Federal Energy Regulatory Commission

Fiscal Year 2018 Agency Financial Report

November 2018

Chairman Neil Chatterjee

FEDERAL ENERGY REGULATORY COMMISSION
Washington, DC 20426

OFFICE OF THE CHAIRMAN

Letter from Chairman Chatterjee

I am pleased to present the Federal Energy Regulatory Commission (Commission) Agency Financial Report for fiscal year 2018. This report was prepared in accordance with the guidelines set forth in the Office of Management and Budget Circular No. A-136.

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

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

Sincerely,

Neil Chatterjee
Chairman
Federal Energy Regulatory Commission
November 6, 2018

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INTRODUCTION (Unaudited)

In accordance with the guidelines set forth in the Office of Management and Budget (OMB) Circular No. A-136 and Section 230 of Circular No. A-11, this report presents the Federal Energy Regulatory Commission's (the Commission, FERC) fiscal years (FY) 2018 and 2017 audited annual financial statements and program performance report. The financial section includes the Commission's audited balance sheets, statements of net cost, changes in net position, budgetary resources, custodial activity, and notes to the financial statements. Additionally, this report includes an overview of the Commission, including its mission and organizational structure.

This Agency Financial Report (AFR) serves as a guide to the Commission's key initiatives and activities during FY 2018. Approximately 1,428 full time equivalents (FTEs) carried out the Commission's mission in FY 2018 using an appropriation of $367,600,000.

The Commission has chosen to produce an AFR and Annual Performance Report (APR). The Commission will include its FY 2018 Annual Performance Report with its Congressional Budget Justification and will post it on the Commission's web site at www.ferc.gov.

ORGANIZATIONAL STRUCTURE (Unaudited)

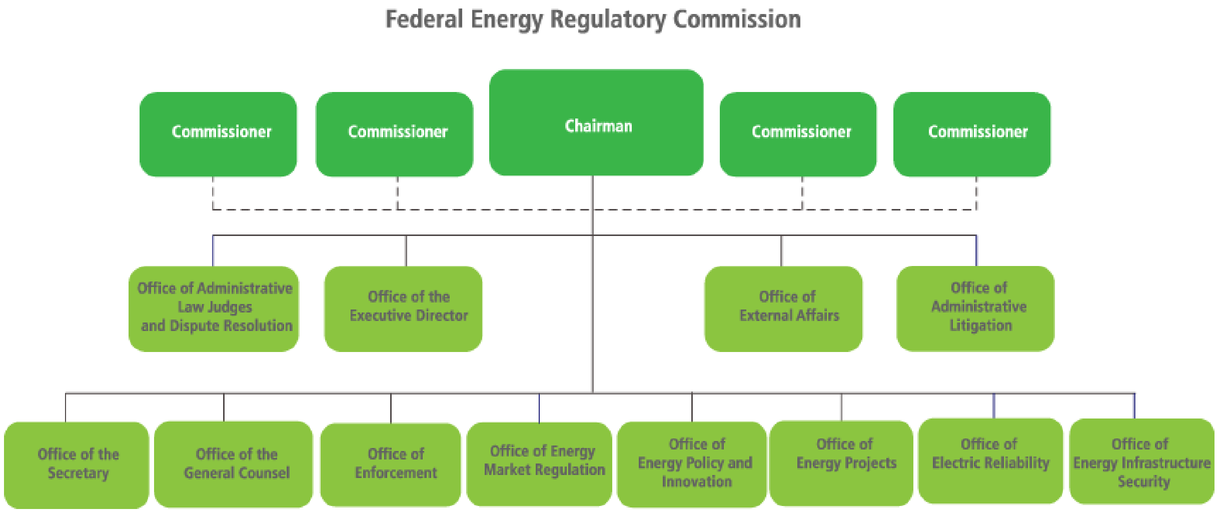
The Federal Energy Regulatory Commission is an independent regulatory agency within the U.S. Department of Energy (DOE). The Commission's statutory authority centers on major aspects of the Nation's wholesale electric, natural gas, hydroelectric, and oil pipeline industries.

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

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

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

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



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

The Office of Energy Market Regulation (OEMR)
Analyzes flings submitted by electric utilities and natural gas and oil pipelines to ensure that rates, terms, and conditions of service are just and reasonable and not unduly discriminatory or preferential. OEMR also analyzes flings submitted by the Electric Reliability Organization (ERO) dealing with its budget, rules of procedure, and bylaws.

The Office of Energy Policy and Innovation (OEPI)
Provides leadership in the development of policies and regulations that advance the goals of the Commission, including policies to ensure the efficient development and use of transmission, generation, storage and emerging technologies, and wholesale energy and other jurisdictional markets. OEPI undertakes policy and quantitative analysis and conducts outreach with a range of entities.

The Office of Administrative Litigation (OAL)
Advances the public interest in cases set for hearing by providing expert and independent analyses, building a full record, and leading negotiations to achieve beneficial settlements.

The Office of the Executive Director (OED)
Provides administrative support services to the Commission including human resources, procurement, information technology, organizational management, financial, and logistics.

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

The Office of Enforcement (OE)
Protects customers by conducting oversight of energy markets, identifying and remedying market problems in a timely manner, assuring compliance with rules and regulations, and detecting and combating market manipulation.

The Office of Energy Projects (OEP)
Fosters economic and environmental benefits for the nation through the approval and oversight of hydroelectric, natural gas pipeline, natural gas storage, and liquefied natural gas projects that are in the public interest.

The Office of Energy Infrastructure Security (OEIS)
Identifies and—working with other governmental agencies, industry, and other stakeholders—seeks comprehensive solutions to potential threats to FERC-jurisdictional infrastructure from cyber and physical attacks, including geomagnetic disturbance and electromagnetic pulse events.

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

The Office of Administrative Law Judges and Dispute Resolution (OALJDR)
Conducts trial-type hearings and issues initial decisions to develop an evidentiary record in contested cases, as directed by the Commission. OALJDR also assists interested parties engaged in disputes to achieve consensual decision making through services such as mediation, negotiation, conciliation, arbitration, and facilitation.

The Office of External Affairs (OEA)
Is responsible for communications and public relations of the Commission. OEA provides informational and educational services to Congress; federal, state and local governments; the news media and the public; regulated industries; and consumer and public interest groups. This office is also the Commission's liaison with foreign governments.

FULL COST RECOVERY (Unaudited)

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

PROGRAM PERFORMANCE OVERVIEW (Unaudited)

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

On October 1, 2018, the Commission submitted to Congress its updated Strategic Plan which will serve as a guide through fiscal year 2022. The full Strategic Plan can be found at http://www.ferc.gov.

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

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

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

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

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

FERC accomplishes a significant portion of its work to establish just, reasonable, and not unduly discriminatory or preferential rates, terms, and conditions of service through the review of rates and tariff provisions and other requests for FERC action from regulated entities and interested stakeholders. In FY 2018, FERC received more than 7,900 such filings. FERC carefully assesses each of these filings and responsive pleadings, issuing orders on the merits of many of these filings without further procedures. However, in other instances, FERC determines that there are issues of material fact that necessitate a trial-type evidentiary hearing or that other procedures are needed to augment the factual record on which the Commission will base its decision.

Where FERC determines that additional procedures are needed, it also recognizes the value of resolving issues through consensual means where possible and thus encourages parties to the proceeding to explore settlement. Under the auspices of an administrative law judge who oversees negotiations, Commission trial staff take a lead role in facilitating the settlement of matters that the Commission has set for hearing. Settlement negotiations frequently take months, often involve numerous highly technical issues, and require a balancing of interests. Settling cases benefits energy consumers as it reduces the time, expense, and resources that the Commission and outside parties would otherwise devote to litigating these cases. In FY 2018, FERC's administrative law judges held 277 settlement conferences, and 82 full or partial settlements were certified to the Commission and an additional 3 settlements were reported to the Commission. Savings to ratepayers from settlements that occurred in FY 2018 totaled approximately $807 million stated on an annual basis ($210 million in electric utility matters and $597 million in natural gas pipeline and oil pipeline matters). The bulk of these savings to energy customers will continue in future years, until a subsequent rate case is filed.

In instances where settlement is not possible, FERC's administrative law judges conduct on-the-record hearings and issue initial decisions that are presented to the Commission for review. In preparation for hearing, parties and Commission trial staff conduct comprehensive discovery to develop facts relevant to the issues set for hearing. After discovery is complete, parties and Commission trial staff file expert testimony and exhibits. This testimony forms the record relied upon by the presiding judge and Commission for their subsequent decisions. The hearing itself allows for cross-examination of these expert witnesses. During FY 2018, there were a total of 26 days of hearings that led to four initial decisions, creating a detailed administrative record for further consideration by the Commission. This record is further supplemented by briefs on and opposing exceptions that may be filed by Commission trial staff and the parties.

