

**Testimony of
Pat Wood, III
Chairman, Federal Energy Regulatory Commission
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I. Introduction and Summary

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to testify about the oversight of Enron Corporation by the Federal Energy Regulatory Commission (FERC or the Commission) and the lessons learned from Enron's financial collapse. I became Chairman of the FERC just over a year ago, in September 2001. Since that time, the Commission has moved aggressively to respond to the lessons learned from both the California crisis and the Enron crisis.

The Commission is pursuing a number of regulatory initiatives to establish the market rules and regulatory framework necessary to ensure adequate incentives for much-needed infrastructure, to support the most efficient wholesale competitive marketplace, and to provide adequate market monitoring and market power mitigation to protect customers. In addition, we recently have made organizational changes to address the challenges ahead of us and we are currently in the process of overhauling our regulatory approaches where necessary to assure a competitive marketplace that protects customers against harm of market manipulation and other deceptive practices. We are still learning lessons from the collapse of Enron and we will know more when our ongoing investigations are completed. However, I can assure you that our institutional commitment to remedy and prevent market abuses is now and will continue to be an ongoing one, and that we intend to work with other federal agencies to ensure that we regulate energy industries in a coordinated and effective manner so that customers and investors are fully protected.

My testimony today will first briefly summarize the Commission's regulatory authority and the Enron subsidiaries subject to our authority. I will then describe the significant issues involving Enron actions regulated by the Commission. Finally, I will describe recent initiatives, both generic and in individual cases, that respond to the lessons learned from both the California and Enron crises.

II. FERC's Regulation of Enron's Subsidiaries

A. Overview of FERC Jurisdiction

Under the Federal Power Act (FPA), the Commission has jurisdiction over sales for resale of electric energy and transmission service provided by public utilities in interstate commerce. The Commission has interpreted the FPA's definition of public utilities to include energy marketers as well as traditional vertically-integrated electric utilities. The Commission must ensure that the rates, terms and conditions for wholesale sales of energy and transmission services are just, reasonable and not unduly discriminatory or

preferential. FERC is also responsible for reviewing proposed mergers, acquisitions and dispositions of jurisdictional facilities by public utilities, and must approve such transactions if they are consistent with the public interest. The Commission also has jurisdiction under the FPA over licensing of hydroelectric projects and ongoing compliance with Commission licenses.

The FPA does not give the Commission direct jurisdiction over purely financial transactions. The Commission has asserted jurisdiction over such transactions only when they result in physical delivery of the energy which is the subject of the financial contract, or when such transactions or contracts affect or relate to jurisdictional services or rates (*e.g.*, financial contracts affecting firm rights to interstate transmission capacity or the pricing of such capacity).

Under the Public Utility Regulatory Policies Act (PURPA), the Commission determines eligibility for the benefits provided under PURPA to Qualifying Facilities (QFs). The general eligibility requirements for QFs, which are contained in the FPA, include technical and operational criteria as well as ownership criteria.

The Commission also has jurisdiction over transportation and sales for resale of natural gas. However, FERC jurisdiction over sales for resale is limited to domestic gas sold by pipelines, local distribution companies, and their affiliates (including energy marketers). Consistent with Congressional intent, the Commission does not prescribe prices for these commodity sales.

Under these statutory authorizations, FERC's regulatory jurisdiction extends to a number of Enron subsidiaries. However, the Commission does not regulate the parent corporation, Enron Corporation, as it does not engage in activities which are under FERC jurisdiction. Our authority with respect to Enron's subsidiaries is described below.

B. Energy Marketers

1. Enron's Power Marketing Subsidiaries

A power marketer generally is an entity that takes title to electric energy and engages in sales of electric energy, but that does not own or control physical generating facilities. To sell wholesale electric energy at market-based rates, public utilities, including power marketers, must file an application with the Commission. The Commission grants the application if the power marketer adequately demonstrates that it and its affiliates lack or have mitigated market power in the relevant markets. FERC requires power marketers to submit quarterly reports of their sales activities and to comply with certain restrictions for the protection of captive customers against affiliate abuse.

