



The Global Leader

**FEDERAL ENERGY REGULATORY
COMMISSION**

Financial Statements

September 30, 1995 and 1994

(With Independent Auditors' Report Thereon)

FEDERAL ENERGY REGULATORY COMMISSION

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September 30, 1995 and 1994

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**FEDERAL ENERGY REGULATORY COMMISSION
FISCAL YEAR (FY) 1995 ANNUAL FINANCIAL STATEMENTS**

OVERVIEW

MISSION

The Federal Energy Regulatory Commission oversees America's natural gas and oil pipeline industries, electric utilities and hydroelectric projects. We protect customers of these industries from the exercise of market power and protect the environment as the industries may affect it, under law and at the lowest practicable cost. We are committed to being fair, honest and open in our dealings with regulated entities, other stakeholders and the public.

THE COMMISSION IN BRIEF

The Federal Energy Regulatory Commission (the Commission) was created through the *Department of Energy Organization Act* on October 1, 1977. Its predecessor, the Federal Power Commission (FPC) established in 1920, was abolished, as the new agency inherited most of FPC's energy agenda.

Today the Commission administers laws and regulations involving key energy issues. These include: the transportation and sale of natural gas in interstate commerce; regulation of electric utility wholesale rates and transactions; licensing, inspection and administration of non-Federal hydroelectric projects; and oversight of related environmental matters.

The Commission consists of five members appointed by the President, with the advice and consent of the Senate, to five-year staggered terms. No more than three members may belong to the same political party. The President designates one member to serve as Chair and administrative head of the Commission. Commissioners have an equal vote on regulatory matters.

The Commission generally meets twice a month to transact business. It considers, on a case-by-case basis, licenses and certificate applications, rate filings, and other matters submitted by regulated entities, and sets industry-wide rules. Meetings are open to the public under the provisions of the *Government in the Sunshine Act*.

The Commission collects the full cost of its operations from annual charges and fees authorized by the *Federal Power Act (FPA)*, the *Omnibus Reconciliation Act of 1986*, and other laws. Congress annually adopts a budget appropriation that gives the Commission the authority to use funds from the Treasury to meet operating expenses. The Commission must return to the Treasury all revenue from annual charges and fees, therefore, there is no direct taxpayer funding.

ELECTRIC POWER

MISSION

Ensure that the activities of the regulated entities serve the public interest. Encourage and rely on competitive markets, where appropriate, while maintaining more traditional forms of regulation where competitive markets do not exist or market forces do not work to protect the public interest.

Changes taking place in the electric industry today are nothing short of revolutionary. During the next few years, the Commission's role will be to guide the industry through the transition to a fully competitive market for wholesale generation. The transition must be carefully managed to ensure it is successful and to ensure that competition is working.

The Commission is aggressively pursuing policies intended to foster open-access transmission and the development of a fully competitive bulk power market for electricity. The *Energy Policy Act of 1992* granted significant new authority to compel public utilities to provide transmission service. The Commission is also reexamining its existing authority under the FPA to remedy claims of undue discrimination.

On March 29, 1995, the Commission issued a proposed rule that would require all public utilities subject to its jurisdiction to provide comparable open-access transmission services. The proposed rule also addresses the recovery of costs that may be stranded as a result of the transition to more competitive, market-driven regulation of electric generation at the wholesale level. The Commission anticipates taking final action on the proposed rule during FY 1996.

The Commission is also working to address other key issues related to moving to a more fully competitive wholesale market for electric generation including: transmission pricing, alternative power pooling institutions, and regional transmission groups.

HYDROPOWER

MISSION

Support the regulation of non-Federal hydropower for the benefit of the public, considering all resources and beneficial uses of the Nation's waterways.

Hydropower is a domestic, renewable resource that offers an abundant, clean source of electric energy. The 1,651 regulated hydropower projects represent half the Nation's hydropower energy generation. Hydropower makes up 96 percent of the total renewable energy production and provides about 13 percent of the country's electric capacity. Use of hydropower avoids the consumption of oil from foreign sources; this contributes to national security and advances the goal of energy self-sufficiency. Hydropower also makes a significant environmental contribution in

that avoidance of coal burning prevents the annual discharge into the atmosphere of up to 7.7 million tons of particulate matter.

The Commission's regulation of non-Federal hydropower for the benefit of the public, considering all resources and beneficial uses of the Nation's waterways, ensures that the water resource developments:

- are safely constructed, operated, and maintained consistent with environmental values and public interest;
- are economically viable; and
- serve the diverse public needs of the area in which they are located.

NATURAL GAS AND OIL PIPELINES

MISSION

Ensure that the construction and operation of natural gas facilities are in the public convenience and necessity, and consistent with protection of the environment; and recommend policies and programs that blend competitive forces with regulation so that natural gas and oil pipelines can provide reliable service at just and reasonable rates, respond to market signals, and develop new markets.

The Commission's regulatory philosophy and efforts are focused on the continued development and enhancement of competition through open-access transportation. To this end, the Commission has the continuing role of shepherding and leading the industry toward a more competitive environment. The gas and oil program has changed dramatically and continues to evolve as market opportunities grow.

To achieve our goals in this program, the Commission will:

- work with all segments of industry to pursue regulatory initiatives leading to greater competition and flexibility for rate payers;
- develop policies and solutions to meet and deal with emerging industry opportunities such as the use of market-based rate or other incentive rate mechanisms, while continuing to improve traditional ratemaking techniques;
- analyze and act on filings reflecting industry responses to such initiatives as market-based rates, negotiated rates, and other nontraditional incentive rate proposals;
- act as facilitators to resolve disputes involving tariff rate and miscellaneous service issues through an informal resolution process; and
- continue to analyze and act on the more traditional filings.

Additionally, during FY 1995 the Commission developed the Statement of Policy giving the industry up-front determinations regarding the rate design to be used in expansion projects. The Office of Pipeline Regulation (OPR) served as the primary office responsible for revising final rules which updated rate regulations, reporting requirements, and data collection leading to a substantial information reduction in the industry burden and the elimination of Forms 8 and 14.

The Commission has also developed a major paper concerning non-traditional cost-based rate making to supplement the Statement of Policy.

FY 1995 PERFORMANCE MEASUREMENT RESULTS

Office of Electric Power Regulation

Division of Applications

Reduce by 5 percent the number of electric rate applications pending by more than 180 days.

At the end of FY 1994, there were 146 pending cases; at the end of FY 1995 there were 61. This is a reduction of 58 percent and significantly exceeds the goal.

Division of Investigations

Process uncontested settlements within 45 days of certification by the Administrative Law Judge.

In FY 1994, the average processing time was 52.22 days (18 settlements). In FY 1995, the average processing time was 46.58 days (33 settlements). This is a reduction of 5.64 days. While the 45-day processing goal was not achieved, considerable progress was made.

Maintain a settlement rate of 70 percent of cases set for hearing.

In FY 1994, there was a 73 percent settlement rate. In FY 1995, 65 of 75 cases were resolved through the settlement route equating to a 86.6 percent settlement rate. Both years are anomalies due to the redirected staff effort at the Open Access Notice of Proposed Rulemaking (NOPR).

Process uncontested refund reports within 60 days after the close of the comment period.

In FY 1995, all 29 uncontested cases were processed in less than 60 days. Fiscal year 1994 information is not comparable.

Division of Opinions and Systems Analysis

Reduce by 5 percent the number of cases still active 2.5 years or more after filing.