FERC's work on several issues illustrates the benefits to the public that derive from FERC's work to establish rules and policy that result in just, reasonable, and not unduly discriminatory or preferential rates, terms, and conditions of jurisdictional service. Over the last several years, FERC has placed a high priority on exploring the interdependencies of the electric and natural gas industries. Due to historically low natural gas prices and other factors, the electric industry has become increasingly reliant on natural gas as a fuel for generation of electricity. Recognizing this trend, and after conducting extensive public outreach and building on prior work, FERC issued two final rules. The first[1] allowed for communications between transmission operators in the electric and natural gas industries to help both systems operate reliably and

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[1] *Communication of Operational Information Between Natural Gas Pipelines and Electric Transmission Operators*, Order No. 787, 145 FERC ¶ 61,134 (2013).

effectively. The second final rule[2] improved the coordination and scheduling of interstate natural gas pipeline capacity with organized wholesale electricity markets. FERC also issued a final rule[3] which amended the Commission's regulations to incorporate by reference the Version 3.0 business practice standards adopted by the North American Energy Standards Board's (NAESB) Wholesale Gas Quadrant to revise the scheduling and nomination timelines for interstate natural gas pipelines. As part of the implementation of those reforms NAESB filed reports on the development of new Wholesale Gas Quadrant standards as requested by the Commission. In September 2017, NAESB filed a report which set forth additional Wholesale Gas Quadrant standards that NAESB had adopted, and in August 2018 the Commission issued a notice of proposed rulemaking which would incorporate those new standards into its regulations. These efforts have facilitated greater gas-electric scheduling coordination and greater situational awareness on the part of the operators of the bulk power system, in turn promoting more reliable operation of that system.

The Commission has also taken several actions to ensure rates remained just and reasonable in light of the landmark Tax Cuts and Jobs Act of 2017 (Tax Cuts and Jobs Act). The Tax Cuts and Jobs Act reduces the federal corporate income tax rate from a maximum 35 percent rate to a flat 21 percent rate, effective January 1, 2018. This means that all public utilities, interstate natural gas pipelines, and oil pipelines subject to federal corporate income taxes will compute those taxes owed to the Internal Revenue Service based on a flat 21 percent tax rate. With respect to rates of electric transmission service, the Commission issued two show-cause orders pursuant to section 206 of the FPA involving 48 electric public utilities whose transmission tariffs specifically reference tax rates of 35 percent. The show-cause orders directed the companies to propose revisions to their transmission tariffs to reflect the new, lower tax rate or show why they should not do so. The show-cause responses were filed on May 15, 2018 and the Commission is currently processing those filings.

Also, in March 2018, the Commission issued a Notice of Proposed Rulemaking (NOPR) that would allow the Commission to determine which pipelines under the Natural Gas Act (NGA) may be collecting unjust and unreasonable rates in light of the Tax Cuts and Jobs Act. The NOPR also addressed the impacts of the Commission's March 2018 revised policy statement related to income tax allowances for master limited partnerships, stating it no longer will allow master limited partnership interstate natural gas and oil pipelines to recover an income tax allowance in cost-of-service rates.

In July 2018, the Commission issued the Final Rule in Order No. 849. Among other things, Order No. 849 required interstate natural gas pipelines, with some exceptions, to file a one-time report, FERC Form No. 501-G, to provide an estimate of the pipeline's return on equity before and after the new tax law and changes to the Commission's income tax allowance policies. In addition to requiring the filing the one-time report, Order No. 849 established several filing options for pipelines to address changes to the pipelines' revenue requirements as a result of the tax reductions, including making a limited NGA section 4 filing to reduce rates to reflect the reduced tax rates or committing to file either a prepackaged uncontested rate settlement or a general NGA section 4 rate case by December 31, 2018. Order No. 849 established a phased compliance filing schedule, with pipelines filing on October 11, 2018, November 8, 2018, or December 6, 2018.

The Commission also issued a Notice of Inquiry (NOI) in March 2018 seeking comments to address other issues related to changes in the income tax rates for the electric public utilities, interstate natural gas companies and

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[2] *Coordination of the Scheduling Processes of Interstate Natural Gas Pipelines and Public Utilities*, Order No. 809, 151 FERC ¶ 61,049 (2015).

[3] *Standards for Business Practices of Interstate Natural Gas Pipelines; Coordination of the Scheduling Processes of Interstate Natural Gas Pipelines and Public Utilities*, Order No. 587-W, 153 FERC ¶ 61,061 (2015).

oil pipeline companies that it regulates. The Commission is currently reviewing the comments received in response to the NOI, which were due May 21, 2018.

The Commission further ensures just and reasonable rates by conducting annual in-depth reviews of natural gas pipelines' financial reports to determine whether the pipelines' returns are just and reasonable. Beginning in FY 2010, the Commission has initiated 18 NGA section 5 actions to determine the justness and reasonableness of existing transportation and storage rates including two in FY 2018.

Another example of the Commission's work to ensure just, reasonable, and not unduly discriminatory or preferential rates, terms, and conditions of service in wholesale markets is the continued effort to ensure that resources that are technically capable of providing services needed in markets operated by regional transmission organizations and independent system operators (RTO/ISO) have the opportunity to do so. Following a November 2016 technical conference, in February 2017 the Commission issued a notice of proposed rulemaking (NOPR) on participation in organized wholesale electric markets by electric storage resources and distributed energy resource aggregations. On February 15, 2018, the Commission issued a final rule, Order No. 841, requiring each RTO/ISO to establish a participation model with market rules that facilitate the participation of electric storage resources in the organized wholesale electric markets, recognizing the physical and operational characteristics of these resources.[4] In Order No. 841, the Commission did not take action on the distributed energy resource aggregation reforms proposed in the February 2017 NOPR and decided to further evaluate the participation of distributed energy resource aggregations through a separate technical conference. The Commission held a technical conference in April 2018 to discuss the participation of distributed energy resource aggregations in RTOs and ISOs, and to more broadly discuss the potential effects of distributed energy resources on the bulk power system. The Commission received post-technical conference comments, and has begun reviewing them.

FERC also continued its efforts to improve price formation in the energy and ancillary services markets operated by RTOs and ISOs. Proper price formation promotes just and reasonable rates in those markets. In FY 2018, the Commission accepted filings in compliance with Order No. 825, which required that each RTO/ISO align settlement and dispatch intervals for energy, operating reserves, and intertie transactions; and that each RTO/ISO trigger shortage pricing for any dispatch interval during which a shortage of energy or operating reserves occurs.

Further, in FY 2018 the Commission continued to consider filings in compliance with Order No. 831, which addresses offer caps in markets operated by RTOs/ISOs. Specifically, the rule requires that each RTO/ISO: (1) cap each resource's incremental energy offer at the higher of $1,000/MWh or that resource's verified cost-based incremental energy offer; and (2) cap verified cost-based incremental energy offers at $2,000/MWh when calculating locational marginal prices. The rule will ensure that (i) clearing prices better reflect the marginal cost of production, and (ii) a resource can recoup its short-run marginal costs when those costs exceed the offer cap.

Additionally, in December 2017 the Commission followed the NOPR it issued on pricing of fast-start resources with three targeted FPA section 206 proceedings involving PJM Interconnection (PJM), the New York Independent System Operator (NYISO), and the Southwest Power Pool. And in April 2018, the Commission followed the NOPR it issued on uplift allocation and transparency with Order No. 844.[5] This final rule required organized markets to post certain reports to provide transparency to actions, and

[4] *Electric Storage Participation in Markets Operated by Regional Transmission Organizations and Independent System Operators*, Order No. 841, 162 FERC ¶ 61,127 (2018).
[5] *Uplift Cost Allocation and Transparency in Markets Operated by Regional Transmission Organizations and Independent System Operators*, Order No. 844, 83 FR 18,134 (Apr. 25, 2018), FERC Stats. & Regs. ¶ 31,401 (2018).

related payments, that are needed to meet system needs but that are not reflected in prices. This final rule also withdrew an earlier proposal from the Commission on uplift allocation.

In furtherance of open access to transmission to ensure just, reasonable, and not unduly discriminatory or preferential rates, terms, and conditions of jurisdictional transmission service, the Commission issued a final rule to require reforms to large generator interconnection processes aimed at improving certainty for interconnection customers, promoting more informed interconnection decisions, and enhancing the efficient use of interconnection facilities in April 2018.[6] Also that month, in a related proceeding, Commission staff convened a technical conference on affected systems coordination for interconnection requests.[7] Separately, the Commission continues to evaluate metrics to assess transmission investment patterns based on the Commission's existing policies and to inform whether additional Commission action would be appropriate to facilitate development of more efficient or cost-effective transmission facilities. In October 2017, Commission staff issued a report on Transmission Investment Metrics.

The Commission took steps to ensure that the rates in the wholesale capacity markets operated by ISO New England Inc. (ISO-NE), NYISO and PJM (i.e., the RTO for all or parts of 13 eastern and mid-western states and the District of Columbia) remain just, reasonable, and not unduly discriminatory or preferential in light of states' support for certain generating resources. In March 2018, the Commission approved revisions to ISO-NE's Forward Capacity Market to better incorporate state-sponsored resources into that market while limiting price impacts. In June 2018, in response to a proposal by PJM, the Commission instituted a paper hearing to evaluate how to address the wholesale market impact of states' support for certain generating resources.

In FY 2018, FERC also took notable steps with respect to developments in specific regions. For example, in February 2018, FERC approved a package of modifications to improve market efficiency developed by the California Independent System Operator (CAISO) for the Western Energy Imbalance Market (EIM). The action taken by FERC improved market efficiency outcomes by automating manual processes, providing greater transparency into bilateral transactions and enabling increased participation in both the EIM and CAISO markets.

