach were accepted as reasonable tradeoffs for protection from monopoly pricing. Allowing competitive markets to price as many services as possible can reduce such regulatory inefficiency. However, because transportation market power will remain in many markets, cost-based rate making will continue. The

Commission will pursue ways to make the remaining regulated prices more efficient. The following strategies support this objective.

Promote innovative, efficiently priced services. Under the Commission's traditional regulatory model, based on cost-of-service rates, utilities had few incentives to provide new or more efficient services to consumers. While the Commission continues to use its traditional cost-based approach when appropriate, many alternatives, including market-based rates, indexing, negotiated rates, and performance-based rates, could enhance benefits to customers.

The Commission will encourage and support new ratemaking approaches in transportation markets and will improve incentives for utility performance. Where no market power exists, the Commission already approves market-based rates, such as for natural gas storage providers and power producers. It will continue to do so.

Where market power persists, the Commission may approve other innovative approaches, including indexed rates, negotiated rates, and performance-based rates. For example, following Congress' lead in the Energy Policy Act of 1992, the Commission substantially streamlined oil pipeline rates through the use of an index – a method that is vastly less expensive than litigating individual rate cases. One of the key proposals included in Order No. 2000 is a strategy to encourage RTOs to include alternative rate proposals, such as performance-based rates, in their compliance filings.

As competitive energy markets develop, a wide range of new services becomes available, and this is potentially a major source of value to customers. New services are most likely to be offered in commodity transportation services, delivery or end-use services, and financial services. Transacting parties also will need the flexibility to buy or trade for only the services they want, including innovative services, with minimal regulatory interference. The Commission will seek to accommodate innovative service offerings (for example, incorporating demand-side responses into the wholesale electric market) and to reduce regulatory interference by encouraging contracts and honoring arrangements between parties wherever possible.

Promote reliability by using market pricing to encourage capacity expansion. As competitive commodity markets develop, the value of transportation capacity becomes more apparent. When energy costs more in one place than in another, one should be willing to pay up to the price difference to move the energy between the points. Imposing regulated rates introduces inefficiencies that could be avoided.

The Commission will therefore rely more on markets for pricing short-term transportation capacity, as evidenced in the recent Order No. 637 for natural gas capacity. By further developing secondary markets for unused capacity,

the gas industry will let markets better determine how to make the most effective use of existing pipeline capacity. This also provides information about the value of potential pipeline capacity additions in specific places and time frames. Such a strategy requires the development of effective commodity market institutions as outlined in the next objective.

Nurture Competitive Market Institutions

While the Commission has long promoted market-based regulatory strategies, the pace of competition in natural gas and electricity markets has intensified in recent years. The Commission's focus is changing rapidly from command-and-control in setting prices and service offerings for individual companies to oversight and monitoring of regional and national markets.

To gain the full benefits of competition in the natural gas and electric industries, market institutions will need to develop that allow transactions to take place fairly and efficiently. In the natural gas industry, a host of market institutions has developed in recent years, including hubs, market centers, and secondary markets for pipeline capacity. RTOs will be a major focus of the Commission's electric markets work. As described in the strategies that follow, the Commission must nurture market institutions, create an arena for open sharing of information, and monitor market developments, intervening where and when necessary.

Increase transportation system integration through regulatory reform.

This strategy will be one of the most resource intensive that the Commission undertakes over the next several years. Over the next five years, the Commission will implement Order Nos. 2000 and 637. These orders encourage increased regional grid integration in electric and natural gas markets, leading to fewer economic or operational impediments to trade. This should result in fewer opportunities for discrimination in transportation services, more transparency, and greater ease of market entry or exit for those supplying electricity and natural gas.

The Commission expects that regional bodies such as RTOs will be the primary institutions for dealing with market participants directly. RTOs must develop throughout the Nation to secure the benefits of competition while maintaining reliability. They must be both independent and effective. Only true independence from owners of generation will let all market participants trust RTOs as the basis for new market institutions. Further, RTOs must actually control the operation of transmission if they are to succeed as the basis for markets. Self-monitoring by such regional bodies will allow for mid-course corrections when needed. The Commission will play a role in advising new institutions on designing their self-monitoring processes and in approving operational changes as regional markets develop.

Increase transparency of Commission policies and availability of market-related information. Competition requires that both the regulatory

environment and market information be clearly understood. Educating market participants can enhance the benefits of more efficient pricing, flexible contracts, and more timely responses to current and proposed actions. For example, the Commission must ensure that market participants have the market information they need and that they understand the Commission's reporting requirements and their rationale. Clear and timely regulatory guidance informs market participants of where they stand and allows for comments and effective dialog. By encouraging direct contact with customers, the Commission intends to address potential disputes early, create an open and transparent working environment, and encourage fewer deficient filings.

Open-access initiatives and greater competition in energy markets means that information must be reliable, available in real time, and presented in useful formats. Real-time market information – OASIS and pipeline electronic networks – plays a key role in the ability of market participants to understand whether a specific transaction is possible. The real-time posting of transportation availability (such as available transmission capacity) is critical when buyers and sellers are seeking to arrange delivery of energy. The Commission can assist market operations by providing technical support and by reviewing the accuracy of these postings on an ongoing basis.

Monitor energy markets. As new institutions and market participants change the nature of energy markets, the Commission must be able to monitor markets so that it can follow events and react appropriately. Recent events have shown the importance of market monitoring for the future of energy industries. During the transition from monopoly and traditional regulation to competition, many unexpected problems develop. In electric power, prices rose to unprecedented levels in the Midwest in the summer of 1998. In 2000, similar price events appeared in California and, in the case of San Diego, flowed directly to retail customers. Understanding these unexpected events, identifying ways to address them, and responding quickly are at the core of the Commission's role in providing regulatory support for competition during the transition.

Even after electric and natural gas markets have matured, the industries will continue to evolve in unforeseeable ways. This is, in part, a natural result of increasing competition. Given that markets in both industries rest on transportation grids that remain regulated, often as monopolies, new forms of market power can threaten the value of competition in the largely unregulated commodity markets. As a result, a strong market monitoring program will continue to be central to the Commission's approach to regulation for many years.