At the end of FY 1994, there were 34 cases pending. At the end of FY 1995, there were 39 cases pending. This is an increase of 15 percent.

Reduce by 10 percent the number of formal cases pending without an opinion being issued where the initial decision was issued more than 12 months earlier.

At the end of FY 1994, there were 15 cases pending. At the end of FY 1995, there were 22 cases pending. This is an increase of 47 percent.

In FY 1996, adjustment of the goals is warranted. The Opinions staff has been diverted to working on the NOPR and will continue to be so well into FY 1996. The FY 1996 goal will be to complete the NOPR in FY 1996.

Office of Hydropower Licensing

Division of Project Review

Reduce by 10 percent the issuance rate of second additional information requests on pending license and exemption applications.

In FY 1995, the average percentage of pending requests at the end of the year increased by 0.6 percent. In FY 1994, there was an average of 34 cases of a total of 263 or 12.9 percent. In FY 1995, there was an average of 31 cases out of a total of 229 or 13.5 percent pending. This minor increase occurred because:

(1) additional information was required on newly listed endangered species and to respond to U.S. Fish and Wildlife Service requests for additional data in response to staff-prepared biological assessments under the Endangered Species Act; and

(2) a substantial change in the Commission's policy concerning economic analysis of hydroelectric project proposals required staff to request updated information on project economics.

Division of Dam Safety and Inspections

Reduce by 10 percent the ratio of the number of supplements to Part 12D reports that are required.

In FY 1995, the number of supplements was reduced by 14 percent. In FY 1995, 85 supplements were required for 210 reports. In FY 1994, 142 supplements were required for 263 reports.

Division of Project Compliance and Administration (DPCA)

Reduce by 5 percent the number of compliance investigations regarding engineering-related discrepancies at licensed and exempted projects. (These exclude investigations initiated by DPCA.)

In FY 1995, the number of investigations was reduced by 28 percent. The improvement was due in large part to the efforts of both the staff and the entities. They worked together to reduce discrepancies from the beginning of the processes. Fiscal year 1994 information is not comparable.

Office of Pipeline Regulation (OPR)

Reduce the processing time for those processes and activities that are solely under the control of OPR by 5 percent per year, while ensuring that the quality of work remains excellent and that all significant issues are addressed in the proper forum.

Divisions of Pipeline Certificates and Engineering and Environmental Review

OPR achieved a nearly 8 percent reduction in the processing time for construction, operation, and abandonment certification applications.

Division of Litigation

OPR settled 80 percent of the number of rate cases set for hearing in FY 1995 (32 of 40 cases); in FY 1994 the settlement rate was 76 percent (28 of 37 cases).

Divisions of Pipeline Rates East and West

The overall processing time for workload categories assigned to the Rates Divisions decreased by 12 percent. In FY 1995, the processing time was 26.4 days; in FY 1994 it was 30.4 days.

Executive Director and Chief Financial Officer

The FY 1994 Financial Statements did not contain any FY 95 financial performance measurements, but were intended, if not stated.

Receive an unqualified audit opinion of the Annual Financial Statements with no material weaknesses.

KPMG Peat Marwick LLP rendered an unqualified opinion on the Commission's financial statements for fiscal years 1995 and 1994. Two material weaknesses — property, plant and equipment and accounts payable which were identified in the fiscal year 1994 audit, were successfully addressed during the year. No material weaknesses were reported in the fiscal year 1995 audit.

Meet Department of Energy (DOE) reporting performance measurements.

1. *External reports are provided by due dates 100 percent of the time.*

The Treasury's Statement of Transactions, SF-224 was submitted prior to the due date every month during FY 1995. The Financial Information System (FIS) reporting is the vehicle for monthly data submission of the Commission's financial transactions to DOE. These transactions should be balanced, error-free, and submitted by the 5th working day of the following month. The transmission includes reciprocal entries from specified documented transactions that balance against the SF-224 which reflects disbursements and collections performed by the Commission during the same month. The Commission consistently met its deadlines to DOE with a minimum number of data submissions. The cumulative average for the number of FIS coding errors, balancing errors, and Departmental Control Accounts versus FIS errors was 0 percent, and the cumulative number of hours to process a FIS correction was 2 hours.

During FY 1994, the SF-224 was submitted 100 percent on time each month. As for the FIS coding and balancing errors, the Commission had a 2 percent error rate, and a processing time to correct errors of 2.5 hours.

2. *The Prompt Payment Act (PPA) of 1982 requires commercial payments to be made on-time. The Department has set a goal of, at least, 93 percent of commercial payments will be made on-time at each field office with an overall Department-wide on-time performance of 95 percent.*

In FY 1995, 6,736 PPA transactions were processed by the Commission. Of those processed, 4,920 were processed timely, resulting in an on-time rate of 73 percent.

The Commission processed 6,053 PPA transactions during FY 1994. Of those transactions 4,875 were processed on time, resulting in an on-time rate of 75 percent.

3. *Utilize modern payment systems, such as electronic funds transfer (EFT), for vendor recurring payments (goal 75 percent) and employee travel payments (goal 50 percent) to the fullest extent possible. Utilize the Department of Treasury's On-line Payment and Collection (OPAC) system for interagency payments to the fullest extent possible.*

Vendor Recurring Payments: In FY 1995, a total of 1,523 payments of \$26,854,499 were made. 64 payments, or 4 percent, were made by EFT; however, those 64 payments comprised \$16,915,510, or 63 percent, of the monies disbursed.

Employee Travel Payments: EFT payments were not initiated until the fourth quarter of FY 1995. During that period, 123 payments out of 943 or 13 percent were made by EFT. Those EFT payments amounted to \$73,000 or 11 percent of the \$641,943 paid.

Interagency Payments made by Simplified Interagency Billing and Collection System (SIBAC):

In FY 1995, all 333 interagency payments comprising \$112,276,006 were made using SIBAC.

In FY 1994, all 270 interagency payments totaling \$114,366,180 were made using SIBAC.

4. *Timely travel payments and the average processing time is a measurement of the amount of time between the receipt of a travel voucher and final payment of the travel voucher (goal 7 days).*

In FY 1995, 3,781 travel vouchers were processed with an average processing time of 7.6 days.

In FY 1994, 3,156 travel vouchers were processed with an average processing time of 14 days.

FY 1996 PERFORMANCE MEASUREMENTS

Make regulation work better and integrate market forces, where possible, into an overall regulatory model.

The Commission has begun the process, in several pending rulemakings, of developing new and better ways to analyze unique and complex problems, to reach fully justified decisions more quickly, and to cut the cost of doing regulatory business. This means improving and streamlining the regulations, specifying the types of information to be filed by the regulated companies and the methods (electronic versus paper) used in making those filings.

While the use of more traditional models of regulation will continue to be necessary in noncompetitive sectors of the industries, we have encouraged the growth of competition in such sectors as natural gas producing markets, oil pipelines, and electric power generation. For example, we are using an indexing model in oil pipeline rates and allowing some market-based pricing for oil pipelines where lack of market power is shown. In natural gas, we have approved market-based rates for certain natural gas storage projects. This process will continue and evolve in the foreseeable future. We are also moving forward on this issue in the electric industry with the advent of the restructuring process in the electric transmission segment of the industry.