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

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

Today's evolving natural gas and electric markets require increasingly sophisticated data collection and analysis for effective oversight. Both natural gas and electric energy are traded in a variety of ways in a variety of markets, which range from extremely complex transactions that require in-depth and time consuming data analysis to relatively straightforward one-to-one interactions. In this context, FERC's market oversight and enforcement program takes proactive steps to detect problems in energy markets and to reduce the probability that violations of applicable laws, FERC's regulations, or market rules will occur. FERC

[6] *Reform of Generator Interconnection Procedures and Agreements*, Order No. 845, 83 *Fed. Reg.* 21,342 (2018) (cross-referenced at 163 FERC ¶ 61,043).
[7] Reform of Affected System Coordination in the Generator Interconnection Process Technical Conference (AD18-8-000) (April 3-4, 2018).

uses a balanced approach to market oversight and enforcement, aspects of which include conducting surveillance and analysis of market trends and data; promoting jurisdictional entities' internal compliance programs; employing robust audit and investigation programs; and, when appropriate, exercising the Commission's civil penalty authority to deter violations. The Commission provides market transparency by ensuring that the public and market participants have access to certain key market data so that market efficiency is promoted and anomalies and areas of concern may be identified and reported.

FERC continues to improve its ability to identify market misbehavior as it happens using algorithmic screening methods that Commission staff developed, which incorporate public and non-public data from multiple sources, including data from the RTOs and ISOs, Intercontinental Exchange, and other federal agencies. In FY 2018, FERC processed over 300,000 surveillance screen alerts, which resulted in thirty-seven electric inquiries and eighteen gas inquiries. Five of those inquiries (one relating to gas activities and four relating to electric activities) were referred for investigation from FERC's surveillance activities.

In furtherance of its enforcement efforts, in FY 2018, FERC opened 24 new investigations, closed 23 pending investigations with no action, and negotiated five settlement agreements, which were approved by the Commission. The respondents agreed to pay a total of $83 million in civil penalties and disgorgement of $67 million. Two of these matters involved market manipulation and the other three involved violations of tariff provisions and Commission regulations. Two of these settlements resolved matters that had been pending in federal district court.

FERC currently has pending in federal district court three proceedings seeking approximately $89.6 million in civil penalties and $9.0 million in unjust profits. With respect to one additional proceeding, an Administrative Law Judge previously concluded that the company engaged in market manipulation and made factual findings regarding $20.1 million in civil penalties and $0.2 million in unjust profits. Following additional briefings the Commission upheld that decision and the subject sought rehearing, which is still pending before the Commission.

Finally, in FY 2018 FERC commenced six audits and completed fourteen audits of oil pipeline, public utility, and natural gas companies. These FERC audits were selected using a risk-based approach and cover a variety of audit scope areas. The resulting audit reports are available to the public. The audits resulted in 209 recommendations for corrective action and improved compliance, and directed $36 million in refunds and $150 million in other recoveries. The audit recommendations directed improvements to and compliance with the audited companies' internal processes and procedures, financial reporting for accuracy and transparency, web site postings, and efficiency and cost-effectiveness of operations. FERC ensured that 98 percent of these recommendations were implemented within six months of the audit report date. Collectively, these refunds, recommendations, and prevented charges (i.e., savings), and procedural and process enhancements benefit ratepayers and market participants.

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

The nation's demand for energy continues to grow, requiring the expansion of the infrastructure that provides that energy. Infrastructure for which FERC approval is required includes interstate natural gas pipelines and storage projects, LNG facilities, and non-federal hydropower facilities. These facilities are critical to meet the nation's growing energy needs. Ensuring the development of safe, reliable, and secure infrastructure that provides energy for consumers at a reasonable cost is a significant, multifaceted challenge. Because of its many uses, particularly as a fuel for electric power generation, the demand for natural gas in the United States is at its highest levels on record and natural gas production continues to increase due to the development of shale gas. Interest in developing hydropower projects has also increased. Hydropower facilities provide renewable, domestic energy. FERC's role as an independent regulatory agency includes both the review of infrastructure projects as well as the minimization of risks to the public in the operation of the infrastructure. To promote safe, reliable, and secure infrastructure, FERC must ensure the sustainability and safety of non-federal hydropower projects and LNG facilities throughout their entire life cycle; oversee the development and review of, as well as compliance with, mandatory reliability and security standards for the bulk-power system; and help to secure the infrastructure from cyber and physical attacks.

OBJECTIVE 2.1: Facilitate benefits to the nation through the review of natural gas and hydropower infrastructure proposals.

FERC is charged with authorizing the construction and operation of interstate natural gas pipelines and storage projects, LNG facilities, and non-federal hydropower projects. With the rising demand for natural gas and hydropower comes increased infrastructure construction, making it all the more important that FERC oversees the private sector development of safe, reliable, and secure infrastructure in a way that fosters economic and environmental benefits for the nation. FERC achieves this objective through the review of applications to construct, operate, or modify natural gas and hydropower infrastructure by ensuring that facilities are constructed and operated in compliance with the conditions of FERC orders. FERC's review of proposed projects must balance a range of factors such as competing interests, legal requirements, and environmental impacts. FERC also coordinates with other agencies, as appropriate, to consider issues related to environmental statutes such as the Endangered Species Act, National Historic Preservation Act, Coastal Zone Management Act, and Clean Water Act. In exercising its authority, FERC ensures the development and operation of safe, reliable, and secure infrastructure while ensuring that impacts are mitigated to acceptable levels.

During the past year, the Commission issued approximately 66 environmental documents for major pipeline, LNG, and hydropower projects; 14 license orders authorizing 255 MW of generating capacity; 25 preliminary permits; two orders on permit extension requests; nine study plan determinations; seven study plan modification determinations; two production tax credit filings; 16 qualifying conduits; and seven surrenders.

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

FERC is also charged with ensuring that energy infrastructure, once authorized, continues to operate safely and reliably. Failure of LNG or hydropower infrastructure due to structural issues, unsafe operations, natural disasters, cyber and physical attacks, or other hazards can result in loss of life as well as environmental and economic consequences. In addition, the Energy Policy Act of 2005 amended the FPA to give FERC authority with respect to reliability standards for the bulk-power system and oversight of an Electric Reliability Organization (ERO). In fulfilling these responsibilities, it is critical that FERC minimize risks to the public associated with FERC-jurisdictional energy infrastructure FERC achieves this objective through a range of activities. FERC conducts timely safety reviews and inspections with rigorous requirements, thereby advancing the safety of non-federal hydropower projects and LNG facilities throughout their entire life cycle. FERC also oversees the development and review of mandatory reliability and security standards for the bulk-power system, as well as compliance with these standards. In addition, FERC collaborates with regulated entities and other federal and state governmental agencies to identify and seek solutions to cyber and physical threats to FERC-jurisdictional infrastructure, facilitating proactive efforts that prevent or mitigate loss or damage.

During the last year, the Commission oversaw the completion of approximately 45 dam safety remediation projects, which includes the Oroville Spillway work. Potential dam safety issues were identified at over 140 dams through Part 12D inspections, staff field inspections, through licensees' staff, or other means; and dam safety investigations were closed out at 75 dams resulting in minimized risk to the public. The Commission conducted approximately 2,300 dam safety engineering inspections, 9,800 engineering evaluations studies, 175 independent inspection reports, and tested the effectiveness of over 450 Emergency Action Plans through Table Top Exercises, Licensee staff drills and functional tests. The Commission also completed 16 LNG Facility Operational Inspections/Technical Reviews and 32 LNG Project construction inspections. The Commission also worked cooperatively with PHMSA to develop a MOU to significantly improve the Commission's LNG program to ensure the efficient processing of the current/future LNG export project workload and to ensure that the program meets regulatory responsibilities regarding hazard modeling. These improvements will immediately expedite the reviews for the 14 pending LNG projects before the Commission.

FERC also oversees the development and review of, as well as compliance with, mandatory reliability and security standards for the bulk power system. In fulfilling this responsibility, FERC analyzes standards proposed by the Electric Reliability Organization (ERO) to determine whether those standards support the reliable operation of the grid. FERC reviewed and approved sequential versions of the ERO's Critical Infrastructure Protection reliability standards, which focus on cyber security. In addition, FERC has identified related issues that warrant further consideration.

Once FERC approves mandatory reliability and security standards for the bulk power system, FERC enforces and oversees the enforcement of those standards by the ERO as they apply to users, owners, and operators of the bulk power system. In this role, FERC oversees audits, investigations, and proposed penalties by the ERO and the ERO Regional Entities to help ensure that their efforts will result in strong compliance with mandatory standards. FERC also reviews major blackouts to determine whether standards were violated or should be changed to help prevent future blackouts. In FY 2018, FERC produced a joint report, Blackstart Resources Availability, with the ERO and the ERO Regional Entities, focused on the availability of blackstart resources, the potential impact of recent changes in the resources mix to blackstart, and the manner in which such changes could be mitigated. The joint study also assessed blackstart resource testing under anticipated conditions to ensure these resources can effectively restore the bulk power system following a widespread outage.