To fulfill its market monitoring strategy, the Commission must develop up-to-date, flexible information systems, balancing the value of information against resource requirements and reporting burdens. While the Commission will have to collect some information directly, a great deal of information is already available through the energy markets themselves. Such information can be obtained through public sources such as the trade press and regional

institutions, without further burdening market participants. E-commerce initiatives should also quicken the pace of decision making, increase access to data, and reduce the time and cost of making transactions.

Investigations and audits are two valuable tools for market monitoring. Investigations focus the Commission's resources on important market occurrences and expand the information available for understanding the market. Financial and operational audits enable an effective compliance program and ensure that information is real time, reliable, and presented in a useful format.

Finally, the Commission has begun to publish an annual report on the state of the markets. This report will become an annual overview of market performance for the natural gas and electric industries. It will help the Commission and the public understand how markets are developing, what new issues and opportunities are arising, and what trends need further investigation.

Market monitoring can aid the Commission in detecting potential or actual market power abuse, including discrimination against new entrants. Unrestrained market power poses a clear threat to the potential benefits markets can bring to consumers. The Commission will continue to take action to constrain market power, as described in the next objective.

Constrain Market Power

This objective recognizes that promoting pricing efficiency and competitive markets and monitoring the results is not, by itself, enough. Market power (the ability to raise and maintain prices above a competitive level) can have severe negative effects on energy markets. These effects include outright losses to consumers, distorted price signals, and reduced incentives for efficient behavior. The Commission must continually look for ways to recognize market power when it exists, prevent it from increasing, and provide effective safeguards against its use. To constrain market power, the Commission will undertake the following strategies.

Detect and respond to all forms of market power. In addition to creating new and innovative institutions to promote competition, such as RTOs, the Commission will work to condition appropriately the operations of existing and emerging entities that may possess market power. For example, when reviewing proposed mergers, the Commission analyzes the potential for post-merger market power and determines the appropriate conditions to impose that will reduce or eliminate any market power effects. Refining the Commission's merger policies and review procedures is a necessary part of the overall markets strategy. In addition, affiliate abuse can threaten efficient market outcomes in several ways. By pursuing a vigorous policy on affiliate

abuse, the Commission can mitigate harm to other market participants and enhance the credibility of the energy markets.

Use enforcement and litigation as necessary to remedy anti-competitive behavior. Active enforcement is a critical regulatory tool in developing energy markets. As markets become more competitive, the consequences of anti-competitive behavior are greater than ever, thus requiring Commission remedies. Firms' competitive positions and incentives can be affected by such remedies. The Commission will endeavor to make the timely use of such remedies as consistent and effective as possible. To this end, the Commission will use its regulatory authority to implement remedies when market power problems arise.

Resolve Disputes Quickly and Fairly

In the increasingly fast-moving energy industries, the Commission's customers no longer have the luxury of litigating every dispute that arises. To resolve disputes quickly and fairly, the Commission will undertake the following strategies.

Promote informal procedures to resolve issues, especially the use of alternative dispute resolution (ADR). The Commission increasingly emphasizes consensual decision making in all its processes. The vast majority of cases set for hearing are resolved through the negotiation and settlement process, including the use of settlement judge procedures. An increasing number of license applicants use the alternative licensing process. The Commission's Enforcement Hotline also is an effective tool for resolving informal complaints. Technical conferences can be used to obtain consensual resolution. The Commission's Dispute Resolution Service, created in 1999, provides ADR services, mediators, facilitators, and neutrals, and conducts educational outreach on the use of ADR. The Commission will continue to train staff in ADR techniques, employ ADR specialists, and streamline settlement procedures.

Target litigation for those cases where it makes sense. While encouraging the informal resolution of most disputes, the Commission will use litigation in those situations where it is needed. For instance, hearings are advantageous when the Commission is investigating the consequences of major new policy issues or examining key issues with general market implications. Hearings also are called for in major cases that are critical in themselves.

The Commission has committed to stricter time lines for resolving matters set for hearing and will continue to look for opportunities to further expedite final resolution of matters set for trial-type hearing.

Energy Projects

Goal: Foster economic and environmental benefits for the Nation through the approval and oversight of hydropower and natural gas energy projects that are in the public interest.

The Commission licenses nonfederal hydropower projects and issues certificates for construction and abandonment of interstate natural gas facilities and services. These projects have economic, environmental, and other societal implications, all of which must be considered in the licensing or certificating process. In addition, the Commission is responsible for the safety of hydropower projects and the operational safety and reliability of liquified natural gas (LNG) storage facilities. This dual responsibility for energy markets and oversight of the siting and operation of energy facilities gives the Commission a broad perspective on virtually all facets of energy policy.

The Commission expects the complexity of natural gas pipeline certificate applications for new or replacement facilities to increase over the next few years. As competitive energy markets evolve, natural gas supply and consumption may shift geographic location. New supply entrants will appear as new natural gas development becomes economic, e.g., a potential Alaskan pipeline, which recently received renewed interest. Demand will increase as new market penetration occurs, as recently evidenced in New England. Fluctuating natural gas prices add to the complexity of the potential supply and demand changes. Also, hydropower project licenses or relicenses will continue to be complex, involving many interests.

The Commission's challenge is to balance and protect competing project interests, both economic and environmental. For natural gas pipelines, the Commission must balance the interests of the pipelines, existing and new customers, affected landowners, and the environment. For hydropower licensing, the Commission must balance the interests of the licensees, customers, affected stakeholders, such as local citizen groups and recreational users, and the environment.

Three objectives, and supporting strategies, aim at achieving the Commission's energy projects goal. The three objectives are:

- **Facilitate Responsible Natural Gas Pipeline Development:** Foster a regulatory environment that facilitates the responsible development of transportation capacity to meet potential increases in market demand for natural gas to 25 tcf in 2005 and 30 tcf in 2010.
- **Optimize Hydropower Benefits:** Optimize hydropower benefits by improving the environmental performance of projects while preserving hydropower as an economically viable energy source.
- **Improve Dam Safety:** Maintain and improve the safety of hydropower projects.