To protect customers through fostering efficiency, innovation, and competition, the Commission will:

- provide refined standards for market-based rates that encourage companies to identify competitive services, and to apply for and receive market-based regulation;
- develop options for performance-based regulation for areas that cannot be competitive;
- provide rate certainty by deciding rate treatment in certificate cases for new natural gas pipeline construction; and
- establish fully comparable open-access transmission for all transmission owners under the Commission's jurisdiction.

Improve the efficiency of our environmental programs.

In regulating hydropower development and natural gas pipeline construction, the Commission will continue to balance all legitimate interests under many separate statutes, resolve questions quickly, and monitor future performance to ensure that the terms under which the utilities are allowed to build and operate balance environmental protection and project benefits.

To protect the environment and enhance project benefits, the Commission will:

- reduce legitimate complaints that people have been excluded from environmental processes;
- reduce processing time for environmental reviews;
- increase the rate of voluntary compliance; and
- increase the percentage of dams meeting all current safety standards.

Continue to improve and enhance the Commission's fiscal and budgetary position.

The Commission has made great strides in the fiscal area. Specific measurements are:

Continue to receive an unqualified audit opinion on the Annual Financial Statements.

This was the unstated, but primary, performance measurement of FY 1995. The Commission received its first unqualified opinion for the FY 1994 Annual Financial Statements, but feels that an unqualified opinion is such a critical indicator of the agency's overall financial well-being that this will be a primary performance measurement for some years to come.

Formulate the budget so that current year costs are within 5 percent of the budget for the fiscal year.

This performance measurement will require several years to achieve. Initially, an analysis of the FY 1995 performance will be made to establish a baseline. The entire budget execution process will be examined and modified as necessary.

Pay 95 percent of all payments accurately and on time; vendors within the time required by the Prompt Payment Act and; internal customers in 10 days or less.

This performance measurement may require more than one year to achieve.

STATEMENT OF LIMITATIONS

- The financial statements have been prepared to report the financial position and results of operations of the Commission, pursuant to the requirements of the Chief Financial Officers Act of 1990.

- While the statements have been prepared from the books and records of the Commission in accordance with the formats prescribed by the Office of Management and Budget, the statements are different from the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.
- The statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

SUPPLEMENTAL INFORMATION

FY 1995 FINANCIAL ACHIEVEMENTS

Receivables Processing

During the fiscal year, the Commission made steady progress in processing delinquent receivables. The number of delinquent receivables for more than eight months declined from a high of 277 in the third quarter to zero in the fourth quarter. Bills were sent for collection to CSC Credit Services and to Legal Enforcement Division.

Improved Cash Management Process

The Commission has aggressively implemented technological advances to accelerate the availability of receipts, timely disbursements, and minimize cash balances held outside of the U.S. Department of Treasury. The savings realized by using these tools lessens the Government's borrowing requirements and the interest paid on that debt, thus saving taxpayers' money.

The Electronic Certification System (ECS) was installed at the Commission in October 1994, and has been used throughout FY 1995. ECS has greatly enhanced the Commission's ability to meet requirements of the Prompt Payment Act. All Forms SF-1166, Schedules of Vouchers and Payments, were submitted by ECS.

American Express Automated Teller Machine (ATM) Cash Withdrawal

The Commission implemented use of the American Express ATM network for the issuance of travel advances. Use of this program generated many benefits including:

- an increase in the number of cardholders by 4 percent;
- a more convenient way for travelers to obtain cash advances;
- a reduction in staff hours required to process travel advances; and
- a processing cost savings for travel advances of 71 percent.

Payroll Direct Deposit

The Commission has a goal of 100 percent participation in the Payroll Direct Deposit program. At the end of the fiscal year, almost 94 percent of employees participated -- up from 89 percent at the end of FY 1994.

Direct Deposit Travel

The implementation of the Travel Direct Deposit program during the fourth quarter has reduced per diem travel payments through the Imprest Fund by 94 percent. Direct deposit has reduced the staff hours required to process the Imprest Fund replenishment schedules.

Imprest Fund Reduction

Cash held outside of the Department of Treasury in the Imprest Fund has been reduced by 50 percent. The reduction results directly from implementing the American Express ATM network for travel advances and the Travel Direct Deposit program.

Property Accountability

During 1995, an internal audit team examined and reconciled Commission property through physical inventory and analysis of the Commission User Profile System (CUPS). At the completion of the process, the Commission properly recorded its holdings addressing one material weakness identified in the audit of the FY 1994 Annual Financial Statements.

Independent Auditors' Report on Financial Statements

The Federal Energy Regulatory Commission
United States Department of Energy:

We have audited the statements of financial position of the Federal Energy Regulatory Commission (the Commission) as of September 30, 1995 and 1994, and the related statements of operations and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of September 30, 1995 and 1994, and the results of its operations and changes in net position and its cash flows for the years then ended, in conformity with the basis of accounting described in note 2.

In accordance with *Government Auditing Standards*, we have also issued reports dated December 29, 1995, on our consideration of the Commission's internal control structure and on its compliance with laws and regulations.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The information presented in management's *Overview* is not a required part of the basic financial statements but is supplementary information required by OMB Bulletin No. 94-01, *Form and Content of Agency Financial Statements*. We have considered whether this information is materially inconsistent with the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion on it. The performance information included in management's *Overview* is addressed in our auditors' report on the internal control structure in accordance with OMB Bulletin No. 93-06.

This report is intended for the information of the management of the Commission and the United States Department of Energy. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

KPMG Peat Marwick LLP

December 29, 1995

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Financial Position

September 30, 1995 and 1994

| Assets | 1995 | 1994 |
|--------------------------------------|----------------|-------------|
| Entity assets: | | |
| Intragovernmental assets: | | |
| Fund balances with Treasury (note 3) | \$ 80,283,381 | 73,428,717 |
| Governmental assets: | | |
| Accounts receivable, net (note 4) | 12,063,779 | 18,741,284 |
| Employee travel advances | 54,587 | 112,698 |
| Cash | 5,000 | 10,000 |
| Property and equipment, net (note 6) | 6,348,360 | 8,075,683 |
| Total entity assets | 98,755,107 | 100,368,382 |
| Non-entity assets: | | |
| Intragovernmental assets: | | |
| Fund balances with Treasury (note 3) | 4,693,182 | 2,635,663 |
| Accounts receivable | 217 | 12,625 |
| Governmental assets: | | |
| Accounts receivable, net (note 5) | 1,838,898 | 1,823,743 |
| Total non-entity assets | 6,532,297 | 4,472,031 |
| Total assets | \$ 105,287,404 | 104,840,413 |

The accompanying notes are an integral part of these statements.