In FY 2018, the Commission worked with the ERO and the ERO Regional Entities to conduct audits of compliance with the CIP Version 5, Critical Infrastructure Protection Reliability Standards, and Reliability Standard CIP-014-2, pertaining to physical security of critical assets. The first Staff Report on Lessons Learned from the Commission-Led CIP Version 5 reliability audits was also issued in FY 2018. The staff report is an anonymized summary report that informs the regulated community and the public of lessons learned from the audits, including insights into the cybersecurity and CIP compliance issues encountered during the audits of the registered entities. The Staff Report provides information and recommendations to the ERO, the ERO Regional Entities, and registered entities that is useful in the assessments of risk, compliance, and overall cybersecurity.

In addition to this responsibility, FERC actively coordinates with its federal partners, states, and regulated entities to create awareness of threats, activities, and capabilities of adversaries that may initiate a cyber or physical attack on FERC jurisdictional energy infrastructure. With cyber and physical security threats becoming increasingly frequent and sophisticated, an agile and focused approach provides an important complement to FERC's related responsibilities for both regulatory requirements and enforcement. In FY 2018, FERC coordinated 18 classified and unclassified briefings with its government partners and industry stakeholders to share cyber and physical security threat information and mitigation measures. Further, in FY 2018, FERC performed 7 on-site IT/OT (information technology/operational technology) network reviews at the request of energy facility owners to identify vulnerabilities and suggest best practice mitigation measures, as appropriate.

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

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

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

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

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

OBJECTIVE 3.1: Manage resources effectively through an engaged workforce.

The Commission continues to prioritize resource allocations and make prudent investments to support specific program activities and challenges. Federal statutes require the Commission to recover its operating costs from the entities it regulates. The Commission must do this in a manner that avoids unnecessarily increasing the cost of energy to consumers. Given these considerations, the Commission must continue to use its resources in an effective and efficient manner. The Commission achieved notable results in FY 2018 relative to the effective management of its resources. In FY 2018, the Commission collected over $375.5 million in Congressional appropriation-offsetting collections/receipts during the fiscal year and obtained its 25th consecutive unmodified opinion on its financial statements. The Commission paid 99 percent of its invoices in accordance with timeframes prescribed by the Prompt Payment Act, with an error rate of less than 1 percent.

In meeting its fiduciary responsibilities, the Commission made investments in its human capital, information and communications technology, and physical infrastructure. These investments will facilitate mission accomplishment while providing measurable efficiencies in future operating cycles.

Specifically, the Commission provided innovative information technologies solutions resulting in: improved user access to network resources and mobility devices; more reliable switches and storage for the Commissions official system of records for submittals from industry known as eLibrary; improved disaster recovery operations; tools to collect and interpret logs from FERC's various IT infrastructure devices; an improved intranet including 331 website enhancements for productivity/time savings, knowledge management, automation of business processes, improved document/data/records management, and performance measures reports across FERC demonstrating continuous use of technology to save resources and improve decision making FERC wide; better reports to support gas filings; an upgraded enterprise back up system; and increased optimization of the wide area network in two regional offices.

In FY 2014, with Congressional approval, the Commission began an effort to meet new space standards prescribed by the General Services Administration (GSA). To this end, the Commission began a modernization project that will consolidate occupancy within its Headquarters building by vacating approximately 52,000 square feet, or 12 percent of existing occupancy. The project plan includes relocating employees currently located at 1100 First Street back to the Commission's Headquarters building. This overall project will require considerable effort and is expected to conclude in FY 2022. In FY 2017, the Commission, partnering with GSA, completed swing space construction that will allow for renovations to take place in the Commission's Headquarters building. In FY 2018, a designated number of Commission staff occupied the newly constructed swing space. The Commission is now positioned to begin construction in the Headquarters building, which is expected to begin in FY 2019.

The Commission continues to sustain its efforts to be an employer of choice. With this objective in mind, the Commission recognizes that a model regulatory organization must ensure that its employees are equipped with the requisite tools and services they need to accomplish the mission. In FY 2017, Federal Employee Viewpoint Survey (FEVS) results showed that the Commission was one of the top agencies in the federal government, ranking first out of mid-sized agencies in the Best Places to Work in the Federal Government survey, according to the Partnership for Public Service rankings.

The Commission is building on the positive opinions expressed by employees during the previous survey period. In FY 2018, the Commission engaged its employees in discussions about agency survey results. Program offices established focus group sessions to discuss strengths and growth opportunities. Agency efforts in this regard further enhanced the importance of the survey and 81 percent of all eligible employees participated in the FY 2018 survey. This marks the second highest rate of participation at the Commission since the Office of Personnel Management began administering the survey in 2002. In FY 2018, results showed that the Commission improved in all measured indices, including a 1 percent increase in the Global Satisfaction Index and a 1 percent increase in the Employee Engagement Index.

To address feedback from the survey and help mitigate the potential loss of 30 percent of Commission staff via retirement, the Commission is investing in developing training programs to mitigate the loss of institutional knowledge. These training programs will preserve corporate knowledge to ensure employees possess the specialized skills, knowledge, and ability required to successfully support the agency's mission. To this end, the Commission has teamed with a capable consultant that will assist the agency in the design of development programs to support proficiency in the mission-related skills and abilities.

Additionally, Commission management conducted extensive analyses of recruiting and employment data to formulate strategic hiring plans. Through these plans the agency mitigated critical staffing vulnerabilities ahead of forecasted attrition. Additionally, this process enabled the Commission to target competencies required to meet the demands of new and evolving challenges to our mission.

In FY 2018, the Commission hired 125 employees, comprising approximately 8.5 percent of the agency's established staffing level. While the Commission experienced an attrition rate of 8 percent during the fiscal year, it filled vacancies, on average, within 49 days, which exceeded the established target average by 11 percent.

OBJECTIVE 3.2: Facilitate public trust and understanding of Commission activities by promoting transparency, open communication, and a high standard of ethics.

Facilitating understanding of how the Commission carries out its responsibilities and maintaining public trust in the Commission are important components of the Commission's commitment to organizational excellence. Trust and understanding increase acceptance of FERC decisions and reduce the potential for the public to dispute FERC rules and regulations, thus enabling the creation and enforcement of policy. The Commission achieves this objective by maintaining processes and public information services that promote transparency and open communication with respect to the conduct of the Commission's business. FERC's proactive communication, along with an online document repository and timely responses to inquiries, foster awareness and understanding of the Commission's activities.

The Commission's FERC.gov web page is its primary communication tool. All Commission announcements, updates and news releases are posted there; the web page is the primary feed for Commission social media sites on Facebook, Twitter and LinkedIn. The number of FERC's Facebook, Twitter, LinkedIn and Flickr followers continues to number in the area of 30,000, with most of the growth appearing on Twitter. All Commissioners contribute to their own Twitter feeds, as does the Commission's Human Resources Division, which further expands the opportunities for the Commission to inform the public of its actions and activities. Further, many of the individual and institutional followers of the Commission's Twitter feeds re-post items, providing further awareness and understanding of the Commission's activities.

In FY 2018, FERC continued working on a complete reconstruction and update of the website. This rebuilt and redesigned website will promote a federal Cloud First strategy with the intent of making it easier for stakeholders and the public to access information, and will add elements making the site easier to access using mobile devices. This modernization will feature a rebuild and modern redesign of the website with the intention of making it easier for stakeholders and the public to access information they need. The Commission will select a vendor for construction of the site in early FY 2019, with the intent of having the site publicly available by the end of FY 2019 or the beginning of FY 2020.

The Commission's video and podcast outreach programs continue to expand for future growth. Continued public interest in Commission regulatory activities and meetings led to the production and, in FY 2018, posting of a video introducing viewers to the Commission meeting process and procedures, and to information on what the public may and may not do during Commission meetings. Plans for FY 2019 include videos explaining the pipeline siting process, to go along with the new brochure and the National Environmental Policy Act review process that governs the siting and construction of pipelines. All videos are posted on the Commission's web and YouTube pages, and shared over social media. Staff is exploring use of the video format to explain other Commission processes and policies to the public.

The Commission has successfully adapted its podcast efforts to include topics of great interest to the public and to stakeholders; podcast interviews frequently are cited in continuing media reports on the Commission's actions. These podcasts, roughly 10 minutes in length, provide information on FERC actions, policies and processes in an engaging and entertaining manner. The Commission produced six podcasts in FY 2018.

Communicating with Congress on FERC's actions is vital and requires that FERC responds in a timely and transparent manner to all Congressional inquiries. FERC staff identifies, tracks, and analyzes legislation of interest to the Commission, while keeping Members of Congress informed on Commission actions, announcements, and reports that affect their districts and states. In FY 2018, FERC provided 121 responses and/or briefings to congressional inquiries and initiated an additional 51 briefings on top priority issues of interest to Congress.

Communicating with state officials, particularly state regulators, also is a priority for FERC. Staff consistently notifies appropriate regulators and other state officials of FERC actions that are of interest, and frequently offers briefings via conference calls or webinars on major issues. Staff communicates with state officials to become aware of state priorities and trends. In FY 2018 Commission staff sent out 137 notifications and held 24 briefings for state officials on topics including reliability, cybersecurity, storage, and resource adequacy. On average, staff sent out 13 notifications of Commission actions per month to over 800 state contacts. Responses to inquiries from the general public averaged just over 450 per month with all requests for information addressed within three business days.