Facilitate Responsible Natural Gas Pipeline Development

This objective addresses the Commission's responsibility to ensure an adequate pipeline infrastructure to supply natural gas. Natural gas consumption increased steadily throughout the 1990s and industry analysts expect it to increase in the future. Most electric generating plants planned for the next five years intend to burn natural gas. The general view is that natural gas is a secure, economical, and environmentally acceptable fuel. Generators find that building gas-fired generating plants is attractive, because in a time of economic transition, less capital-intensive, shorter lead-time technologies provide more flexibility. Continued growth in natural gas consumption requires expanding and enhancing the existing natural gas transportation infrastructure. The Commission anticipates more complex and contentious applications accompanying this growth.

The Commission faces the challenge of continuing to support competitive markets by facilitating the siting of appropriate natural gas pipeline facilities. The Commission has already recognized this challenge and developed the foundation to meet it with several extensive policy and regulation changes. The strategies discussed below will build on these changes to meet the Commission's fundamental aim to get natural gas to where it is needed, when it is needed.

Process cases expeditiously. The Commission is committed to faster processing of applications for natural gas pipeline facilities. Accordingly, the Commission has set clear time targets for completing the authorization of different types of applications. The Commission will reduce the completion time targets over the next few years, further expediting the processing time. The Commission hopes to improve coordination with other agencies that play a key role in the pipeline approval process as a way of further expediting the authorization process.

The Certificate Policy Statement, issued in September 1999, gives industry clear guidance and more certainty about how the Commission will evaluate proposals for authorizing new pipeline construction. The Policy Statement clearly states the analytical process the Commission will use to authorize pipeline facilities and the way it will balance all factors, including economic and environmental concerns. The Commission expects to issue certificates expeditiously when the applicant shows that the public benefits outweigh any detrimental effect on existing customers, landowners, and competitors and their customers.

Increase regulatory certainty and market flexibility in determining need and rate structure. Over the next few years, the Commission will carry out the policies detailed in the Certificate Policy Statement. The Commission believes these new policies will produce greater regulatory certainty and will aid in developing appropriate new pipeline facilities.

In the future, the Commission intends to expand the ways a pipeline can show need for proposed facilities by shifting from relying primarily on precedent agreements and contracts to considering other evidence of market need. In

addition, for expansions of existing pipelines, the Commission is showing greater deference to market evidence of needs by eliminating subsidies from existing customers. Incremental rates send the proper price signal for the market to decide if expanded pipeline capacity is financially viable.

In February 2000, the Commission issued Order No. 637. This order significantly increases the opportunities for pipelines to structure flexible pricing and terms in their contractual arrangements with shippers. It removes short-term transportation price ceilings, permits peak and off-peak rates, and revises transaction procedures. With increased regulatory certainty, market flexibility, and more rate structure options, the industry may propose applications that are more market-oriented.

Improve information availability. The Commission will increase availability of information to market participants and other affected parties, like landowners. In September 1999, the Commission issued the Landowner Notification Rule. The rule requires pipeline companies to notify affected landowners early in the process of location or routes for proposed natural gas facilities. Informing all affected landowners early allows landowners a chance to participate in the Commission's pipeline certification process. Early landowner participation avoids processing delays caused when landowners become aware of the project late in the process. With earlier landowner notification and greater regulatory certainty, the Commission expects the industry to exercise eminent domain less frequently.

In September 1999, the Commission issued guidelines for natural gas pipelines to participate in a voluntary collaborative process with the public and Commission staff before filing with the Commission. The goal of the collaborative effort is to permit improved communication, expanded public participation, and resolution of potential conflicts earlier in the filing process. During FY 2000 and FY 2001, the Commission is initiating an outreach program for prospective certificate applicants, customers, competitors, and other potentially interested parties to introduce the use and benefits of best practices and collaborative discussions. The Commission will use the results of this effort to develop an ongoing outreach program. Regardless of the early collaborative method used, the Commission will emphasize pre-filing consultation and advanced planning to allow applicants the opportunity to file less contentious and more complete applications.

Other strategies. The Commission also will undertake the following:

- Further improve information availability and exchange by increasing reliance on electronic filings and data bases and by making greater use of appropriate information technology tools;
- Minimize environmental impacts by inspecting natural gas facilities for adherence to environmental mitigation measures prescribed in their certificate authorizations; and
- Ensure that certificate holders or potential certificate holders comply with all applicable regulatory requirements.

Optimize Hydropower Benefits

Hydropower is a necessary component of the Nation's energy supply and efficient, competitive markets. Hydropower regulation promotes sustainable development of this important renewable energy resource, while providing economic, environmental, recreational, and other public benefits. This objective seeks public interest solutions when tensions arise between the environmental impacts and the economic benefits of hydropower projects. The following strategies support this objective.

Alternative Dispute Resolution and the Collaborative Process

The Commission strives through the ALP and other collaborative efforts to avoid disputes early in the hydropower licensing process. When parties reach an impasse, the Commission uses alternative dispute resolution (ADR) as a primary technique for achieving settlements. Through program staff and the Commission's Dispute Resolution Service, the Commission will continue to rely on ADR as a technique to avoid costly and time-consuming litigation.

Promote collaborative efforts. The collaborative process encourages agreement and settlement of issues by facilitating greater participation, communication, and cooperation. The Commission will promote collaborative efforts by encouraging participation in the Alternative Licensing Process (ALP) and other similar efforts. The ALP is a voluntary process designed to improve communication among interested parties, and allows the Commission's staff to provide requested assistance to participants early in the licensing process. The process is flexible and tailored to the facts and circumstances of the particular project. Other efforts to promote collaboration include interagency hydropower workshops, stakeholder consultation meetings, and outreach efforts.

Evaluate and improve effectiveness of required environmental enhancement and mitigation measures. The Commission will track the outcome of environmental measures required at certain projects, to decide whether the Commission's environmental policies are yielding the desired results and to monitor the need for particular measures. The Commission will conduct investigations and discussions with licensees, stakeholders, and other interested parties to gather information. The Commission will use this information to decide ways to improve the effectiveness of environmental mitigation measures. Through outreach meetings and workshops, the Commission will distribute information for licensees and potential licensees in developing their environmental resource protection plans. Outreach meetings and workshops will address such topics as shoreline management programs, water quality protection, fish passage, and recreation management plans.