(Continued)

| Liabilities and Net Position | 1995 | 1994 |
|---|-----------------------|--------------------|
| Liabilities: | | |
| Liabilities covered by budgetary resources: | | |
| Intragovernmental liabilities: | | |
| Accounts payable | \$ 2,175,770 | 1,752,301 |
| Collections due to states | 2,488,848 | 2,514,841 |
| Resources transferable to Treasury (note 5) | 1,838,898 | 1,823,743 |
| Miscellaneous receipts held in suspense | 2,194,822 | - |
| Government liabilities: | | |
| Accounts payable | 5,563,356 | 3,504,576 |
| Lease liabilities (note 7) | 173,832 | 329,974 |
| Accrued payroll and benefits | 3,931,998 | 3,816,605 |
| Revenue collected under protest | 7,717,112 | 6,268,145 |
| Total liabilities covered by budgetary resources | 26,084,636 | 20,010,185 |
| Liabilities not covered by budgetary resources: | | |
| Accrued leave | 7,927,860 | 7,460,863 |
| Total liabilities | 34,012,496 | 27,471,048 |
| Net position: | | |
| Unexpended appropriations: | | |
| Unobligated and available | 33,224,040 | 30,501,289 |
| Undelivered orders | 27,576,640 | 27,515,499 |
| Invested capital | 6,348,360 | 8,075,683 |
| Cumulative results of operations | 12,053,728 | 18,737,757 |
| Future funding requirements | (7,927,860) | (7,460,863) |
| Total net position | 71,274,908 | 77,369,365 |
| Total liabilities and net position | \$ 105,287,404 | 104,840,413 |

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Operations and Changes in Net Position

Years ended September 30, 1995 and 1994

| | 1995 | 1994 |
|---|----------------|---------------|
| Revenue and financing sources: | | |
| Appropriated capital used: | | |
| Commission | \$ 165,411,180 | 144,735,202 |
| General Services Administration utility allotment received | — | 711,773 |
| Department of Energy Dam Safety allotment received | 34,744 | 37,176 |
| Collections for states | 2,474,727 | 2,514,841 |
| Revenue from public sources: | | |
| Annual charges and filing fees | 178,990,854 | 206,078,365 |
| Interest and penalties | 589,910 | 113,037 |
| Other revenue and financing sources - reimbursable work agreements: | | |
| Taiwan | 39,605 | 17,009 |
| Intragovernmental - Nuclear Regulatory Commission | 81,888 | 107,675 |
| | 347,622,908 | 354,315,078 |
| Less - receipts returned to Treasury and other agencies | (186,326,006) | (196,295,755) |
| Total revenue and financing sources | 161,296,902 | 158,019,323 |
| Expenses: | | |
| Operating expenses: | | |
| Commission (note 8) | 163,070,632 | 142,998,827 |
| General Services Administration utility allotment used | — | 711,773 |
| Department of Energy Dam Safety allotment used | 34,744 | 37,176 |
| Payments to states | 2,474,727 | 2,514,841 |
| Cost of services provided: | | |
| Taiwan | 39,605 | 17,009 |
| Intragovernmental - Nuclear Regulatory Commission | 81,888 | 107,675 |
| Depreciation | 2,340,548 | 1,736,374 |
| Provision for (recovery of) bad debts | (61,213) | 771,864 |
| Accrued leave, unfunded | 466,997 | 217,072 |
| Total expenses | 168,447,928 | 149,112,611 |
| Excess (deficiency) of revenue and financing sources over total expenses | (7,151,026) | 8,906,712 |
| Add unfunded expenses - accrued leave | 466,997 | 217,072 |
| Excess (deficiency) of revenue and financing sources over funded expenses | \$ (6,684,029) | 9,123,784 |
| Net position, beginning of year | \$ 77,369,365 | 46,835,457 |
| Excess (deficiency) of revenue and financing sources over funded expenses | (6,684,029) | 9,123,784 |
| Add nonoperating changes (note 9) | 589,572 | 21,410,124 |
| Net position, end of year | \$ 71,274,908 | 77,369,365 |

The accompanying notes are an integral part of these statements.

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Cash Flows

Years ended September 30, 1995 and 1994

| | 1995 | 1994 |
|--|----------------|---------------|
| Cash flows from operating activities: | | |
| Excess (deficiency) of revenue and financing sources over total expenses | \$ (7,151,026) | 8,906,712 |
| Adjustments affecting cash flows: | | |
| Appropriated capital used | (167,920,651) | (147,998,992) |
| Accrued leave - unfunded | 466,997 | 217,072 |
| Decrease in accounts receivable | 6,735,971 | 35,602,134 |
| Decrease in employee travel advances | 58,111 | 6,336 |
| Increase (decrease) in accounts payable | 2,482,249 | (2,573,347) |
| Increase in accrued payroll and benefits | 115,393 | 424,259 |
| (Increase) decrease in revenue collected under protest | 1,448,967 | (5,719,217) |
| Decrease in miscellaneous receipts held in suspense | 2,194,822 | - |
| Increase (decrease) in collections due to states | (25,993) | 235,214 |
| Decrease in other funded liabilities | 15,155 | (45,452,428) |
| Depreciation | 2,340,548 | 1,736,374 |
| Provision for (recovery of) bad debts | (61,213) | 771,864 |
| Write-off/loss on disposal of property and equipment | 450,618 | 26,801 |
| Net cash used by operating activities | (158,850,052) | (153,817,218) |
| Cash flows from investing activities: | | |
| Purchases of equipment | (1,063,843) | (3,590,287) |
| Cash flows from financing activities: | | |
| Appropriations (current year warrants) | 166,173,000 | 165,375,000 |
| Recoveries of prior year appropriations | 141,193 | 1,126,700 |
| Transfers of cash from others | 2,667,006 | 3,263,790 |
| Principal payments on capital leases | (156,142) | (228,022) |
| Other changes | (3,979) | (139,303) |
| Net cash provided by financing activities | 168,821,078 | 169,398,165 |
| Net cash provided by operating, investing and financing activities | 8,907,183 | 11,990,660 |
| Fund balances with Treasury and cash, beginning of year | 76,074,380 | 64,083,720 |
| Fund balances with Treasury and cash, end of year | \$ 84,981,563 | 76,074,380 |
| Noncash activities: | | |
| Write-off of equipment (Note 6) | \$ 1,635,014 | - |

The accompanying notes are an integral part of these statements.

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

September 30, 1995 and 1994

(1) Description of Reporting Entity

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

The Commission was created through the Department of Energy's (DOE) *Organization Act* on October 1, 1977. The Commission's predecessor, the Federal Power Commission (FPC), established in 1920, was abolished, and the Commission inherited a significant portion of FPC's energy agenda.

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

The Commission's main legal authority is derived from the *Federal Power Act of 1935 (FPA)*, the *Natural Gas Act of 1938 (NGA)*, the *Natural Gas Policy Act of 1978 (NGPA)*, and the *Public Utility Regulatory Policies Act of 1978 (PURPA)*.

Pipeline and Producer Regulation

NGA, NGPA, the *Outer Continental Shelf Lands Act*, and the *Natural Gas Wellhead Decontrol Act* are the primary laws the Commission administers to oversee the natural gas pipeline and producer industries in the United States. Under NGA, the Commission regulates both the transportation and sale for resale of natural gas in interstate commerce; the transportation of natural gas; and the rates and practices of oil pipeline companies engaged in interstate transportation under the *Interstate Commerce Act (ICA)*.

Electric Utilities

The Commission oversees wholesale electric rates and service standards as well as the transmission of electricity in interstate commerce. The Commission also ensures that wholesale rates charged by utilities are just and reasonable and not unduly discriminatory or preferential. It also reviews utility agreements involving interconnections and power transfers. In addition, the Commission oversees the issuance of certain stock and debt securities, and mergers. Finally, the Commission reviews rates set by the federal power marketing administrations, such as the Bonneville Power Administration, and certifies qualifying small power production and cogeneration facilities.

(Continued)

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

(1) Continued

Hydropower

The Commission's hydroelectric activity, the first work undertaken after Congress passed FPA, includes project licensing, dam safety, project compliance activities, investigation and assessment of headwater benefits, review of project proposals by other federal agencies, and interagency coordination. The Commission's licensing costs are offset by annual charges collected from license holders. The Commission also determines charges for a licensee's use of federal lands, federal dams, and Indian reservations.