In addition, the agency provides a liaison to other regulatory agencies across the world, hosting visits from a number of international energy policy makers in FY 2018. In FY 2018, Commission staff actively participated in the NAFTA negotiations. The Commission also finalized a Memorandum of Understanding with China. The Commission held digital video conferences with Brazil, China and the European Union, and, overall, hosted visits from nearly 60 foreign countries. In FY 2019, the Commission plans to continue to build upon these relationships, attend meetings with its regulatory counterparts in Mexico, Canada, Europe and Asia, and provide assistance to its sister agencies such as the Department of State and Commerce upon request.

Through the use of FERC’s eLibrary and eSubscription web pages, the public can obtain extensive information concerning documents both submitted to and issued by the Commission. The Commission continues to invest in document handling and processing systems to ensure the timely processing of incoming documents and timely and accurate FERC issuances, such as notices, orders, and major rules. The Commission invested in the flow of information through all levels of the agency and to all interested parties.

In addition, FERC's ethics program aims to promote the highest standards of ethical conduct by counseling, advising and training employees to increase awareness of and promote conformance with statutes and regulations that set standards of conduct for federal employees. FERC continues to utilize innovative annual ethics training, which has been recognized repeatedly for excellence among government agencies. To promote transparency and public confidence in FERC’s programs, FERC staff responds to requests from the public under the Freedom of Information Act, 5 U.S.C. § 552 in a timely manner. The Commission seeks to issue responses to 85 percent of such requests within the statutory time frame of 20 business days, excluding statutory-authorized extensions. In FY 2018, the Commission processed 90 FOIA requests and 91 CEII requests.

FINANCIAL PERFORMANCE OVERVIEW (Unaudited)

As of September 30, 2018, the financial condition of the Commission was sound with sufficient funds to meet program needs and adequate controls in place to ensure Commission obligations did not exceed budget authority. The Commission prepared its financial statements in accordance with the accounting standards codified in the Statements of Federal Financial Accounting Standards and with OMB Circular No. A-136, Financial Reporting Requirements.

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

Consistent with the requirements of the Omnibus Budget Reconciliation Act of 1986, as amended, the Commission collected fees to offset 100% of its budget authority in FY 2018.

The Commission received an appropriation for FY 2018 in the amount of $367.6 million. Additional funds available to obligate in FY 2018 were $32.2 million from prior-year unobligated appropriations and $3.7 million of prior-year obligations that were subsequently de-obligated in the current year. The sum of all operating funds available to obligate in FY 2018 was $403.7 million. Separately, the Commission pays states the fees collected for the occupancy and use of public lands. The Commission's payment to states budget authority for FY 2018 was $4.6 million, which included a $0.3 million sequestered amount that was identified as temporarily unavailable.

Costs by Function. The Commission incurred costs of $359.0 million in FY 2018, which was an increase of $16.2 million from FY 2017. Approximately 71 percent of costs were used for salaries and benefits. The remaining 29 percent was used to obtain technical assistance for the Commission's principal regulatory programs, to cover operating expenses, staff travel, and reimbursable work. For FY 2018, salaries and benefits increased by $6.5 million as compared to FY 2017 with the net effect on the other cost categories of an increase of $9.7 million.

Costs by Function (millions)

Costs by Function	FY 2018	FY 2017
Salaries and Benefits	$254.0	$247.5
Travel/Transportation	3.0	3.0
Rent/Communication/Utilities	34.2	33.8
Contract Support	52.2	46.3
Printing/Supplies/Other	15.6	12.2
Total Costs	**$359.0**	**$342.8**

Audit Results. The Commission received an unmodified audit opinion on its FY 2018 financial statements. This was the 25th consecutive year that the Commission has received an unmodified opinion. For FY 2018, no material weaknesses or significant deficiencies in internal control over financial reporting were identified by the audit.

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

Analysis of the Balance Sheet

The Commission's assets were approximately $157.8 million and $228.9 million as of September 30, 2018 and 2017, respectively. FY 2018 decreased by $71.1 million as compared to September 30, 2017. The assets reported in the Commission's Balance Sheet are summarized in the Asset Summary table below.

Assets Summary (millions)

Assets	**FY 2018**	**FY 2017**
Fund Balance with Treasury	$145.2	$118.7
Accounts Receivable, net	2.0	97.7
Unbilled Receivable	-	-
Property and Equipment, net	10.6	12.5
Total Assets	**$157.8**	**$228.9**

The Fund Balance with Treasury represents the Commission's largest asset of $145.2 million as of September 30, 2018, which is an increase of $26.5 million over the FY 2017 balance. This increase is primarily due to a higher amount of available funding for operations which increased approximately $20.8 million in FY 2018 as compared to FY 2017.

The Accounts Receivable, net and Unbilled Receivable has a balance of $2.0 million as of September 30, 2018. This balance represents the outstanding amounts due from annual charges, civil penalties or other penalties issued by the Commission to entities under its regulation net of allowance for estimated uncollectible amounts. Approximately $1.7 million of the accounts receivable balance is represented by agreed upon civil penalty cases. The $95.7 million net decrease in FY 2018 net receivables compared to FY 2017 is due to a $95.2 million decrease in net accounts receivable from civil penalties and unjust disgorged funds at the end of FY 2018 compared to FY 2017, and a $0.5 million decrease in unbilled receivables due to costs not exceeding billings this year, so no additional billings were required.

The Property and Equipment, net was $10.6 million as of September 30, 2018, a decrease of $1.9 million compared to FY 2017. The balance is comprised of the net value of the Commission’s equipment, furniture, leasehold improvements, computer hardware and software and construction in process. The $1.9 million net decrease is primarily due to the expensing of costs related to the eLibrary modernization project.

The Commission's liabilities were $64.4 million and $155.7 million as of September 30, 2018 and 2017, respectively. The Liabilities Summary table shows a decrease in total liabilities of $91.3 million over FY 2017. FY 2018 total liabilities included a decrease of approximately $72.9 million in resources transferable to Treasury and other Federal entities and a decrease of $22.8 million in resources transferable to other entities from disgorged funds, an increase in refunds and other amounts due of $3.3 million and a decrease in the capital lease liability of $0.7 million. The remaining increase of $1.8 million is made up of normal fluctuations in accounts payable.

Liabilities Summary (millions)

Liabilities	**FY 2018**	**FY 2017**
Accounts Payable	$20.9	$19.0
Federal Employee Benefits	9.5	8.9
Resources Transferable to Treasury and Other Federal Entities	1.9	74.8
Accrued Leave	14.8	14.8
Other Liabilities	17.3	38.2
Total Liabilities	**$64.4**	**$155.7**

The difference between total assets and total liabilities is the Net Position. The Commission's net position was approximately $93.4 million as of September 30, 2018.

Analysis of Statement of Changes in Net Position

The Statement of Changes in Net Position reports the change in net position during the reporting period. The Commission's net position was $93.4 million and $73.2 million at September 30, 2018 and 2017, respectively. Net Position is affected by changes in the Commission's Cumulative Results of Operations. The increase in Cumulative Results of Operations is primarily related to the Commission financing more of its operations using its offsetting collections as compared to the prior year.

Net Position Summary (millions)

Position	**FY 2018**	**FY 2017**
Unexpended Appropriations	$0	$0
Cumulative Results of Operations	93.4	73.2
Total Net Position	**$93.4**	**$73.2**

Analysis of the Statement of Net Cost

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

The Commission's net cost by strategic goal for FY 2018 and FY 2017 was $0. The Commission is a full cost recovery agency and recovers all of its costs through the allocated annual charges to the entities that it regulates. Overall, FY 2018 costs increased by approximately $16.3 million over FY 2017 costs. This increase was due to additional costs incurred of $6.7 million within the Just and Reasonable Rates goal, $4.6 million within the Infrastructure strategic goal, and $5.0 million within the Mission Support goal as compared to FY 2017.

Analysis of the Statement of Budgetary Resources

The Statement of Budgetary Resources shows the sources of budgetary resources available and the status at the end of the period. It represents the relationship between budget authority and budget outlays, and reconciles total obligations to total outlays. For FY 2018, the Commission had budgetary resources available of $408.3 million, the majority of which was derived from offsetting collections. This represents an increase of $30.1 million over FY 2017 budgetary resources available of $378.2 million. The FY 2018 increase in the Commission’s budgetary resources was primarily the result of higher spending authority in FY 2018 compared to FY 2017. The status of budgetary resources includes obligations incurred of $372.9 million, or 91.3 percent of funds available. Similarly, FY 2017 obligations incurred were $345.9 million, or 91.5 percent of funds available. The unobligated budget authority available at September 30, 2018 was $35.3 million, which is an increase of $3.1 million over the FY 2017 amount of $32.2 million.

Total net outlays for FY 2018 were $115.7 million, which represents a $43.0 million increase over FY 2017 net outlays of $72.7 million. The increase from last year is partly the result of approximately $11.6 million increase in gross outlays primarily due to the increase in Commission costs, netted with an increase in offsetting collections in FY 2018 as compared to FY 2017. The increase is also partly due to a $33.7 million increase in distributed offsetting receipts in FY 2018 as compared to FY 2017.