The Commission generally waives certain regulations for power marketers with market-based rate authorization. For example, these marketers do not need to submit cost-of-service filings because the rates they charge are market-based. The Commission also exempts power marketers from its accounting requirements, because those requirements are designed to collect the information used in setting cost-based rates. However, as announced

last month in the Commission's Final Rule on Accounting and Reporting of Financial Instruments, Comprehensive Income, Derivatives and Hedging Activities, the Commission is considering whether power marketers should continue to receive these waivers.

The Enron-affiliated power marketers regulated by the Commission include: Enron Power Marketing Inc., Enron Sandhill Limited Partnership, Milford Power Limited Partnership, Enron Energy Services, Inc., and Enron Marketing Energy Corporation. It is now clear that at least some of Enron's power marketing activities were inappropriate, and the Commission's ongoing investigation of these activities is discussed below.

2. Enron OnLine

Enron's Internet-based trading system, Enron OnLine, was the dominant Internet-based platform for trading both physical energy (electricity and natural gas products) and energy derivatives. Traditional exchanges, like the New York Stock Exchange and NYMEX, determine price by matching the buy and sell orders of many traders in a many-to-many trading format. In contrast, Enron OnLine used a one-to-many trading format, where an Enron affiliate was always on one side of each energy transaction, either as a seller or a buyer. In May 2001, the Commission staff initiated an informal review into Enron OnLine and electronic trading in natural gas and electric energy markets. The Commission staff's report was completed in August 2001, but never formally presented to the Commissioners. The report recommended that FERC continue to monitor Enron OnLine and electronic trading of natural gas and electric power, but determined that there was no reason for concern about Enron OnLine at that time. At approximately the same time, the Commission staff informally began to analyze whether the Commission could assert jurisdiction over Enron OnLine. While the Commission had asserted jurisdiction over the physical trades made through Enron OnLine, it had not determined whether it could assert jurisdiction over non-physical trades and the trading platform itself. Enron OnLine ceased operations around December 2, 2001, before the Commission staff completed the legal analysis and the full Commission could consider the issue.

C. Portland General Electric

In 1997, the Commission approved Enron's acquisition of Portland General Electric Co. (Portland General), a vertically-integrated utility involved in the generation, purchase, transmission, distribution and sale of electricity, and the operation of licensed hydroelectric projects in Oregon. Portland General's retail rates and practices are under the jurisdiction of the Oregon Public Utility Commission. Portland General also sells energy to wholesale customers in the western United States. The Commission subsequently approved Enron's application to sell Portland General. However, Enron has not yet sold Portland General.

D. Gas Pipeline Subsidiaries

Enron owns or owned all or 50 percent of three major operating gas pipelines: Transwestern Pipeline Company (Transwestern), Northern Natural Gas Company (Northern Natural), and Florida Gas Transmission Company (Florida Gas). Transwestern's system can flow gas from the San Juan, Permian and Anadarko Basins west to the California border and east to Texas intrastate pipeline markets. Northern Natural's system stretches

from the Permian Basin to the Great Lakes in the Midwest. Florida Gas delivers natural gas from Texas to Florida.

These pipelines used Enron OnLine to receive bids for use of pipeline capacity. While “advertised” by Enron OnLine, the capacity was sold solely by the pipeline. The pipeline was the buyer’s counter-party on these sales. Since the operator of Enron OnLine was not selling pipeline capacity, it was not required to seek prior Commission approval, nor was there any violation of Commission regulations, as long as information requirements regarding capacity availability and confidential shipper (buyer) data were followed. The “sharing” of information between a pipeline and a marketing affiliate (here, potentially through Enron OnLine) is prohibited under FERC regulations. At this time, the Commission has no evidence that confidential shipper information was improperly shared with Enron marketing affiliates.

In November 2001, the Commission’s staff became concerned that unregulated parent companies might be misusing the cash assets of their FERC-regulated energy subsidiaries. FERC staff initiated audits of several regulated companies. On March 1, 2002, the Commission instituted a formal non-public investigation on these issues. During the investigation, staff discovered that Enron had requested that two of its pipeline affiliates at the time, Northern Natural and Transwestern, take out loans totaling \$1 billion. Enron (the parent corporation) took the \$1 billion to hold off a declaration of bankruptcy, but the pipelines remained liable for payment on the loans. Subsequently, in August 2002, the Commission directed Northern Natural and Transwestern to demonstrate why the costs and indebtedness associated with these loans were not imprudently incurred and therefore unrecoverable from ratepayers. In response, Northern Natural and Transwestern executed separate consent agreements, which the Commission approved, whereby they would not include the costs associated with the loan in any future rate proceedings before the Commission.