Cost Recovery

As described below the Commission recovers 100 percent of its appropriation annually through annual charges and filing fees authorized by the *Omnibus Budget Reconciliation Act of 1986* and other laws.

Annual Charges

The Commission assesses most of its administrative program costs as an annual charge to each regulated entity, regardless of the number or type of services rendered to the particular entity during that year. The annual charge assessed in a fiscal year is based on an estimate of costs to be incurred during that year. Final program costs are determined from year-end accounting reports and time distribution reports by office and program. The difference in assessments that results from estimated versus final program costs is an adjustment to the following fiscal year's assessments. In hydropower regulation, the annual charges include the Commission's program costs as well as the related costs incurred by several other agencies that review the Commission's hydro license applications under Part I of FPA.

Hydropower

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

Implementation – The methods for assessing annual charges to hydropower licensees are codified at 18 Code of Federal Regulations (C.F.R.) Part 11. Costs are prorated based on capacity (municipal projects), on capacity and generation (nonmunicipal projects), or on a flat rate per horsepower under 1000 (minor projects).

(Continued)

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

(1) Continued

Gas, Electric, and Oil

Authority – Section 401 of the *Omnibus Budget Reconciliation Act of 1986* provides that the Commission shall “assess and collect fees and annual charges in any fiscal year in amounts equal to all of the costs incurred by the Commission in that fiscal year.” It further provides that “fees or annual charges assessed shall be computed on the basis of methods that the Commission determines, by rule, to be fair and equitable.”

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

Filing Fees

Filing fees are calculated annually. Regulated entities pay the current fee when filing with the Commission for a specific service. A fee is based on the average time spent to perform the particular type of service and the average cost per employee, including salary, benefits, and indirect costs.

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

Identify the service for which the fee is to be assessed;

Explain why that particular service benefits an identifiable recipient more than it benefits the general public;

Base the fee on as small a category of service as possible;

Demonstrate what direct and indirect costs are incurred by the Commission in rendering the service.

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

(Continued)

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

(1) Continued

Fee structure and procedures are codified in 18 C.F.R. Part 381. Fee methodology was upheld in *Phillips Petroleum Co. v. the Commission* 789 F. 2d 370 (10th Cir. 1986). Fees are updated annually and published in the *Federal Register*.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared to report the financial position and results of operations of the Commission, as required by the *Chief Financial Officers (CFO) Act of 1990*.

The financial statements have been prepared from the books and records of the Commission in accordance with the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Bulletin No. 94-01, except for the Statement of Budget and Actual Expenses which the Commission received OMB's approval to omit, and the Commission's accounting policies, which are summarized in this note.

The statements are therefore different from the financial reports, also prepared by the Commission pursuant to OMB's directives, that are used to monitor and control the Commission's use of budgetary resources.

The financial statements include all activity related to the Commission's appropriation (89X0212), including the budget authority allotted by the Department of Energy (DOE) to other DOE agencies.

Entity assets on the statement of financial position include those assets that the Commission has the authority to use in its operations.

Non-entity assets on the statement of financial position include those assets that result from the Commission's receipt of allotments to be used for other federal agencies or governments which include the General Services Administration, Department of Energy Dam Safety and state governments.

Budgets and Budgetary Accounting

Congress annually adopts a budget appropriation that provides the Commission with authority to use funds from Treasury to meet operating expense requirements. The appropriated funds are not restricted to use in a specific fiscal year. The Commission must return to Treasury all revenue from annual charges and filing fees when received.

(Continued)

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

(2) Continued

Basis of Accounting

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

The financial statements are prepared in accordance with the following hierarchy which constitutes a comprehensive basis of accounting:

Individual standards agreed to and published by the Joint Financial Management Improvement Program Principals (JFMIP), based upon recommendations from the Federal Accounting Standards Advisory Board (FASAB).

Form and content requirements included in OMB Bulletin 94-01, dated November 6, 1993, and subsequent issuances.

Accounting standards contained in agency accounting policy, procedures manuals, and/or related guidance as of March 29, 1991 so long as they are prevalent practices.

Accounting principles published by authoritative standard setting bodies and other authoritative sources (1) in the absence of other guidance in the first three parts of this hierarchy, and (2) if the use of such accounting standards improve the meaningfulness of the financial statements.

Revenue and Other Financing Sources

The Commission receives funds for its operating and capital expenditures through an allotment from DOE. The allotment is recognized as revenue at the time it is used to pay program or administrative expenses (primarily salaries and benefits). An allotment used to acquire property and equipment is recognized as revenue when depreciation on property and equipment is recognized.

The Commission recognizes revenue for hydropower, gas, oil, and electric annual charges when earned. Annual charges are based on estimated current year program costs and adjustments from the prior year. Adjustments from the prior year represent the difference between estimated program costs and actual costs incurred, and are immaterial compared to estimated program costs. The Commission assesses late fee charges when payment is not received on a timely basis. Revenue is recognized for filing fees when received.

(Continued)

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

(2) Continued

Reimbursable work agreement revenue is recognized when earned, i.e., goods have been delivered or services rendered.

Fund Balances with Treasury and Cash

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

Cash balances advanced to imprest fund cashiers totaled \$5,000 and \$10,000 as of September 30, 1995 and 1994, respectively.

Allowance for Doubtful Accounts

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

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. The Commission capitalizes property and equipment purchases with a cost greater than \$5,000, and a total useful life exceeding two or more years. Depreciation is calculated based on an estimated useful life of seven years for all assets, except the local area computer network system and software, which is depreciated over three years. Expenditures for repairs and maintenance are charged to operating expenses as incurred.

Liabilities

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

Revenue Collected Under Protest

Revenue collected under protest represents amounts paid to the Commission under protest until a legal determination can be made. These amounts are recorded as a liability.

(Continued)

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

(2) Continued

Collections for States and Other Agencies

As provided for under Part I of FPA, the Commission increases its annual charges to hydropower licensees to recover Part I costs of other agencies. Additionally, the Commission disburses 50 percent of the fees it collects from licensees for the occupancy and use of public lands to affected states in the year following collection. These collections are deposited directly into Treasury's miscellaneous receipts fund and are recorded as an intragovernmental liability.

Accrued Leave

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

Net Position Accounts

Net position account balances consist of the following components:

Unexpended appropriations – Represent amounts of spending authority that are unobligated, or obligated but not expended, and available to the Commission.

Invested capital – Represents the Commission's cost of property, plant and equipment acquired that has been financed by appropriations less the reduction in investment due to depreciation.

Cumulative results of operations – Represents the net difference between annual charges and amounts returned to Treasury since the inception of the Commission. This component is equal to net accounts receivable from annual charges that will offset future years' appropriations, when collected (see note 4).

Future funding requirements – Represents the amount of appropriated funding that will be needed in future periods to liquidate liabilities incurred through the current fiscal year. Funding for these items is generally received in the year that amounts become due and payable.