Advance the use of resource standards, along with adaptive management provisions, during the relicensing process. With the resource standards approach, the Commission imposes the desired result and allows the licensee to decide the best way to achieve that result. Under the adaptive management approach, the Commission issues licenses with terms that allow the Commission to react to changes during the license term. The use of resource standards and adaptive management provides a more flexible approach, allowing stakeholders cooperatively to decide the best and most cost-effective way to meet license objectives. The Commission has already initiated the use of these approaches in recent relicensing orders. For example, the license for the Salida Project in Colorado includes adaptive management provisions to provide staged increases in bypass reach flows over a 20-year period. The licensee will monitor fish populations during these staged increases until levels are adequate to meet the "sustainable" fishery resource standard. During relicensing proceedings, Commission staff will

examine license objectives to decide how optimally to apply the resource standards and adaptive management approaches. In addition, Commission staff will monitor the use of these approaches to evaluate their effectiveness. As use of the resource standards and adaptive management approaches increase, the Commission anticipates imposing prescriptive mitigation measures less often.

Address increasing project capacity during relicensing. When applicants use the ALP and other collaborative processes for relicensing, the Commission's staff will promote examination of the viability of installing additional capacity at the project site, which could provide economic and environmental benefits. The examinations will consider such factors as streamflow records, turbine hydraulic capacity, potential to improve generating efficiency, regional need for power, and ways to avoid adverse impacts on environmental resources and economics.

Use interagency coordination. In early FY 2000, the Interagency Task Force (ITF), composed of representatives of the Departments of Commerce, Interior, and Agriculture and the Commission, recommended reforms to improve the hydropower licensing process. In May 2000, these Departments and the Commission signed a Joint Statement of Commitment, obligating the parties to implement the ITF recommendations. Over the term of the strategic plan, an Interagency Hydro Committee (IHC) will coordinate implementing these recommendations. The Commission anticipates that the IHC will provide a forum for considering generic issues, which influence more than one specific case. The Commission further anticipates making significant progress toward full interagency coordination, resulting in less costly and more timely license approval.

Improve Dam Safety

The Commission has statutory responsibility for the safety of about 2,600 nonfederal hydropower dams. The Commission protects life and property by ensuring the safety of dams and related structures.

The Commission staff's on-site presence is critical to ensuring the safety of dams. Staff's ongoing knowledge of individual projects aids in identifying project-specific problems. In addition, the Commission requires independent consultants to evaluate the safety of dams to provide another professional point of view. Commission staff, independent consultants, and project owners cooperate to provide the framework within which the Commission monitors dam safety, identifies problems, and requires timely and environmentally sensitive remediations.

This objective addresses the Commission's ongoing effort to ensure the safe construction, operation, and maintenance of hydropower projects to support hydropower's economic and environmental benefits and to protect the upstream and downstream public. The following strategies support this objective.

Protect life, health, property and the environment. The Commission maintains a variety of effective mechanisms (such as inspections, emergency action plans, independent consultant reports, and public safety plans) to ensure safe and proper operation of hydropower projects.

Develop and maintain state-of-the-art dam safety criteria. The Commission maintains its dam safety engineering expertise and criteria at the current state of the art to ensure cost effective and environmentally responsible dam safety. The Commission continuously reevaluates its engineering expertise and criteria, improving them as appropriate. The Commission then works with dam owners to ensure that all dams meet the criteria.

Focus on high risk projects. The Commission's dam safety program focuses on the high risk projects, where project emergencies would present a danger to human life or cause significant property damage. The inspection and evaluation program identifies dam safety problems, requires and oversees remediation, and actively monitors performance. As part of this effort, the Commission will develop a dam performance monitoring program using a broad range of instrumentation.

Management

Goal: Develop Commission-wide, efficient, effective, accountable business practices to support evolving agency priorities.

Important management functions and initiatives are integral to the Commission's ability to carry out its core responsibilities in the areas of markets and projects. The Commission's management functions apply equally to both core processes, enabling the Commission to meet the needs of its regulated industries and the public.

Striking changes in the industries and world at large include the ongoing expansion of technology, development of a knowledge-driven economy, increasing demand for value, the changing nature of government interaction, and the emergence of the digital economy. All of these changes affect the nature of regulation and bring changes to both the Commission's policies and how it does its work. For instance, some key initiatives address human resources issues – how to develop and retain the right workforce to meet changing needs in light of the changing industries. Others address information needs, such as electronic filing. Additionally, new regulatory approaches assume ongoing dialog with customers to learn their needs and to evaluate how well current services are meeting those needs. As part of its strategic realignment, the Commission focused its management functions in a separate program for efficiency and consistency across the Commission.

Four objectives, and supporting strategies, aim at achieving the Commission's management goal. The four objectives are:

- Align human resources to achieve strategic goals.
- Provide effective information and technology resources.
- Practice fiscal responsibility.
- Foster communication and information-sharing.

Align Human Resources to Achieve Strategic Goals

The Commission's people are its primary resource and investment. Successfully meeting its markets and projects responsibilities depends on how well it aligns its decisions about people – and the work they perform – with the strategic goals it is trying to achieve. Several strategies contribute to achieving this objective.

Focus agency resources on priorities. Key to achieving the Commission's goals will be letting people know how they can contribute, then positioning them to do it. The Commission will align employees' work with its most

important strategic goals. This will be done in several ways. Throughout the Commission, coordinated efforts to deploy available human resources will be flexible to best match resources to changing work requirements. The Commission also will set specific operational priorities to guide program and employee work efforts. The Commission will publicize its priorities to ensure all employees understand the priorities most applicable to their programs' missions and most directly related to their individual work. As part of this process, managers and employees will engage in dialogues about how best to contribute to the successful accomplishment of agency goals.