Also on August 1, 2002, the Commission issued proposed rules for participation by FERC-regulated companies in similar arrangements for pooling cash assets within a corporation, or “cash management programs.” The proposed rules include specific documentation requirements and conditions precedent for participation in cash management arrangements. The proposed rules are designed to make such arrangements more transparent and to prevent the abuse of cash management or money pool arrangements that could affect the financial health of regulated entities. The Commission recently held a technical conference on the proposed rules and comments are under consideration.

This past summer, FERC determined that Transwestern had used the Commission's negotiated rate program to improperly charge excessive transportation rates to deliver natural gas into California. On July 17, 2002, FERC ordered Transwestern to return all revenues above its maximum tariff rates collected as part of the affected transactions, plus interest, to all firm shippers on Transwestern’s system at the time of the transactions. Further, the Commission prohibited Transwestern for one year from entering into negotiated rate agreements based on index-to-index differentials in natural gas spot market prices. On the same day, the Commission initiated a notice of inquiry to examine whether its negotiated rate program successfully safeguards against the abuse of market

power by pipelines. The Commission has received comments on this matter and the comments are under consideration.

E. Enron's Qualifying Facilities (QFs)

In 1997, Enron, through its subsidiaries, acquired several windfarms located in California. These facilities had been certified by prior owners as qualifying facilities (QFs) in 1987, 1990 and 1991. QFs are eligible for certain financial benefits and regulatory exemptions under the Public Utility Regulatory Policies Act (PURPA), as implemented by the Commission's regulations, as long as they are no more than 50 percent owned by an electric utility or an electric utility holding company. Such benefits include a mandatory obligation on the part of an electric utility to purchase QF power at the electric utility's avoided cost and exemption of the QF from certain requirements of the FPA, the Public Utility Holding Company Act (PUHCA), and state laws. The other owners of these QFs included electric utilities or electric utility holding companies.

In 1997, Enron proposed to merge with Portland General Electric. This could have caused the QFs to be owned more than 50 percent by electric utilities or electric utility holding companies and, thus, resulted in the loss of QF status for the windfarms. To avoid this result, Enron "sold" and transferred its interest in the QFs to partnerships collectively known as RADR. In the 1997 applications submitted to FERC for recertification of QF status, the RADR applicants represented that the QFs would no longer be owned by Enron and thus still met the QF ownership requirements. Based on the applicants' representations, Commission staff determined that the facts as presented met the criteria for QF status set forth in the Commission regulations, and granted recertification of the windfarms as QFs.

In 2000, Enron filed an application with the SEC for an exemption under certain sections of PUHCA so that it could qualify for unrestricted QF ownership. Enron's QFs then filed notices of self-certification with FERC asserting that Enron had filed an application for PUHCA exemption with the SEC, and thus would again qualify for QF ownership. Under PUHCA, Enron's filing of this application entitled it to the exemption until the SEC determines otherwise, so long as the filing was made in "good faith." Under FERC's rules, this exemption meant that Enron was no longer an electric utility holding company and could own part of these QFs without causing them to lose QF status and the related benefits. Relying on the notices of self-certification it had filed with the Commission, which in turn relied on the application for exemption from PUHCA filed with the SEC, an Enron affiliate "repurchased" the facilities that had been previously "sold" to the RADR partnerships.

Recently, DOJ and SEC filed complaints against two Enron executives, Andrew Fastow and Michael Kopper. The complaints allege, in part, that they devised a scheme to allow Enron to maintain secret control over the QF windfarms while preserving QF benefits for the windfarms. The alleged Enron control of RADR was far more extensive than had been represented to FERC. Last month, the SEC ordered a hearing on Enron's year-2000 application for exemption under PUHCA. On October 24, 2002, the Commission issued an order initiating an investigation of the QF status of the Enron-affiliated QFs for the period following Enron's 1997 "sale" of those QFs.