(Continued)

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

(2) Continued

Tax Status

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

(3) Fund Balances with Treasury

Fund Balances with Treasury at September 30, 1995 and 1994, consisted of :

| | 1995 | 1994 |
|---|----------------------|-------------------|
| Entity intragovernment assets: | | |
| Appropriated fund balance with Treasury | \$ 72,566,269 | 67,160,572 |
| Revenue collected under protest* | 7,717,112 | 6,268,145 |
| Total | 80,283,381 | 73,428,717 |
| Non-entity intragovernment assets: | | |
| Appropriated fund balance with Treasury | 9,512 | 120,822 |
| Collections due to states | 2,488,848 | 2,514,841 |
| Miscellaneous receipts held in suspense** | 2,194,822 | — |
| Total | 4,693,182 | 2,635,663 |
| Total fund balances with Treasury | \$ 84,976,563 | 76,064,380 |

*The Commission elects to set aside collections of annual charges that are under dispute.

**The U.S. Treasury erroneously credited the Commission's Fund Balance with Treasury account for this amount. The U.S. Treasury is currently reviewing the erroneous deposit, and determining the valid recipient of the funds.

(4) Entity Governmental Accounts Receivable

Entity governmental accounts receivable at September 30, 1995 consisted of :

| | Annual Charges | Other | Total |
|--------------------------------------|----------------------|---------------|-------------------|
| Uncollected billings | \$ 13,145,610 | 13,616 | 13,159,226 |
| Allowance for doubtful accounts | (1,091,882) | (3,565) | (1,095,447) |
| Total net accounts receivable | \$ 12,053,728 | 10,051 | 12,063,779 |

(Continued)

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

(4) Continued

Entity governmental accounts receivable at September 30, 1994, consisted of:

| | Annual Charges | Other | Total |
|---------------------------------|-------------------|-----------|-------------|
| Uncollected billings | \$ 19,890,852 | 228,089 | 20,118,941 |
| Allowance for doubtful accounts | (1,153,095) | (224,562) | (1,377,657) |
| Total net accounts receivable | \$ 18,737,757 | 3,527 | 18,741,284 |

(5) Resources Transferable to Treasury

Resources transferable to Treasury reflect the amount of non-entity accounts receivable that are outstanding as of September 30, 1995 and 1994. Resources transferable to Treasury consist of:

| | 1995 | 1994 |
|--|--------------|-----------|
| Non-entity receivables | \$ 2,375,424 | 2,517,157 |
| Allowance for doubtful non-entity accounts | (536,526) | (693,414) |
| Total resources transferable to Treasury | \$ 1,838,898 | 1,823,743 |

When collected, these receivables are required by law to be transferred to Treasury.

(6) Property and Equipment, Net

Property and equipment, and related accumulated depreciation at September 30, 1995 consisted of:

| | Depreciation Method | Service Life | Acquisition Value | Accumulated Depreciation | Net book Value |
|----------------------------|------------------------|-----------------|----------------------|-----------------------------|-------------------|
| Equipment | Straight-line | 7 years | \$ 6,793,816 | 3,577,571 | 3,216,245 |
| Assets under capital lease | Straight-line | 7 years | 849,285 | 428,469 | 420,816 |
| Local area network | Straight-line | 3 years | 2,499,451 | 1,369,694 | 1,129,757 |
| ADP software | Straight-line | 3 years | 2,303,611 | 722,069 | 1,581,542 |
| Total | — | | \$ 12,446,163 | 6,097,803 | 6,348,360 |

(Continued)

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

(6) Continued

In fiscal year 1995, the Commission wrote off \$1,635,014 of equipment and related accumulated depreciation of \$1,184,396, for those assets no longer in use or those assets capitalized under the Commission's \$5,000 capitalization policy.

Property and equipment, and related accumulated depreciation at September 30, 1994, consisted of:

| | Depreciation Method | Service Life | Acquisition Value | Accumulated Depreciation | Net book Value |
|---|------------------------|-----------------|----------------------|-----------------------------|-------------------|
| Equipment | Straight-line | 7 years | \$ 5,305,088 | 3,095,828 | 2,209,260 |
| Assets under capital lease | Straight-line | 7 years | 1,302,689 | 619,386 | 683,303 |
| Local area network | Straight-line | 3 years | 3,786,107 | 1,226,437 | 2,559,670 |
| ADP software under development by contractor | — | — | 2,623,450 | — | 2,623,450 |
| Total | — | — | \$ 13,017,334 | 4,941,651 | 8,075,683 |

(7) Leases

Capital Leases

The Commission has purchased copiers under capital lease arrangements. Each lease contains a cancellation clause that allows the Commission to remove itself from future liability with a payment of a one-time removal fee ranging from \$300 to \$600. The terms of the capital leases range from 36 to 63 months. The lease agreements provide for transfer of title of the equipment at the expiration of the lease term. Each copier lease contains a monthly maintenance provision which is funded on a current basis and included in the future operating lease disclosures below.

Operating Leases

In addition, the Commission has several operating leases for office equipment maintenance and software licenses with terms that range from 12 to 60 months. At the expiration of the operating lease, title to the equipment remains with the lessor. The monthly cost of each operating lease is expended on a current-year basis.

(Continued)

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

(7) Continued

The future payments due for both capital and operating leases are:

| Fiscal year ending September 30 | Operating Leases | Capital Leases | Total |
|--|---------------------|-------------------|---------|
| 1996 | \$ 142,322 | 106,952 | 249,274 |
| 1997 | 57,480 | 61,386 | 118,866 |
| 1998 | 8,274 | 5,494 | 13,768 |
| Total future payments | \$ 208,076 | 173,832 | 381,908 |
| | | 1995 | 1994 |
| Total capital lease liability: | | | |
| Funded (leases entered into after October 1, 1992) | | \$ 173,832 | 329,974 |

The Commission has not calculated the amount of imputed interest costs implicit in its capital leases because the amount is immaterial.

Building Leases

The General Services Administration (GSA) enters into lease agreements for government buildings and maintains those lease agreements. The Commission pays GSA a standard level users charge for the annual rental of building space. The standard level users charge approximates the commercial rental rates for similar properties. The Commission is not legally a party to any building lease agreements; therefore, the Commission does not disclose future minimum lease payments on buildings.

(Continued)

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

(8) Commission Operating Expenses

Commission operating expenses for fiscal years 1995 and 1994 by object classification were as follows:

| | 1995 | 1994 |
|---|-----------------------|--------------------|
| Personal services and benefits | \$ 101,266,423 | 100,216,710 |
| Travel and transportation | 2,218,270 | 2,158,050 |
| Rental, communications, and utilities | 14,115,259 | 13,901,684 |
| Printing and reproduction | 1,799,449 | 1,470,225 |
| Contractual services | 34,230,249 | 20,800,370 |
| Supplies and materials | 8,083,714 | 3,135,105 |
| Insurance claims and indemnities | 382,014 | 82,892 |
| Expenses incurred by other DOE agencies | 975,254 | 1,233,791 |
| Total operating expenses | \$ 163,070,632 | 142,998,827 |

(9) Nonoperating Changes

Nonoperating changes that affected the net position for fiscal years 1995 and 1994 were:

| | 1995 | 1994 |
|---|----------------------|----------------------|
| Increases: | | |
| Transfers-in: | | |
| Current year appropriations | \$ 166,173,000 | 165,375,000 |
| Transfers of cash from others (allotments received) | 2,667,006 | 3,263,790 |
| Recoveries of prior year appropriations | 141,193 | 1,126,700 |
| Total increases | 168,981,199 | 169,765,490 |
| Decreases: | | |
| Transfers-out: | | |
| Appropriated capital used | (167,920,651) | (147,998,992) |
| Change in future funding requirements | (466,997) | (140,243) |
| Other decreases | (3,979) | (216,131) |
| Total decreases | (168,391,627) | (148,355,366) |
| Net nonoperating changes | \$ 589,572 | 21,410,124 |

(Continued)

FEDERAL ENERGY REGULATORY COMMISSION

Notes to Financial Statements

(10) Pension Expense

Commission employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Employees participating in CSRS contribute 7 percent of their gross pay to the plan, and the Commission makes a matching contribution.