Meet the continuing need for talented people. The Commission will manage its human resources strategically. To attract and make the best use of talented people, the Commission will develop an agency-wide "people plan" to guide how it recruits, retains and deploys employees.

To build and maintain a diverse workforce, the Commission will take advantage of innovative recruitment and assignment flexibilities, while continuing to promote the use of worklife programs that increase employee satisfaction. Further, the Commission will educate managers and staff about the benefits of diversity, develop and implement a strategic plan for diversity activities, and identify opportunities to use its employees more effectively. In concert with the Continuous Learning Program discussed below, the Commission will implement an upward mobility initiative to provide advancement opportunities for clerical employees with high potential. The upward mobility initiative will provide the maximum feasible opportunity for support staff to enhance their skills through on-the-job training and other learning opportunities. Making the Commission the employer of choice for employees who possess needed talents will be the centerpiece of its employment efforts.

Inspire people to do their best. The Commission needs both leadership that gives people the desire to contribute and a trained, capable workforce that can contribute. The Commission will stress the importance and practice of leadership. Through implementation of the Leadership Education and Development (LEaD) Program, the Commission will develop leadership competencies required to make its regulatory activities successful. The Commission will use the LEaD Program to make key leadership behaviors an integral part of how it conducts its business and achieves its goals and objectives. As part of leadership training and development, the Commission will participate in the Fellows Program sponsored by the Council for Excellence in Government. High-potential Commission employees will work cooperatively with their counterparts in other public and corporate institutions to exchange ideas, work on projects important to the agency, and gain the type of leadership knowledge and experience needed to meet the challenges of a rapidly-changing world. The Commission will combine these activities with a program to develop a Senior Executive Service that works together as a team and serves as a model for all employee efforts.

In concert with its leadership programs, the Commission will develop its people to help meet those same challenges. A key aspect of this effort will be implementation of a Continuous Learning Program to enhance professional growth. This program will develop needed competencies, provide opportunities for training and learning by doing, and encourage rotational assignments to broaden experiences. The Commission also will provide structured training courses open to all employees, emphasizing the knowledge, skills, and abilities most needed to carry out this strategic plan.

In all of its people-development activities, the Commission will seek to promote high performance in everything it does. The Commission will define what constitutes high performance, and develop evaluation standards that incorporate measures to ensure its achievement. The Commission will transform its performance management process by emphasizing ongoing dialogue between managers and employees about performance, asking supervisors to provide constructive performance feedback to employees, and encouraging employees to take more responsibility for personal development and achievement. In many of its work processes, the Commission will use interdisciplinary teams to bring together the right people with the right knowledge to achieve the performance needed. As another means to promote high performance, the Commission's employee recognition program will reward individual and team accomplishments that help achieve important agency goals.

Find and implement better and faster ways of doing business. Management activities related to human resources will emphasize understanding and meeting customer needs more effectively. Internal customer surveys will help clarify needs, assess program effectiveness, and develop ideas for improving service. Periodic reviews of the Commission's processes and programs for managing its human resources will enable continuous improvement of services. Performance measures will focus on key performance issues. In addition, the Commission will continue to automate the administrative activities associated with human resources processes, to increase effectiveness and to reduce staff hours and dollars devoted to paperwork.

Provide Effective Information and Technology Resources

Open-access initiatives and greater competition in energy markets mean that information must be reliable and available in real time, and in more useful formats. Electronic alternatives must replace paper transactions. E-commerce initiatives should quicken the pace of decision making, increase access to data, and reduce the time and cost of transactions. Accurate and timely information is essential for external customers and staff alike. Developments in technology will make information available expeditiously through the Commission's Internet site and make it easier to find specific information

within the large body of data the Commission maintains. The following strategies for this objective will provide complete, accurate, and timely information in an increasingly competitive marketplace.

Reduce processing times for docketed workload. The Government Paperwork Elimination Act (GPEA) requires federal agencies, by October 21, 2003, to allow electronic business transactions and to maintain records electronically. To comply with GPEA, the Commission will develop the capability for electronic filing of all major submissions to the Commission. This includes the ability to submit standard forms using software that is readily available and easy to use. The Commission will serve documents electronically to the parties in a proceeding and adopt procedures that will promote electronic service between parties. Additional actions that will reduce processing time for docketed workload include automating internal workflow, supporting electronic signature or authorization for electronic issuances, and facilitating information and knowledge sharing among Commission offices.

Minimize filing burden. One consequence of light-handed regulation should be decreased filing burden on the regulated industries. The Commission will minimize the industries' filing burden by:

- accepting electronic submissions (*e*-filings) in place of paper filings;
- improving the automated submission of required forms (*e*-forms);
- enabling electronic submission of large maps; and
- resolving technical *e*-filing issues.

Further, the Commission will reduce the information it requires to be filed, and obtain information from publicly available sources. The Commission also will ensure the privacy of the public in using its electronic processes.

Generate better information for use by industry and the public. Information availability and exchange are key to today's regulatory environment. The Commission will collaborate with external customers to maintain the accuracy of information, make issuances timely, and obtain feedback from industry on Commission programs. The agency will develop new analytical tools to help decision makers evaluate large amounts of data. It also will monitor and respond to *e*-commerce trends in the industries to facilitate the growth of reliable, secure, and accurate *e*-commerce transactions.

The Commission will make information more accessible to its customers. It will improve system reliability, reduce access times, and provide text search functionality for all documents, whether filed electronically or on paper. The Commission also will provide improved search tools and educate customers to facilitate more efficient searches.

Practice Fiscal Responsibility

This objective addresses planning and obtaining the goods and services necessary to meet the Commission's responsibilities. The following strategies support this objective.

Ensure effective management of resources. The Commission will ensure effective management of its budgetary resources by instituting a decentralized budget structure called Manage to Budget. Manage to Budget is a major cost-containment measure that places more resource accountability at the office level. The Commission will reduce FTEs and personnel costs over the next several years. In keeping with increased fiscal responsibility and accountability, the Commission will require all managers to operate within their designated budget allocations. This initiative allows Commission offices direct control of their spending levels in all funding areas, with particular emphasis on salaries, which represent more than 65 percent of total budgetary resources. Ultimately, each office's performance will rely on sound fiscal management of salary dollars and awareness of the impact personnel actions have on its budget. Additionally, managers and employees will share incentives for achieving personnel cost reductions.