To put these facts in perspective, there have been nearly 9,000 filings (either notices of self-certification or applications for Commission certification) from facilities claiming QF status. Most of these filings were self-certifications. Only a small percentage of the filings were *contested* applications for Commission certification. Specifically, there have been fewer than 20 cases of a utility-purchaser alleging that an existing facility no longer was satisfying the criteria for QF status. Moreover, the Enron-affiliated QFs represent the first time there have been allegations that QF filings were fraudulent.

III. Price Manipulation by Enron or Others

In January 2002, in response to allegations that Enron may have used its market position to distort electric and natural gas markets in the West, the Commission initiated a fact-finding investigation into whether any entity, including any affiliate or subsidiary of Enron Corp., had manipulated electric energy or natural gas prices in the West since January 1, 2000. The investigation was formally announced on February 13, 2002. In conducting this investigation, FERC staff has coordinated closely with staff from DOJ, SEC, the Commodities Futures Trading Commission (CFTC), and the Department of Labor.

On August 13, 2002, Commission staff released an initial report of its investigation. The report concludes that published indices of electricity and natural gas prices in or near California during the recent crisis may not be sufficiently reliable to be used in setting refunds for wholesale power buyers in California. Based on this staff finding, the Commission requested comments on whether it should change the method for determining the cost of natural gas in calculating the refunds for power sales in California from October 2000 to June 2001, and if so, what method should be used. The Commission recently received comments on this issue and the comments are currently under consideration.

Also based on the staff report, the Commission initiated formal enforcement proceedings under section 206 of the FPA regarding possible misconduct by three corporate affiliates of Enron (Enron Power Marketing, Inc., Enron Capital and Trade Resources Corporation, and Portland General), and two investor-owned utilities that did business with Enron (Avista Corporation and El Paso Electric Company). If these investigations conclude that Commission orders or regulations were violated, possible sanctions include loss of market-based rate sales authority.

The Commission staff's investigation continues. Staff, with the assistance of its outside consultants, is conducting a comprehensive investigation of a variety of factors and behaviors that may have influenced electric and natural gas prices in the West during 2000-2001. The Commission staff's final report will include:

- an explanation of Enron OnLine (EOL) operations and the role EOL played in the energy markets;
- an analysis of sales data collected from information requests. Staff will explain the results of the statistical analysis of such data, including findings of how, and to what extent, forward prices directly correlate with spot energy prices;
- an analysis of wash trades in electricity and natural gas markets in the West;

- a discussion of staff's findings on allegations that Williams Co. had attempted to manipulate natural gas markets in the West;
- an analysis of the relationship between physical and financial natural gas and electric products;
- recommended standards and protocols for how to identify and deal with possible physical withholding; and
- further analysis of the extent to which Enron's trading strategies had an effect on other products, such as long-term physical and financial contracts.

The targeted date for completion of the Commission staff's investigation is January/February 2003. As soon as the investigation is complete, a thorough and timely report will be submitted to Congress.

IV. Lessons Learned

There are two equally important categories of actions the Commission has taken, or is currently taking, to ensure that we avoid the type of crisis that occurred in California and the West, and that resulted from the collapse of Enron. The first category includes generic actions to ensure the right rules are in place to encourage strong competition. The second category includes efforts to monitor markets more vigilantly.

A. FERC Generic Initiatives

Since I became Chairman a year ago, the Commission has begun or continued work on numerous efforts to improve the design, transparency and oversight of energy markets. These efforts, aimed at ensuring that energy customers receive adequate supplies of energy at reasonable prices, include the following:

- Notice of Proposed Rulemaking (NOPR) on Standard Market Design - On July 31, 2002, the Commission issued proposed rules on market design, including a comprehensive plan for mitigating market power and market manipulation. The proposed rules are intended to provide certainty to all market participants, encourage new infrastructure investment, promote fair competition and prevent a repeat of the mistakes made previously in California.
- Final Rule on Accounting - In October 2002, the Commission issued a final rule directing public utilities, licensees, natural gas companies and oil pipelines to report changes in the fair value of certain investment securities, derivatives and hedging activities. The new rules will enhance the transparency of financial information and facilitate a better understanding of the nature and extent to which derivatives and hedging activities are used by regulated companies and the impact these transactions may have on the companies' financial condition.