On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect either to join FERS and Social Security or remain in CSRS. FERS offers a savings plan in which the Commission automatically contributes 1 percent of employees' pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, the Commission also contributes the employer's matching share for Social Security.

The actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability of CSRS and FERS is not allocated to individual departments and agencies and is therefore not disclosed by the Commission. Total pension expense for both plans for fiscal years 1995 and 1994 was approximately \$8.3 million each year.

(11) Contingencies

The Commission has been named as defendant in a number of cases currently pending before the courts arising from the ordinary course of business. Management believes, based on the advice of general counsel, that such litigation and claims will be resolved without material effect on the Commission's financial position.

Independent Auditors' Report on Internal Control Structure

The Federal Energy Regulatory Commission
United States Department of Energy:

We have audited the financial statements of the Federal Energy Regulatory Commission (the Commission) as of and for the year ended September 30, 1995, and have issued our report thereon dated December 29, 1995.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

The management of the Commission is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that transactions, including those relating to obligations and costs, are executed in compliance with applicable laws and regulations that could have a direct and material effect on the financial statements and any other laws and regulations that OMB, or the Commission's management have identified as being significant and for which compliance can be objectively measured and evaluated; funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and properly recorded and accounted for to permit the preparation of reliable financial reports in accordance with applicable accounting principles described in note 2 to the financial statements and to maintain accountability over the assets; and data that support reported performance measures are properly recorded and accounted for to permit preparation of reliable and complete performance information. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the Commission for the year ended September 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures, determined if they had been placed in operation, assessed control risk, and performed tests of the control structure. Our consideration included obtaining an understanding of the significant internal control policies and procedures and assessing the level of control risk relevant to (1) all significant cycles, classes of transactions, or account balances; and (2) the performance information control objectives described in the previous paragraph. Our consideration of the internal control structure was conducted to determine our auditing procedures for the purposes of expressing our opinion on the financial statements, to determine whether the internal control structure meets the objectives identified in the previous paragraph, and not provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our evaluation of the controls for performance information was limited to those controls designed to ensure the existence and completeness of the information. With respect to the performance measure control objective, we obtained an understanding of relevant internal control structure policies and procedures designed to permit the preparation of reliable and complete performance information, and we assessed control risk.

Our consideration of the internal control structure policies and procedures would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants and OMB Bulletin 93-06. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited, or material to a performance measure or aggregate of related performance data, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

Included in Exhibit I is the status of prior year findings.

We noted other matters involving the Commission's control structure and its operation that we have reported to the management of the Commission in a separate letter dated December 29, 1995.

This report is intended for the information of the management of the Commission and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Peat Marwick LLP

December 29, 1995

Independent Auditors' Report on Compliance with Laws and Regulations

The Federal Energy Regulatory Commission
United States Department of Energy:

We have audited the financial statements of the Federal Energy Regulatory Commission (the Commission) as of and for the year ended September 30, 1995, and have issued our report thereon dated December 29, 1995.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 93-06, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

Compliance with laws and regulations applicable to the Commission is the responsibility of the management of the Commission. As part of obtaining reasonable assurance that the financial statements are free of material misstatement, we tested compliance with laws and regulations that may directly affect the financial statements and certain other laws and regulations designated by OMB and Department of Energy (DOE), including the *Budget and Accounting Procedures Act of 1950*; *Antideficiency Act*; *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*; *Prompt Payment Act*; *Debt Collection Act*; *Civil Service Reform Act*; *Fair Labor Standards Act*; *Civil Service Retirement Act*; *Federal Employees' Compensation Act*; *Chief Financial Officers (CFO) Act of 1990*; *Cash Management Control Act of 1990*; *Federal Employees' Health Benefits Act*; *Federal Employees' Group Life Insurance Act*; *Federal Property and Administration Services Act of 1949*; *Federal Power Act (FPA)*; and *Department of Energy Organization Act (P.L. 95-91)*. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such laws and regulations. Accordingly, we do not express such an opinion.

As part of our audit, we also obtained an understanding of management's process for evaluating and reporting on internal control and accounting systems as required by FMFIA and compared the Commission's fiscal year 1995 FMFIA reports with the evaluation we conducted of the Commission's internal control structure.

The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

Included in Exhibit I is the status of the prior year findings.

* * * * *

This report is intended for the information of the management of the Commission and the United States Department of Energy. This restriction is not intended to limit the distribution of the report, which is a matter of public record. .

KPMG Peat Marwick LLP

December 29, 1995

FEDERAL ENERGY REGULATORY COMMISSION

Exhibit I - Status of Prior Year Findings

The following is the status of fiscal year 1994 findings reported in the Independents Auditors' Reports on Internal Control Structure and Compliance with Laws and Regulations.

| Issue No. | 1994 Comments | 1994 Recommendations | Commission's Response | Assessment of the Commission's Corrective Action Plan |
|-----------|--|---|---|---|
| 1. | <p><u>Property and Equipment</u></p> <p>The Commission does not follow a reasonable depreciation policy; consistently maintain adequate supporting documentation; write off unusable assets; maintain an adequate schedule of asset information; reconcile physical inventory counts to the system and general ledger; have certain key issues addressed in the policy and procedures guide.</p> | <p>The Commission should: depreciate assets according to policy AD 7-2B; implement procedures on maintaining documentation on asset purchases; write off assets when identified as unusable and ensure all disposed assets are written off; maintain an accurate listing of asset information in all relevant systems; reconcile inventory systems; edit policy and procedures guide.</p> | <p>The Commission plans on addressing all these issues and will take corrective action. An asset listing will be implemented as they move into their new building.</p> | <p>We noted during our FY 95 audit that corrective action has been taken.</p> |
| 2. | <p><u>Recording Accounts Payable</u></p> <p>The Commission records a liability when an obligation is established and does not properly accrue expenses at year end.</p> | <p>The Commission should make separate entries for obligations and accounts payable, and should identify and accrue for all goods and services received at year end.</p> | <p>The Commission has already changed their method of recording obligations and will analyze all offices with outstanding obligations at year end for accruals.</p> | <p>We noted during our FY 95 audit that corrective action has been taken.</p> |
| 3. | <p><u>Automated Data Processing (ADP) Matters</u></p> <p>There is no protection against power outages; there is no cost allocation plan for computer expenses; backups are not done frequently enough or stored off-site quickly enough; the disaster recovery plan has not been tested; password policies and enforcement are weak..</p> | <p>The Commission should: implement backup power generators; implement an activity based costing system; rotate weekly backups off-site without delay; implement a daily backup regimen with off-site storage; test their contingency plan; establish and enforce password policies.</p> | <p>The Commission now has power backup; does not feel cost allocation is cost-beneficial; agreed to move weekly backups off site the Monday after they are performed; performs daily backups but found it was not cost-effective to store them off-site; is coordinating a recovery-plan test and developing a full disaster recovery plan; has begun enforcing stricter password policies.</p> | <p>We noted during our FY 95 audit that either corrective action has been taken or those remaining matters would not be considered reportable conditions by themselves. See Management Letter, dated December 29, 1995.</p> |