Implement acquisition reform. Implementation of acquisition reform initiatives will continue to speed procurement of goods and services for the Commission. The initiatives include maximum use of the Government-wide credit card program, using contractors' past performance as a major evaluation factor, and continued use of interagency agreements to streamline the procurement process. Additionally, the Commission will encourage competition by increasing the use of small, minority-owned, and women-owned businesses. Advertising competitive procurements through the Internet also will speed the contracting process.

Foster Communication and Information-Sharing

Strategic communication with external customers and the public is essential to improving decision making and the transparency of Commission processes, and contributes to the achievement of the Commission's goals. The following strategy supports this objective.

Implement a strategic communication plan. In today's regulatory environment, communication, both internal and external, must not be left to chance. The Commission will maintain effective internal communication and communicate with external customers according to a strategic communications plan. Under this plan, the Commission will initiate external dialogs with relevant groups or associations, design an improved Internet site, and improve internal communication among Commission offices. Obtaining

Dispute Resolution Service

Much of the Commission's work involves resolving disputes. Dispute resolution can range from facilitating agreements between affected parties before applications are filed to holding extensive hearings on formal filings. The Commission is committed to making continuous improvement in how it handles these processes. It is applying best practices, educating, and building expertise, particularly in the area of alternative dispute resolution (ADR). To this end, the Commission established the Dispute Resolution Service in FY 1999. Success stories of ADR will be widely disseminated through a variety of media, including the Internet and interagency and external forums.

feedback will be a critical aspect of the plan, as well as creating the internal network to analyze the information, to ensure the sharing of customer feedback among offices, and to improve delivery and performance.

A strategic communication plan will ensure coordination of communications, meeting priorities, and obtaining regular feedback from staff and external customers. A major objective will be to promote information sharing and collaborative efforts between the Commission and its customers, obtaining feedback, and measuring the effectiveness of these efforts. The plan will include conducting an annual survey of staff and external customers.

Initiating dialogs with relevant groups allows the Commission to deliver important messages, understand customer needs, and gain the benefits of new ideas and perspectives and major technological and energy industry trends in Commission programs. A redesigned Internet site will help customers who are not familiar with the Commission or its procedures, promote communications initiatives, and solicit feedback about the Commission's programs, performance, and service delivery. An internal communications network among all offices within the Commission will serve to coordinate internal communications and support staff in providing services to the public and Commission constituents.

Relationship to the Performance Plan

Energy Markets

The Commission's goal and objectives for markets in this strategic plan realign program activities, but they still reflect the same basic thrust of Commission policy as in the FY 2001 Performance Plan.

The energy industry, like other major parts of the Nation's infrastructure, is evolving rapidly and in unexpected ways. When the industry is evolving so quickly, definitions of success may also change. Any specific targets the Commission might set would likely become irrelevant before they could be measured. Therefore, the Commission is using a suite of indicators, which taken together will let the Commission evaluate market trends and the overall performance of market institutions. This approach includes the issuance of an annual State of the Markets Report which goes beyond the mandated annual performance report.

This approach to performance indicators and performance reporting was laid out in the FY 2001 Performance Plan. The set of indicators in the FY 2001 Performance Plan is connected to the energy markets goal and objectives in this strategic plan. Both documents reflect the larger effort to re-think the Commission's market-related activities.

In the Commission's FY 2001 Performance Plan, three broad goals relate to energy markets:

- To promote competitive, well-functioning markets;
- To protect customers; and
- To resolve disputes effectively and efficiently.

Each market-related objective in this strategic plan has a relationship to one of these three goals.

Increase pricing efficiency – This objective relates to the first goal of promoting competitive, well-functioning markets. It particularly connects to the innovation indicator in the FY 2001 Performance Plan. More innovative proposals for rates, and more kinds of service offerings, will indicate the success of the Commission's strategies to promote movement away from cost-based rates and towards market-based pricing of energy services.

Nurture competitive market institutions – This objective also relates to the first energy markets goal in the FY 2001 Performance Plan, particularly to the flexibility and liquidity indicator. Efficient pricing should lead to a series of observable price phenomena which show how market prices respond to changes in underlying conditions, including changes in other related markets. The speed and scale of price changes will be monitored in order to evaluate

new market institutions and ongoing changes in market rules. In addition, the measures under the competition indicator can be used to analyze market concentration and the ease of new entry.

Constrain market power – This objective relates to the second energy markets goal in the FY 2001 Performance Plan. Broad customer classes should agree that buyers and sellers have access to competitively priced commodity markets in the national gas transportation and electric transmission grids.

Resolve disputes quickly and fairly – This objective is virtually identical to the third energy markets goal in the FY 2001 Performance Plan, and similar measures apply.

Energy Projects

In the FY 2001 Performance Plan, three broad goals relate to energy projects:

- To protect and enhance environmental and public benefits;
- To ensure the safety of hydropower projects; and
- To balance interests of developer, landowners, and the environment to achieve timely, optimal natural gas pipeline construction.

Each objective in this strategic plan has a direct relationship to one of the above three goals. Specifically:

Facilitate responsible natural gas pipeline development – This objective relates to the third energy projects goal in the FY 2001 Performance Plan. The natural gas pipeline objective and strategies balance the interests of project sponsors, landowners, consumers, interested persons, and the environment to achieve timely, optimal natural gas pipeline construction.

Optimize hydropower benefits – This objective relates to the first energy projects goal in the FY 2001 Performance Plan. The hydropower objective and strategies tie directly to protecting and enhancing environmental and public benefits.

Improve dam safety – This objective relates to the second energy projects goal in the FY 2001 Performance Plan. This objective ensures the safety of hydropower projects.

Management

In this strategic plan, the Management goal covers most of the same functions as did the Program Support section of the FY 2001 Performance Plan. In the FY 2001 Performance Plan, four broad goals relate to these functions:

- To improve access to information;
- To promote alternative dispute resolution;
- To ensure a diverse, competent workforce; and

- To maintain efficient and effective business practices.