- Order No. 2001 – Improving market transparency requires detailed reporting on transactions within the electric energy and natural gas markets. Accordingly, in April 2002, the Commission revised its reporting requirements to enhance public access to information filed by public utilities on their services and sales. The new rules will allow more comprehensive and rigorous monitoring of these activities by the Commission and the public.
- NOPR on Standards of Conduct – In September 2001, the Commission proposed to revise its restrictions on the relationships between regulated transmission providers (such as Portland General) and their energy affiliates. The Commission proposed, for example, to broaden the definition of an affiliate to include newer types of affiliates, including those operating trading platforms (*e.g.*, Enron OnLine).
- NOPR on Regulation of Cash Management Practices – In August 2002, the Commission proposed requirements for participation in cash management programs in order to prevent the abuse of such programs. Such abuse could occur where cash from Commission-regulated subsidiaries is transferred to an unregulated parent company and essentially no longer belongs to the regulated subsidiary.
- Comprehensive review of information – In September 2001, Commission staff began a comprehensive review of the information the Commission needs to carry out its statutory obligation in the current and evolving electric energy and natural gas markets.
- Notice of Inquiry on Negotiated Rates for Natural Gas Pipelines - On July 17, 2002, the Commission issued a notice of inquiry seeking comments on its negotiated rate policy. This policy allows a pipeline to negotiate rates above cost-based limits with its customers, so long as the pipeline continues to offer a cost-based recourse rate as a safeguard against any exercise of market power. The Commission has received comments, and the comments are under consideration.

B. FERC Institutional Initiatives

The Commission's strategic plan, adopted by the full Commission when I became Chairman, encompasses three major areas of activity in overseeing the energy industry, as described below. A copy of the Commission's strategic plan for FY 2002-2007 is attached.

- Infrastructure – working with others to anticipate the need for new generation and transmission facilities, determining the rules for cost recovery of new energy infrastructure, encouraging the construction of new infrastructure, and licensing or certificating hydroelectric facilities and natural gas pipelines;
- Market rules – ensuring clear, fair market rules to govern wholesale competition that benefits all participants, and assuring non-discriminatory transmission access in the electric and natural gas industries;
- Market oversight and investigations – understanding markets and remedying market rule violations and abuse of market power.

This third strategic goal reflects the Commission's commitment to ensuring that markets continue to work for customers. To meet this third goal, the Commission created a new Office of Market Oversight and Investigations (OMOI).

1. Office of Market Oversight and Investigations

Following a nation-wide search, in April 2002, my colleagues and I appointed a director to OMOI. He began working to develop the new office's mission and functions, to identify needed workforce skills and experience, and to recruit and hire appropriate talent for the new department. On August 12, 2002, OMOI became a formal, functioning office within the Commission, reporting directly to the Commissioners.

OMOI encompasses two units that function independently but work closely together. The Market Oversight and Assessment unit reviews developments in the market on a real-time and longer-term basis, and spots irregularities. As problems arise and are identified, OMOI's Investigations and Enforcement unit brings swift, decisive and effective enforcement. OMOI serves as an early warning system to alert the Commission when market problems develop, such as the California energy crisis or the collapse of Enron, and allows the Commission to intervene and correct the problems more quickly.

OMOI has begun an aggressive program of outreach to a wide variety of entities including: other federal, state and provincial regulatory agencies, state consumer advocates, industry participants, academic institutions and think tanks, financial institutions (such as ratings agencies), and Market Monitoring Units (MMUs) at Regional Transmission Organizations and Independent System Operators. The purpose of the outreach is to let these entities know that the Commission is developing a clear market oversight capability and to obtain their input for how best to develop that capability. Market monitors presented their evaluations of the ISO regional electricity markets at a Commission Open Meeting in June 2002, and participated in a Commission market monitoring technical conference on October 2, 2002.

In June 2002, the General Accounting Office (GAO) issued a report entitled "Energy Markets: Concerted Actions Needed by FERC to Confront Challenges That Impede Effective Oversight." The report found that the Commission faced key challenges in overseeing energy markets with respect to: (1) changing the Commission's organizational structure to improve the effectiveness of the Commission's oversight program; (2) defining and implementing an effective approach to overseeing competitive energy markets; and (3) addressing human capital needs. In addition, the report found that new statutory authority and guidance from Congress would enhance our ability to develop, regulate and oversee competitive energy markets.