FEDERAL ENERGY REGULATORY COMMISSION

Exhibit I continued

| Issue No. | 1994 Comments | 1994 Recommendations | Commission's Comments | Assessment of the Commission's Corrective Action Plan |
|-----------|---|---|--|---|
| 4. | <p><u>Receiving Reports</u></p> <p>Division of Financial Services (DFS) does not collect all receiving reports or match receiving reports to invoices.</p> | <p>DFS should obtain and match all receiving reports to the original invoices before payment.</p> | <p>The Commission now requires all receiving reports to be submitted to DFS and the policy is beginning to catch on.</p> | <p>We noted during our FY 95 audit that corrective action has been taken.</p> |
| 5. | <p><u>Review of Payroll Records</u></p> <p>The Commission does not review payroll information after it is processed by its servicer, the Department of Energy.</p> | <p>The Commission should implement formal procedures requiring review and authorization of the payroll report.</p> | <p>The Commission has written procedures and has distributed them to all offices for implementation.</p> | <p>We noted during our FY 95 audit that corrective action has been taken.</p> |
| 6. | <p><u>Budgetary Controls</u></p> <p>The Commission's budgetary accounting system allows for overriding its budgetary allotments and while these instances are reported and corrections made, neither DFS nor Budget signs the report.</p> | <p>The Commission's accounting system should prevent the overspending of budgetary limits. If not, both DFS and Budget formally review all exceptions and sign the override report.</p> | <p>The Commission is drafting procedures for reviewing the override report to include dual signatures.</p> | <p>We noted during our FY 95 audit that corrective action has been taken.</p> |
| 7. | <p><u>Performance Measures</u></p> <p>The Commission did not report performance measures in the Overview.</p> | <p>The Commission should develop and report on performance measures.</p> | <p>The Commission does have a performance measure it failed to report and is working on developing additional ones.</p> | <p>We noted during our FY 95 audit that corrective action has been taken.</p> |

KPMG Peat Marwick LLP

2001 M Street, N.W.
Washington, DC 20036

December 29, 1995

The Federal Energy Regulatory Commission

We have audited the financial statements for the Federal Energy Regulatory Commission (the Commission) as of and for the year ended September 30, 1995, and have issued our report thereon dated December 29, 1995. In planning and performing our audit of the financial statements of the Commission, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit, we noted certain matters involving the internal control structure and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve the internal control structure or result in other operating efficiencies and are summarized in Exhibit 1.

This report is intended for the information and use of the Commission's management, and the United States Department of Energy. This restriction is not intended to limit the distribution of this report, which is a matter of public record. We would like to take this opportunity to acknowledge the courtesy and assistance extended to us by the management of the Commission during the course of our audit.

KPMG Peat Marwick LLP

**FEDERAL ENERGY REGULATORY COMMISSION
MANAGEMENT LETTER COMMENTS**

Disbursements

Audit Comment

The Commission has implemented a prior year recommendation to cancel invoices once they have been paid by stamping them "PAID" to ensure that invoices are not paid more than once. However, this procedure is not being followed consistently. During our fiscal year 1995 testwork, we noted that 2 of the 10 items tested were not stamped "PAID".

Audit Recommendation

We recommend that the Commission implement appropriate procedures to ensure that all invoices have been stamped "PAID" upon completion.

Auditee Response

Concur. To ensure invoices are not paid more than once, the Commission is in the process of improving controls to cancel invoices once they have been paid.

Automated Data Processing

Audit Comment

In the prior year, we recommended that the Commission test the disaster recovery plan for the Local Area Network (LAN). We noted that in fiscal year 1995, although the Commission was developing a recovery plan test and a full disaster recovery plan, the plan has not been tested.

Audit Recommendation

We recommend that the Commission test their contingency plan.

Auditee Response

Concur. The Commission does have operational backup and recovery procedures in place for the LAN, and procedures for backing up all servers daily, with full backups performed weekly. The weekly backups are kept at an off-site storage facility. The Commission LAN design includes the use of Simple Network Managements Protocol (SNMP) allowing constant management of the network. The Commission also maintains backup hardware equipment, such as servers, in case of failures. The Commission originally planned to develop and implement a comprehensive disaster recovery plan for its LAN by July 1, 1995. This milestone was revised to refocus limited resources on protecting mission-critical applications on the IBM and Hewlett-Packard platforms (no mission-critical applications resided on the LAN), and on completing installation of LAN workstations. The revised date for completing, implementing and testing the comprehensive disaster recovery plan for the Commission LAN is September 30, 1996.

Accounts Payable

Audit Comment

The Commission does not have procedures to check the validity of expenses and liabilities specified by the money managers. In many instances, money managers appear to be over-estimating amounts to accrue in order to guarantee that they will not lose their remaining available funds. We noted 6 instances out of 23 items examined where expenses and liabilities were over-accrued.

In addition, we noted instances where some estimated expenses were accrued for at year-end based on prior month's invoices. However, once actual invoices were received for these accruals, the Commission expensed the entire invoiced amount instead of adjusting for the difference between the estimated accrual and the actual amount. These transactions result in an overstatement of expenses.

Audit Recommendation

We recommend that the Commission verify accrual estimates. This procedure will help to ensure that amounts specified are valid.

We also recommend that the Commission adjust its estimated accruals to actual by reversing the prior period accruals and posting actual invoices.

Auditee Response

Concur. In order to more accurately state projected year end expenses and liabilities, the Commission will institute control procedures to audit the validity of year-end expenses and liabilities specified by money managers. The Commission will also institute procedures to reverse prior period accruals and post actual invoices to ensure a more accurate representation of year-end expenses.

Implementation of Standard General Ledger

Audit Comment

The July 1993 revised Office of Management and Budget (OMB) Circular A-127, *Financial Management Systems (A-127)*, requires Federal agencies to record financial events throughout their financial management systems by implementing the U.S. Treasury's Standard General Ledger (SGL) at the transaction level, effective October 1, 1993. To comply with A-127, agencies must prepare financial reports and record transactions in a manner consistent with SGL rules, and should have supporting transaction detail readily available for SGL accounts.

The Department of Energy (the Department) field offices use the Departmental Integrated Standardized Accounting System (DISCAS) to process accounting transactions. DISCAS information is transmitted to the Department's Financial Information System (FIS) which summarizes and reports Department-wide financial information. Both DISCAS and FIS utilize the Department's chart of accounts rather than SGL accounts. The Department has prepared a program that crosswalks FIS amounts to the appropriate SGL accounts, however, the use of a crosswalk does not comply with the requirements to implement the SGL at the transaction level.

The Department intends to convert DISCAS data fields to utilize SGL account numbers, which would then provide SGL data at the transaction level. However, due to shortages of programming personnel and funding, the Department is unable to determine when the DISCAS modifications will be completed.

Audit Recommendation

The Department should complete modifications in its Federal financial systems to satisfy the SGL requirements as soon as possible.

Auditee Response

We concur that we have not implemented SGL at the transaction level as required by OMB Circular A-127, *Financial Management Systems*. Our plan has always been to complete this implementation with the implementation of the Management Analysis Reporting System (MARS) which has been delayed due to budget constraints. Phase II of MARS has been implemented in January 1996. Transaction level implementation will occur in Phase III of MARS. Since we cannot determine when Phase III of MARS will be implemented, we are unable to determine the date for transaction level SGL implementation.