Analysis of the Statement of Custodial Activity

The Statement of Custodial Activity displays the total Custodial Revenue and Disposition of Collections related to that revenue activity. This statement ensures that revenue billed and collected by the Commission on behalf of other federal agencies will not be reported twice as revenue on the consolidated government’s Statement of Net Cost. The Commission reported $50.1 million in custodial revenue in FY 2018, which represents a $97.6 million decrease over FY 2017 of $147.7 million. The decrease is primarily due to $74.8 million of civil penalties and annual charges, and $22.8 million of disgorged profits custodial revenue previously reported in FY 2017 but collected in FY 2018.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE (Unaudited)

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

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

Management Assurances

During Fiscal Year 2018, the Commission focused its efforts on assisting consumers in obtaining reliable, efficient, and sustainable energy services at a reasonable cost through appropriate regulatory and market means. In fulfilling this mission, the Commission has pursued three primary goals. First, we have worked diligently to ensure that rates, terms and conditions for jurisdictional services, including wholesale sales and transmission of electric energy and natural gas, are just, reasonable and not unduly discriminatory or preferential. Second, we continue to promote the development of safe, reliable, and efficient energy infrastructure that serves the public interest. Third, we are achieving organizational excellence by maintaining processes and providing services in accordance with governing statutes, authoritative guidance, and prevailing best practices. We are progressing in each of these areas while we continue to improve our capabilities to meet the challenges of the energy issues confronting our nation.

To accomplish our goals, we must manage our resources efficiently and integrate our budget, performance measures, and management controls to improve performance and accountability. The Commission's management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA). Our internal control program is helping us meet these responsibilities by monitoring our financial, human capital and information resources to safeguard our assets, improve the integrity of our reporting, and use our resources more effectively in reaching our goals. Problems that impede our progress or our ability to safeguard our assets continue to be brought to the attention of management and are addressed appropriately.

The Commission conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. In accordance with OMB Circular A-123, we evaluated the effectiveness and efficiency of our internal controls over operations, reporting and compliance. Based on the results of our evaluations, the Commission can provide reasonable assurance that its internal controls are operating effectively and that no material weaknesses were found in the design or operation of our internal controls as of September 30, 2018.

Furthermore, the Federal Financial Management Improvement Act (FFMIA) requires agencies to implement and maintain financial management systems that are substantially in compliance with federal financial management system requirements, federal accounting standards promulgated by the Federal Accounting Standards Advisory Board (FASAB), and the U.S. Standard General Ledger (USSGL) at the transaction level. The results of related reviews did not disclose any material weaknesses and found the Commission to be in substantial compliance with FFMIA.

Neil Chatterjee
Chairman
Federal Energy Regulatory Commission
November 2018

Federal Managers' Financial Integrity Act of 1982

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

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

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

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

FY 2018 FMFIA Results
The Commission evaluated its management control systems for the fiscal year ending September 30, 2018. This evaluation provided reasonable assurance that the Commission's management controls achieved their intended objectives. As a result, management concluded that the Commission did not have any material weaknesses in its programmatic or administrative activities.

FY 2018 OMB Circular No. A-123, Appendix A

The Commission evaluated its internal controls over financial reporting for the fiscal period ending September 30, 2018. Based on the results of this evaluation, the Commission can provide reasonable assurance that its internal controls are operating effectively and that no material weaknesses were found in the design or operation of our internal controls.

Federal Financial Management Improvement Act of 1996

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

FY 2018 FFMIA Results

As of September 30, 2018, the Commission evaluated its financial management system to determine if it complied with applicable Federal requirements and accounting standards required by FFMIA. We found that the Commission's financial management system was in substantial compliance with the Federal financial management system requirements, applicable Federal accounting standards and the U.S. standard general ledger at the transaction level. In making this determination, we undertook financial reporting tests of the system and reviewed entries at the transaction level, and determined compliance with Federal requirements and accounting standards required by FFMIA.

Prompt Payment Act

The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and services, to pay interest penalties when payments are made after the due date, and to take cash discounts when they are economically justified. As of September 30, 2018, the Commission made 99 percent of its payments, that were subject to the Prompt Payment Act, on-time. The Commission incurred $16.52 in interest penalties in FY 2018 and $8.33 in FY 2017. The agency made 100 percent of its vendor payments electronically in FY 2018.

Debt Collection Improvement Act of 1996

The Debt Collection Improvement Act of 1996 was enacted to enhance the ability of the Federal Government to service and collect debts. The agency goal is to maintain the delinquent debt owed to the Commission at year-end at less than two percent of its current annual billings. As of September 30, 2018, delinquent debt was approximately $0.25 million, which is approximately six-hundredths of a percent of its current annual billings. The Commission continues to aggressively pursue the collection of delinquent debt and continues to meet the requirement that all eligible delinquent debt over 120 days is referred to the U.S. Treasury for collection.

POSSIBLE FUTURE EFFECTS OF EXISTING EVENTS AND CONDITIONS

Certain licensees have filed appeals against their hydropower administrative annual charges to seek a partial or 100% municipal exemption. The combined liability of these appeals total $1.2 million and $1.5 million as of September 30, 2018 and 2017, respectively, and is included in the balance sheet as revenue collected under protest. The FY 2018 liability is fully funded and therefore poses no adverse or material future effect on the Commission's financial position.

LIMITATIONS OF THE FINANCIAL STATEMENTS

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

Financial Section

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

Office of the
Executive Director

Message from the Chief Financial Officer

I am pleased to present the Federal Energy Regulatory Commission's (Commission) comparative financial results for fiscal years 2018 and 2017. The accompanying financial statements and related notes fairly present the Commission's financial position and were prepared in conformity with accounting principles generally accepted in the United States of America, and requirements set forth in Office of Management and Budget (OMB) Circular No. A-136, Financial Reporting Requirements.

During FY 2018, the Commission continued to focus on its statutory responsibilities. Through strict adherence to its primary mission, the Commission assisted consumers in obtaining reliable, efficient, and sustainable energy services at a reasonable cost through appropriate regulatory and market means. In fulfilling this mission, the Commission continued to establish policies and processes designed to ensure that rates, terms, and conditions for wholesale sales and transmission of electric energy and natural gas are just, reasonable, and not unduly discriminatory or preferential. Additionally, the agency took action to continually promote the development of safe, reliable, and efficient energy infrastructure that serves the public interest.

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

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

- The Commission obtained an unmodified opinion on its financial statements for the 25th consecutive year. In addition, it strengthened its internal control program by continuing on-going self-assessment efforts as required by OMB Circular No. A-123, Management's Responsibility for Internal Control. This assessment resulted in the Commission's assertion that it has reasonable assurance that its internal controls over financial reporting were operating effectively during FY 2018.

- The Commission collected over $375.5 million in offsetting receipts during the fiscal year, which was more than $7.8 million in excess of its statutory collections requirements. In FY 2018, the Financial Management staff issued 100 percent of the related regulatory assessments electronically to jurisdictional entities.

- The Commission awarded over 99 percent of its contract actions without successful protests.

- The Commission paid 99 percent of its invoices on time according to the Prompt Payment Act with an error rate of less than 1 percent.

Our keen focus on program performance and significant financial accomplishments demonstrate the high regard we have for accountability and public disclosure. This report demonstrates a lasting commitment to fulfill our fiduciary responsibilities to Commission stakeholders. In striving to be a partner within the Commission by providing high quality services and products through financial stewardship, innovative solutions, and customer engagement, I am proud of the role my organization has played in furthering the cause of the mission of the Commission and protecting the interests of the American public.

W. Doug Foster, Jr.
Chief Financial Officer
Federal Energy Regulatory Commission
November 2018

INDEPENDENT AUDITORS' REPORT

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

Attachment

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Federal Energy Regulatory Commission (the Commission), which comprise the balance sheets as of September 30, 2018 and 2017, and the related statements of net cost, changes in net position, custodial activity, and statements of budgetary resources for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Federal Energy Regulatory Commission as of September 30, 2018 and 2017, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

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

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2018, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

KPMG

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01.

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

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, D.C.
November 6, 2018

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FEDERAL ENERGY REGULATORY COMMISSION
Balance Sheets
As of September 30, 2018 and 2017
(in dollars)

		2018		2017
Assets (note 3):				
Intragovernmental:				
Fund balance with Treasury (note 4)	$	145,165,827	$	118,725,203
Accounts receivable (note 5)		39,817		34,781
Total intragovernmental		145,205,644		118,759,984
Accounts receivable, net (note 5)		1,997,755		97,651,391
Property and equipment, net (note 6)		10,601,297		12,492,143
Total assets	$	157,804,696	$	228,903,518
Liabilities:				
Intragovernmental:				
Accounts payable	$	4,143,360	$	3,587,421
Other (note 7):				
Accrued payroll and benefits		1,893,004		1,812,287
Resources transferable to Treasury and other Federal entities		1,924,792		74,788,138
Workers' compensation payable (note 9)		734,851		714,191
Total intragovernmental		8,696,007		80,902,037
Accounts payable		16,745,030		15,438,322
Other (note 7):				
Accrued payroll and benefits		7,636,613		7,072,743
Collections due to states (note 13)		305,503		299,283
Commitments and contingencies (note 11)		80,000		-
Revenue collected under protest (note 11)		1,177,303		1,488,080
Refunds and other amounts due		7,382,169		4,150,553
Accrued leave (note 9)		14,775,628		14,813,093
FECA actuarial liability (note 9)		3,555,026		3,682,488
Resources transferable to other entities from disgorged funds		-		22,787,055
Other liabilities with related budgetary obligations		2,699,017		2,867,975
Capital Lease Liability (note 8)		1,324,057		1,986,086
Other		40,000		190,000
Total liabilities	$	64,416,353	$	155,677,715

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FEDERAL ENERGY REGULATORY COMMISSION
Balance Sheets, continued
As of September 30, 2018 and 2017
(in dollars)

	2018	2017
Net Position:		
Unexpended appropriations - other funds	$ -	$ -
Cumulative results of operations - other funds	93,388,343	73,225,803
Total net position	93,388,343	73,225,803
Total liabilities and net position	$ 157,804,696	$ 228,903,518

The accompanying notes are an integral part of these statements.