I generally agree with the GAO's conclusions and believe the Commission is moving aggressively to address the challenges. Importantly, we have given the market oversight function the organizational structure, mission and resources it needs. With the establishment of OMOI, the Commission is already implementing a new approach to market oversight. At the heart of the Commission's efforts to analyze and assess energy markets lies a series of periodic reports to the Commission, including a biweekly Surveillance Report and a semi-

annual Seasonal Outlook. In addition, OMOI is receiving appropriate human capital resources. We have budgeted for 110 FTEs in FY 2003 and 120 FTEs in FY 2004. We have also budgeted \$500,000, and \$1 million, respectively in contract dollars to obtain additional expertise.

2. Improved Coordination with Market Monitoring Units

The Commission has instituted measures to ensure market mitigation in the future in all RTO markets. The Commission's OMOI interfaces with the RTOs' and ISOs' market monitoring units (MMUs) and monitors markets to ensure that the market rules are working. The Commission formalized a plan for interaction with the MMUs during a public Commission meeting on June 26, 2002, when market monitors from ISO New England, New York ISO, PJM Interconnection, the California ISO, and the American Electric Power System presented their annual reports on the state of the markets. We have arranged for quarterly meetings of OMOI and the MMUs to discuss market performance and analytical issues. The MMUs will continue to report directly to the Commission, as they did at the June 26, 2002 meeting. Additionally, FERC now has staff stationed on-site at the California ISO, and is organizing regular staff visits to the other ISO and RTO offices.

3. Improved Coordination with Other Agencies

The Commission has worked extensively to improve its coordination with other agencies, building on the relationships established over several years of quarterly meetings between staff of the FERC, Department of Justice and Federal Trade Commission. For example, on the same day that the Commission initiated its investigation into potential market manipulation in the West, Commission staff met with staff from the CFTC to establish the groundwork for cooperation, coordination, and information-sharing. FERC and CFTC staff have jointly deposed or interviewed over 100 individuals in the Western market investigation. The two agencies have also jointly developed and shared discovery responses each has gathered from its respective regulated entities. The Commission has entered into information-sharing agreements with DOJ, SEC and CFTC with respect to the investigation, and these agencies are also coordinated under the Deputy Attorney General for the broader investigatory efforts of the President's Corporate Fraud Task Force. And FERC legal staff has coordinated with the CFTC regarding each agency's respective jurisdiction over energy market activities.

V. Congress Should Expand FERC's Penalty Authority

Congress could create stronger deterrents to anti-competitive behavior, market manipulation, and other violations of the FPA and Natural Gas Act (NGA), by adding or increasing civil and criminal penalty authority under those statutes. Currently, FPA section 316A provides for civil penalties of up to \$10,000 per day for violations of limited sections of the FPA (Sections 211, 212, 213 and 214). These penalties could be broadened to all sections of the FPA and increased significantly. The NGA contains no provision to allow the Commission to impose civil penalties. The NGA should be modified to give FERC this authority. As to criminal penalties, I support increasing the penalty authority under the FPA and the NGA from the current \$5,000 level to \$1 million and increasing the potential prison term from two to five years. For a criminal violation of the Commission's rules or orders

under the FPA or NGA, I support increasing the penalty from \$500 per day to \$25,000 per day.

VI. Conclusion

Since I became Chairman just over one year ago, the Commission has launched bold new initiatives that incorporate the lessons learned from the California energy crisis and the collapse of Enron. These initiatives will help to promote efficient competitive markets, while protecting customers and investors from a recurrence of the California and Enron crises. As always, I will be happy to provide further information or answer any questions you may have.

Strategic Plan FY 2002 - 2007

Vision

Dependable, affordable energy through sustained competitive markets

Mission

The Federal Energy Regulatory Commission regulates and oversees energy industries in the economic and environmental interest of the American public.

Goals and Objectives

Goal 1: Promote a Secure, High-Quality, Environmentally Responsible Infrastructure through Consistent Policies.

Objective 1.1: Expedite Appropriate Infrastructure Development to Ensure Sufficient Energy Supplies.

- Identify transmission and pipeline projects with high public interest benefits and facilitate their speedy completion.
- Standardize interconnection of power generation plants of all sizes and technologies.
- Strengthen inter-agency coordination of hydropower licenses and gas pipeline certificates to expedite processing, consistent with due process.