Three of the four objectives in the Management section of this strategic plan have direct relationships to these goals for program support, while the fourth objective has an indirect relationship with two of these goals. The second goal in the FY 2001 Performance Plan – promoting alternative dispute resolution – does not have a counterpart in the Management section of the strategic plan; however, it has a counterpart in the Energy Markets section.

Align human resources to achieve strategic goals – This objective relates to the third program support goal in the FY 2001 Performance Plan. Aligning human resources with strategic planning includes ensuring the agency has a diverse and competent workforce.

Provide effective information and technology resources – This objective relates to the first goal for program support in the FY 2001 Performance Plan. Both relate to minimizing filing burden and generating better information for use by industry and the public.

Practice fiscal responsibility – This objective relates to the fourth program support goal in the FY 2001 Performance Plan, concerning fiscal and other business practices.

Foster communication and information sharing – This objective has some relationship to the first and fourth goals for program support in the FY 2001 Performance Plan. However, with the increasing importance of communication and information sharing, this concern now stands alone as an independent objective.

External Factors

External factors are events occurring outside the Commission's direct control, which could affect the Commission's success in meeting its goals and objectives. External factors that could affect the Commission's success are discussed below.

States' and other federal agencies' policies. States and other federal agencies regulate or influence many aspects of the electric, natural gas and hydropower industries. Examples of such actions that could influence the Commission's success are:

- States may allow retail customers and local distribution companies direct access to energy providers. The Commission's efforts to create competitive commodity markets could be affected by state actions and by the lack of clarity between state and federal roles, as traditional jurisdictional boundaries change.
- The states are responsible for approving the siting of new electric transmission lines. The appropriate new transmission lines are necessary for successful commodity markets.
- Electric grid reliability is essential to well-functioning, competitive markets. The Department of Energy has important responsibilities to ensure the reliability of the electric grid, so its actions may influence the Commission's ability to encourage competitive markets.
- The Environmental Protection Agency's (EPA) air quality policies affect electric generating plants' economics. Since industry analysts expect most new plants to use natural gas, the EPA's actions could also affect the natural gas industry's pipeline requirements.
- Several federal and state agencies, and the public, participate in the environmental reviews necessary for siting natural gas pipelines. These parties' actions are unpredictable.
- Lack of cooperation or responsiveness by state and federal agencies can affect the Commission's ability to license hydropower projects expeditiously. This is especially critical given these entities' significant involvement in the licensing process.
- Unpredictable events both international (volatility in the price of oil) and national (establishing a heating oil reserve for the Northeast) could affect growth projections for the domestic natural gas market, affecting the content and complexity of natural gas pipelines' facilities and services applications.

Legislation that changes the Commission’s statutory responsibility. New legislation could significantly affect the nature of the Commission’s activities. For example, proposals now before Congress would restructure the Nation’s electric industry. Legislative changes that add to the Commission’s duties or alter its existing authority could adversely affect the Commission’s ability to process filings and applications expeditiously.

Growth of competition. The Commission’s policy has been to encourage the growth of open markets and competition. The forms that changing markets and competition will take are inherently unpredictable, as entrepreneurs create and take advantage of new opportunities to serve customers. Accordingly, the Commission must adapt to this unforeseen change, which may affect its work in profound and unpredictable ways.

Hydropower vulnerability. Hydropower projects endure the forces of nature daily. Engineers have designed these projects to withstand forces far beyond those encountered under normal conditions. When the projects are subject to events such as floods or earthquakes that exceed the dams’ design specifications, the project could fail.

Adequate funding. The energy industries are changing rapidly and are increasingly complex and competitive. Ensuring that market participants do not exercise market power requires the Commission’s oversight. Adequate oversight depends on funding the Commission sufficiently to recruit, train, and retain a highly skilled, diverse workforce, to make appropriate investments in communications and information technologies, and to facilitate collaborative discussions.

Technological changes. The Commission developed this plan assuming current technology. Technological advances resulting in economical new technology could change the Commission’s assumptions, particularly about market competitiveness. For example, recent technological advances in localized or distributed generation may result in that generation becoming more economically viable. This could change some of the Commission’s basic assumptions about what parts of the industry could be competitive.

Mergers and convergence. As mergers and convergences among energy companies occur more frequently, the Commission faces filings and applications that are increasingly complex and involve major policy implications. In such cases, the Commission may require additional time to balance the interests of applicants, project sponsors, competitors, customers, stakeholders, landowners, and the environment.

Program Evaluation and Consultation

In 1998 and 1999, the Commission conducted a comprehensive program evaluation of its strategic direction, processes, and organizational structure. The Commission consulted with its stakeholders in this and other forums for information leading to this strategic plan.

Comprehensive Study

Industry Trends and Customer Needs

The comprehensive program evaluation, including consulting with many stakeholders, examined process coherence, priority setting, layers of review, employee development, IT requirements, and communication practices in light of external trends, such as:

- decreasing relevance of cost-of-service regulation;
- increasing need for focusing on markets rather than industries;
- increasing need for market power analysis;
- increasing environmental accountability;
- increasing demand for faster decisions; and
- growing need to protect customers in a more complex environment.

The Commission also considered how effectively it met customer needs. It conducted surveys and focus groups with utilities, pipelines, license holders, marketers, trade associations, industry institutions, other stakeholders, and with Commission staff. Survey and focus group responses showed respect for high-quality products, high-caliber professional staff, and fairness of decisions, but suggested improving:

- timeliness of decisions;
- the number of generic policy decisions;
- strategic perspective;
- communication;
- attention to small customers;
- opportunity for electronic filing and greater information accessibility;
- ex parte rules;
- complaint resolution; and
- education for Commission staff on natural gas and electric markets.

Focus and Program Changes

To make the above improvements, the Commission revised its strategic direction and made major process and organizational changes. As part of the revised strategic direction, the Commission evolved new vision, mission, and value statements. Previously, the Commission's organization and processes

were based on the industries it regulates – electric, natural gas, oil pipelines, and hydropower. Two redefined programs – energy markets and energy projects – replaced these. In separate initiatives, the Commission also addressed the management issues integral to both markets and projects.