FEDERAL ENERGY REGULATORY COMMISSION
Statements of Net Cost
For the Years Ended September 30, 2018 and 2017
(in dollars)

		2018		2017
Program costs:				
Regulation:				
Just and Reasonable Rates, Terms, & Conditions (note 14):				
Gross costs	$	166,313,529	$	159,608,343
Less: earned revenue		166,313,529		159,608,343
Net program costs	$	-	$	-
Infrastructure (note 14):				
Gross costs	$	124,250,034	$	119,615,663
Less: earned revenue		124,250,034		119,615,663
Net program costs	$	-	$	-
Mission Support (note 14):				
Gross costs	$	68,552,670	$	63,541,037
Less: earned revenue		68,552,670		63,541,037
Net program costs	$	-	$	-
Total (note 14):				
Gross costs	$	359,116,233	$	342,765,043
Less: earned revenue		359,116,233		342,765,043
Net Cost of Operations	$	-	$	-

The accompanying notes are an integral part of these statements.

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Changes in Net Position

For the Years Ended September 30, 2018 and 2017

(in dollars)

	2018	2017
Unexpended Appropriations:		
Beginning balances	$ -	$ -
Budgetary Financing Sources:		
Appropriations received	367,600,000	346,800,000
Appropriations used	(265,195,395)	(285,422,867)
Other Adjustments - Appropriations Returned to Treasury	(102,404,605)	(61,377,133)
Total Budgetary Financing Sources	-	-
Total Unexpended Appropriations	$ -	$ -
Cumulative Results of Operations:		
Beginning balances	$ 73,225,803	$ 64,924,824
Budgetary Financing Sources:		
Appropriations used	265,195,395	285,422,867
Other Financing Sources (Non-Exchange):		
Transfers – out to Treasury without reimbursement	(259,725,007)	(287,353,698)
Imputed financing from costs absorbed by others (note 10)	14,692,152	10,231,810
Total Financing Sources	20,162,540	8,300,979
Net Cost of Operations	-	-
Net Change	20,162,540	8,300,979
Cumulative Results of Operations	$ 93,388,343	$ 73,225,803
Net Position	$ 93,388,343	$ 73,225,803

The accompanying notes are an integral part of these statements.

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Budgetary Resources

For the Years Ended September 30, 2018 and 2017

(in dollars)

		2018		2017
Budgetary Resources:				
Unobligated balance from prior year budget authority, net		35,915,738		26,915,183
Appropriations		4,622,618		4,316,976
Spending authority from offsetting collections		367,768,250		346,927,830
Total Budgetary Resources	$	408,306,606	$	378,159,989
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct 1	$	3,698,296	$	4,222,681
Status of Budgetary Resources:				
New obligations and upward adjustments (note 15)	$	372,890,645	$	345,942,547
Unobligated balances, end of year:				
Apportioned, unexpired accounts		35,311,117		32,217,442
Unapportioned, unexpired accounts		104,844		-
Unobligated balance, end of year (total)		35,415,961		32,217,442
Total budgetary resources	$	408,306,606	$	378,159,989
Budget Authority and Outlays, Net:				
Outlays, net		(22,014,945)		(12,703,897)
Less: Distributed offsetting receipts		(93,659,326)		(59,975,968)
Agency outlays, net	$	(115,674,271)	$	(72,679,865)

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Custodial Activity

For the Years Ended September 30, 2018 and 2017

(in dollars)

		2018		2017
Revenue Activity:				
Sources of Cash Collections:				
Annual Charges	$	37,076,004	$	36,529,033
Other		108,569,230		43,324,334
Total Cash Collections		145,645,234		79,853,367
Accrual adjustments		(95,525,699)		67,803,518
Total Custodial Revenue (note 12)		50,119,535		147,656,885
Disposition of Collections:				
Transferred to others:				
United States Treasury		(99,005,011)		(58,257,991)
United States Army – Corps of Engineers		(10,018,263)		(8,442,510)
Department of Interior		(9,206,067)		(8,815,428)
Various states		(4,628,838)		(4,337,438)
Decrease (increase) in amounts yet to be transferred		72,738,644		(67,803,518)
Total Disposition of Collections		(50,119,535)		(147,656,885)
Net Custodial Activity	$	-	$	-

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

September 30, 2018 and 2017

(1) Description of Reporting Entity

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

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

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

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

On October 1, 2018, the Commission submitted to Congress its updated Strategic Plan which will serve as a guide through FY 2022. As part of the update process, the Commission reviewed and updated its strategic objectives to align its core functions and authorities with the intended outcome. Further, the Commission added a third goal to capture management initiatives and responsibilities related to public trust, transparency and communication. The Commission reviewed its resource alignment and made changes where appropriate.

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

Ensure Just and Reasonable Rates, Terms and Conditions

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

Promote Safe, Reliable, and Secure Infrastructure

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

Mission Support Through Organizational Excellence

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

Cost Recovery

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

Annual Charges

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

Hydropower

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

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

Gas, Electric, and Oil

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

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

Filing Fees

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

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

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

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

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

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

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

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

(b) Budgets and Budgetary Accounting

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

(c) Basis of Accounting

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

(d) Revenue and Financing Sources

As described above, the Commission is granted budget authority from offsetting collections. The Commission receives an appropriated amount from the Treasury general fund at the beginning of the fiscal year, which is used for its operating and capital expenditures. Throughout the year, the Commission collects monies through annual charges and filing fees and returns the appropriated amount to the Treasury general fund at year-end. The offsetting collections serve as the financing source for any unexpended budget authority.

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

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

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

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

(e) Fund Balance with Treasury

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

(f) Allowance for Doubtful Accounts

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

(g) Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. The Commission capitalizes property and equipment purchases (other than furniture and software) with a cost greater than $50,000 and a total useful life exceeding two years. The Commission capitalizes individual furniture purchases with a cost greater than $50,000 and bulk furniture purchases related to the acquisition of newly leased space or total renovation of existing Commission space with a cost greater than $250,000. The Commission also capitalizes commercially purchased or internally developed software with a cost greater than $300,000 and leasehold improvements over $250,000 that are related to initial move-ins, build-outs of newly leased space, and/or a complete renovation of already leased space. Depreciation is calculated based on an estimated useful life of the shorter of 20 years or the life of the lease for leasehold improvements, 10 years for furniture, 2 to 5 years for commercially purchased or internally developed software, and 5 years for all remaining assets. Expenditures for repairs and maintenance are charged to program costs as incurred.

(h) Liabilities

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

(i) Workers' Compensation Payable

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

(j) Collections Due to States

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

(k) Revenue Collected Under Protest

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

(l) Accrued Leave

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

(m) Civil Penalties and Disgorged Funds

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

(n) Net Position Accounts

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

(o) Tax Status

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

(p) Use of Estimates

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

(3) Non-Entity Assets

Non-entity assets at September 30, 2018 and 2017 consisted of:

	2018	2017
Intragovernmental:		
Fund balance with Treasury:		
Collections due to states	$ 305,503	$ 299,283
Revenue collected under protest	1,177,303	1,488,080
Miscellaneous receipts held in suspense	112,710	5,092
Total Fund balance with Treasury assets	1,595,516	1,792,455
Accounts receivable, net (note 5)	1,697,305	97,079,783
Total intragovernmental non-entity assets	3,292,821	98,872,238
Total entity assets	154,511,875	130,031,280
Total assets	$ 157,804,696	$ 228,903,518

(4) Fund Balance with Treasury

Fund balance with Treasury at September 30, 2018 and 2017 consisted of:

	2018	2017
Status of Fund Balance with Treasury:		
Unobligated balance:		
Available	$ 35,311,117	$ 32,217,442
Unavailable	15,428,052	15,469,965
Obligated balance not yet disbursed	92,831,142	69,544,624
Non-budgetary FBWT	1,595,516	1,493,172
Total	$ 145,165,827	$ 118,725,203

(5) Accounts Receivable, net

Entity and non-entity accounts receivable at September 30, 2018 and 2017 consisted of:

		2018			
		Annual Charges	Other		Total
Entity					
Uncollected billings	$	233,350	72,963		306,313
Uncollected intragovernmental billings		-	39,817		39,817
Allowance for doubtful accounts		(5,863)	-		(5,863)
Total entity accounts receivable, net		227,487	112,780		340,267
Non-entity					
Uncollected billings		17,418	105,446,580		105,463,998
Allowance for doubtful accounts		-	(103,766,693)		(103,766,693)
Total non-entity accounts receivable, net (note 3)		17,418	1,679,887		1,697,305
Total accounts receivable, net and unbilled receivable	$	244,905	1,792,667		2,037,572