Objective 1.2: Provide Clarity of Cost Recovery to Infrastructure Investors.

- Establish a timely process to include prudently incurred expansion costs in transmission and pipeline rates.
- Ensure that revenue levels and rate design for regulated company services support long-term competitive markets.
- Welcome balanced innovative rate of return proposals that incent pro-competitive behavior and publicly beneficial projects.

Objective 1.3: Address Landowner and Environmental Concerns.

- Encourage collaboration among affected parties and address stakeholder concerns before the licensing/certification process.
- Incorporate reasonable environmental conditions into permits, licenses and certificates and ensure compliance with conditions.

Objective 1.4: Promote Measures to Improve the Security and Safety of the Energy Infrastructure.

- Work with other agencies and parties to identify and address security issues and needs.
- Support industry efforts to improve infrastructure security.
- Ensure strictest adherence to prudent dam safety practices.
- Facilitate prompt recovery of prudently incurred security and safety expenses in jurisdictional rates.

Goal 2: Foster Nationwide Competitive Energy Markets as a Substitute for Traditional Regulation.

Objective 2.1: Advance Competitive Market Institutions Across the Entire Country.

- Complete firm establishment of regional transmission organizations with clear responsibilities, independence and scope.
- Develop appropriate coordination with states to efficiently oversee regional power markets.
- Encourage balanced, industry-led organizations to develop reliability and business practice standards.

- Firmly establish transmission planning function on a regional basis, with a variety of technology solutions to meet reliability, security and market needs.
- Provide regulatory certainty through clear market rules and case-specific decisions.

Objective 2.2: Establish Balanced, Self-Enforcing Market Rules.

- Link market-based rate authority to continued presence of balanced market conditions.
- Rely on international best practices to develop comprehensive market protocols/rules.
- Establish robust programs for customer demand-side participation in energy markets.
- Encourage standardized business rules and practices to maximize market efficiency, ease market entry and reduce transactions costs.

Goal 3: Protect Customers and Market Participants through Vigilant and Fair Oversight of the Transitioning Energy Markets.

Objective 3.1: Promote Understanding of Energy Market Operations and Technologies.

- Develop and maintain an expert market-operation oversight and investigation capability.
- Keep abreast of industry and market trends and technological innovations to inform and guide market oversight.
- Enhance the Commission's deliberations and public discussion by developing market information and disseminating findings.

Objective 3.2: Assure Pro-Competitive Market Structure and Operations.

- Assess market conditions and infrastructure adequacy using objective benchmarks.
- Integrate the Commission's market oversight and the work of market monitoring units.
- Identify and remedy problems with market structure and operations, and periodically review market rules for consistency with long-term market development.
- Ensure that mergers and consolidations are consistent with pro-competitive goals.

Objective 3.3: Remedy Individual Market Participant Behavior as Needed to Ensure Just and Reasonable Market Outcomes.

- Investigate market dysfunctions, exercises of market power and rule violations, and remedy problems through Commission authority.
- Use expedited dispute resolution to accelerate processes and minimize customer expense.
- Act swiftly on third-party complaints, using litigation before Administrative Law Judges as needed to determine factual issues.

Goal 4: Strategically Manage Agency Resources.

Objective 4.1: Manage Human Capital to Fulfill the Strategic Plan.

- Apply workforce planning to help meet the challenges of new Commission roles and changing workforce demographics.
- Get the job done flexibly and efficiently with the right mix of internal workforce and contracted services from the private sector.

Objective 4.2: Manage Information Technology to Best Serve the Public and Streamline Work Processes.

- Expedite interactions with customers through secure and efficient e-government initiatives.

- Build effective electronic workload/time-management and case-processing systems to enable getting the work done right and on time.

Objective 4.3: Clearly Communicate and Build Strong Partnerships with all Stakeholders.

- Proactively reach out to groups affected by agency actions for advance input.
- Build strong partnerships with all stakeholders, especially with states.

Objective 4.4: Strategically Manage Financial and Logistical Resources.

- Integrate budget, business plan, and performance measurement to improve performance and accountability.
- Generate accurate and timely financial information to support operating, budget, and policy decisions.