The Commission redesigned its internal processes to make greater and more effective use of teams, fewer layers of review, and consensus-based resolution of issues. All of the changes address customer needs related to communication, clear strategic direction, technological sophistication, and timeliness in decision making. The Commission's fundamental transformation lends staying power and relevance to Commission activities. Performance measurement according to the Commission's annual performance plans will result in further adjustments to Commission processes and direction.

Current and Future Consultations

The Commission developed its goals, objectives, and strategies after consulting with industry groups, competitors, customers, landowners, environmental groups, federal, state, and local governments, and other stakeholders. In addition to the Commission's consultations for the comprehensive program evaluation, the Commission conducted other consultations. Aspects of these and future consultations are discussed below.

Energy markets. As a result of the comprehensive program evaluation, the Commission found that it needed to focus on pro-competitive solutions, market assessment and oversight, and more outreach. The Commission established a formal outreach program, meeting periodically with industry groups, customers, and stakeholders. As of mid-2000, the Commission completed two series of outreach meetings with more than 20 groups. The Commission considered the results of these meetings in setting its energy markets strategic direction.

Natural gas pipelines. Information for this area came from formal and informal workshops, comments received in Commission proceedings; technical conferences; and ongoing outreach programs. Future consultation efforts will center on outreach programs, the new gas interagency task force, and customer surveys to determine the success of the Commission's actions and areas for improvement. In September 2000, the Commission held the first of a series of three industry-wide conferences, as directed by Order No. 637, to discuss issues affecting natural gas transportation policies and the role natural gas transportation services play in energy markets. The next conferences are scheduled for January and April 2001.

Hydropower licensing. The Commission obtained input from concerned parties through the public comment period related to Order No. 596, which established the Alternative Licensing Program (ALP). The hydropower

outreach program also solicited input from stakeholders to gauge potential interest in the use of ALP.

Participation in the Interagency Task Force gives the Commission a forum to obtain input from federal and state agencies. In addition, the Task Force formed an advisory committee under the Federal Advisory Committee Act to provide for nonfederal entities to review and comment on the deliberations of the Task Force.

Dam safety. The Commission's dam safety program embodies significant consultation and peer review activities related primarily to the development of engineering guidelines. The Commission routinely involves the nonfederal dam safety community, including dam owners, state dam safety agencies, and engineering consultants, because of their interest in dam safety issues. Staff routinely works with other federal agencies that have dam safety responsibilities. Staff engages continually in interagency work groups, such as the Interagency Committee on Dam Safety, the U.S. Committee on Large Dams, the National Performance of Dams Program, and the Association of State Dam Safety Officials. These contacts allow for the sharing of expertise, ensure high-quality output, and give the Commission a ready source of external input to its dam safety program.

Information Technology. Internal surveys evaluate IT services. Working groups with industry have addressed timely issues. An example is the Y2K Oil and Gas Sector Working Group, formed by the President's Council on Year 2000 Conversion and led by the Commission's Chairman. In addition, the Commission's public reference room holds sessions with members of the public to get feedback on current services and proposed new procedures. The Commission held several technical conferences on *e*-filing. On-going *e*-filing pilots include feedback from participating companies. The feedback enables the Commission to improve its software and processes, making filing information with the Commission easier.

Employee development. In early 2000, the Commission conducted an intensive training needs assessment to develop a strategic training plan. The assessment included internal surveys and one-on-one interviews. The Commission will conduct annual training assessments. The Commission will also continue to inform staff about human resources processes through workshops and briefings.

Stakeholder Input. To obtain the widest possible scope of review and comment, the Commission posted a draft of the strategic plan on its Internet sight. The page included an invitation to comment, along with an active e-mail link. The Commission's Intranet also linked to this page so that staff could also comment. The Commission also provided draft copies to the chairmen and ranking members of the appropriate budget and oversight committees in both the House of Representatives and Senate.

Appendix:

**Core Areas of FERC
Regulatory Responsibility**

Core Areas of FERC Regulatory Responsibility

| Type of Regulation | Investor-owned Electric Power (Federal Power Act) | Interstate Natural Gas Pipelines (Natural Gas Act) | Interstate Oil Pipelines (Interstate Commerce Act) | Nonfederal Hydropower Projects (Federal Power Act) |
|---|--|---|--|---|
| <i>Regulation of Markets and Rates, Terms, and Conditions of Energy Services</i> - Transmission - Sales for Resale - Corporate | Yes Yes Yes | Yes Yes No | Yes No No | - - - |
| <i>Authorization and Monitoring of Energy Facilities</i> - Siting | No | Yes. The Commission issues certificates for construction of pipelines and related facilities. | No | Yes. The Commission issues licenses, exemptions, and license amendments. |
| - Environmental | No, except for programmatic EISs for some major actions. | Yes, NEPA review and interagency consultation for pipelines to be certificated. | No | Yes, NEPA review and interagency consultation for the above authorizations. |
| - Safety | No | No, except as part of initial certification—incorporation of DOT standards. | No | Yes, dam and public safety. |

Related Responsibilities of Other Key Agencies

| | | | | |
|------------------------|--|--|-------------|--|
| States | Retail sales, local distribution, siting for transmission lines and generation facilities, unbundled retail transmission | Retail sales, local distribution, intrastate transportation, natural gas production and gathering | Siting | Projects that do not affect navigable waters, interstate commerce, or Federal lands or dams; water quality certifications, fish and wildlife |
| Other Federal Agencies | DOE: Power Marketing Administrations EPA: air quality licenses NRC: nuclear power cooperatives USDA: electric | DOT: safety DOI: siting in offshore waters, federal lands, national parks; endangered species USFS: siting in national forests COE: water body crossings Advisory Council on Historic Preservation: cultural resources EPA: PCBs National Marine Fisheries Service: offshore fisheries | DOT: safety | DOI: federal lands, national parks, fish and wildlife, endangered species USFS: national forests Advisory Council on Historic Preservation: cultural resources National Marine Fisheries Service: fishery resources |