		2017				
		Annual Charges		Other		Total
Entity						
Uncollected billings	$	498,255		76,655		574,910
Uncollected intragovernmental billings		-		34,781		34,781
Allowance for doubtful accounts		(2,845)		(457)		(3,302)
Total entity accounts receivable, net		495,410		110,979		606,389
Non-entity						
Uncollected billings		194,568		212,151,133		212,345,701
Allowance for doubtful accounts		-		(115,265,918)		(115,265,918)
Total non-entity accounts receivable, net		194,568		96,885,215		97,079,783
Total accounts receivable, net and unbilled receivable	$	689,978	$	96,996,194	$	97,686,172

As of September 30, 2018, there were five civil penalty cases, totaling $96.7 million, that elected to have the district court procedures of section 31(d)(3)(a) of the FPA apply. Under these proceedings, the district court of the United States may rule to find these defendants not liable for the imposed civil penalty in whole or part. Until final determination of the district courts, the Commission is not allowed under the FPA to collect any imposed civil penalties. Because of the uncertainties of the outcome in the final determination of the district courts, the Commission has included the related civil penalties in the Allowance for Doubtful Accounts. In addition to the five civil penalty cases in district court proceedings, as of September 30, 2018 there was one civil penalty case totaling $5.0 million being litigated through a bankruptcy court proceeding and is deemed as uncollectible until a final determination on the amount subject to be collected is settled. As a result of the bankruptcy court proceeding, the Commission has included the aforementioned civil penalty in the Allowance for Doubtful Accounts.

(6) Property and Equipment, net

Property and equipment and related accumulated depreciation at September 30, 2018 and 2017 consisted of:

	2018		
	Acquisition Amount	Accumulated Depreciation	Net
Equipment	$ 9,343,416	$ 7,157,583	$ 2,185,833
Furniture	11,500,547	10,946,933	553,614
Leasehold improvements	12,231,517	11,501,429	730,088
ADP software	25,454,040	25,345,304	108,736
Construction in process	1,961,539	-	1,961,539
Internal software in development	1,181,839	-	1,181,839
Capital leases	4,774,951	895,303	3,879,648
Total property and equipment, net	$ 66,447,849	$ 55,846,552	$ 10,601,297

	2017		
	Acquisition Amount	Accumulated Depreciation	Net
Equipment	$ 7,472,689	$ 6,788,468	$ 684,221
Furniture	11,500,547	10,703,953	796,594
Leasehold improvements	12,231,517	11,207,259	1,024,258
ADP software	25,454,040	24,866,016	588,024
Construction in process	8,337,213	-	8,337,213
Internal software in development	1,061,833	-	1,061,833
Capital leases	-	-	-
Total property and equipment, net	$ 66,057,839	$ 53,565,696	$ 12,492,143

As of September 30, 2018, the Commission has two years remaining on a five year Capital Lease and has recorded the equipment received and related installation costs totaling $4.8 million in Property and Equipment.

(7) Other Liabilities

Other liabilities at September 30, 2018 and 2017 consisted of:

	2018		
	Current	Non-Current	Total
Intragovernmental			
Accrued payroll and benefits	$ 1,893,004	-	1,893,004
Resources transferable to Treasury and other Federal entities	1,924,792	-	1,924,792
Workers' compensation payable (note 9)	657,502	77,349	734,851
Total other intragovernmental liabilities	4,475,298	77,349	4,552,647
Accrued payroll and benefits	7,636,613	-	7,636,613
Collections due to states (note 9)	305,503	-	305,503
Commitments and Contingent Liability	80,000	-	80,000
Revenue collected under protest	1,177,303	-	1,177,303
Refunds and other amounts due	7,382,169	-	7,382,169
Accrued leave (note 9)	14,775,628	-	14,775,628
FECA actuarial liability (note 9)	-	3,555,026	3,555,026
Resources transferable to other entities from disgorged funds	-	-	-
Other liabilities with related budgetary obligations	2,699,017	-	2,699,017
Capital lease liability	662,028	662,029	1,324,057
Other	40,000	-	40,000
Total other liabilities	$ 39,895,588	3,632,375	43,527,963

	2017		
	Current	**Non-Current**	**Total**
Intragovernmental			
Accrued payroll and benefits	$ 1,812,287	$ -	$ 1,812,287
Resources transferable to Treasury and other Federal entities	74,788,138	-	74,788,138
Workers' compensation payable (note 9)	627,973	86,218	714,191
Total other intragovernmental liabilities	77,228,398	86,218	77,314,616
Accrued payroll and benefits	7,072,743	-	7,072,743
Collections due to states (note 9)	299,283	-	299,283
Commitments and Contingent Liability	-	-	-
Revenue collected under protest	1,488,080	-	1,488,080
Refunds and other amounts due	4,150,553	-	4,150,553
Accrued leave (note 9)	14,813,093	-	14,813,093
FECA Actuarial Liability (note 9)	-	3,682,488	3,682,488
Resources transferable to other entities from disgorged funds	22,787,055	-	22,787,055
Other liabilities with related budgetary obligations	2,867,975	-	2,867,975
Capital lease liability	662,029	1,324,057	1,986,086
Other	190,000	-	190,000
Total other liabilities	$ 131,559,209	$ 5,092,763	$ 136,651,972

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

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

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

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

(8) Leases

Capital Leases:

As of September 30, 2018, the Commission has a future minimum Capital Lease Liability for $1,324,057 related to leased equipment over a five year period, and has placed the equipment into service. This amount is included in Other Liabilities (note 7). The lease agreement includes four option years and at the end of the lease the equipment becomes the Commission's asset. For future lease payments, the Commission calculates the capital lease liability based on the total lease payments and subtracts the maintenance costs associated with the leased equipment to arrive at the net capital lease liability. The interest rate implicit in the lease is 0%. Therefore, the discount rate is 0% and there is no impact to the capital lease liability. The equipment will be depreciated over the length of the lease using the straight line method once it is placed into service.

		2018		2017
Summary of Assets Under Capital Lease:				
Acquisition Cost	$	4,774,951	$	-
Less: Accumulated Amortization	$	(895,303)	$	-
Capital Lease Asset	$	3,879,648	$	-
Construction in Process	$	-	$	3,271,438

Capital Leases – Future Payments

Fiscal Year		Equipment
FY 2019	$	987,122
FY 2020		987,122
Total future minimum lease payments		1,974,244
Less: Executory costs		650,187
Net capital lease liability (not covered by budgetary resources)		1,324,057
Total liability	$	1,324,057

Operating Leases:

The General Services Administration (GSA) enters into lease agreements for government buildings and maintains those lease agreements. The Commission pays GSA a standard level users charge for the annual rental of building space, of which Commission Headquarters is in Washington, DC and several other regional offices are located in various parts of the country. The standard level users charge approximates the commercial rental rates for similar properties. The Commission generally executes an occupancy agreement with GSA, which normally includes a requirement to give 30-120 days' notice to vacate. Expenses incurred for building leases amounted to $31.4 million and $31.4 million for the periods ended September 30, 2018 and 2017, respectively.

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

Real Property Operating Leases – Future Payments

Fiscal Year		GSA		Non-GSA		Total
FY 2019		21,227,980		-		21,227,980
FY 2020		20,614,830		-		20,614,830
FY 2021		20,089,711		-		20,089,711
FY 2022		19,139,088		-		19,139,088
FY 2023		18,722,428		-		18,722,428
Beyond FY 2023		37,935,140		-		37,935,140
Total future minimum lease payments	$	137,729,177	$	-	$	137,729,177

(9) Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources at September 30, 2018 and 2017 consisted of:

		2018		2017
Intragovernmental				
Workers' compensation payable (note 7)	$	734,851	$	714,191
Total intragovernmental		734,851		714,191
				-
Accrued leave (note 7)		14,775,628		14,813,093
FECA Actuarial Liability (note 7)		3,555,026		3,682,488
Collections Due to States (note 7)		305,503		299,283
Commitments and Contingent Liability		80,000		-
Other liabilities without budgetary resources		1,364,057		6,321,547
Total liabilities not covered by budgetary resources	$	20,815,065	$	25,830,602
Total liabilities covered by budgetary resources	$	33,117,024	$	50,614,230
Total liabilities not requiring budgetary resources		10,484,264		79,232,883
Total liabilities	$	64,416,353	$	155,677,715

The Other liabilities without budgetary resources is comprised of a $0.04 million legal settlement and a $1.3 million capital lease liability. Additionally the Total liabilities not requiring budgetary resources is comprised of $7.4 million in Refunds due to entities as a result of billings exceeding costs and $2.2 million of liabilities in FERCs receipt accounts.

(10) Employee Benefits

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

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

The actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability of CSRS and FERS is not allocated to individual departments and agencies and is, therefore, not disclosed by the Commission. For the periods ended September 2018 and 2017 both plans cost approximately $22.5 million and $22.1 million, respectively. The total imputed costs for pension, life and health insurance recognized by the Commission for FY 2018 and FY 2017 are $14.7 million and $10.2 million, respectively and will ultimately be funded through the Office of Personnel Management.

(11) Commitments and Contingencies

Certain licensees have filed appeals against their hydropower administrative annual charges to seek a partial or 100% municipal exemption. The combined liability of these appeals total $1.2 million and $1.5 million as of September 30, 2018 and 2017, respectively, and is included in the balance sheet as revenue collected under protest. The FY 2018 liability is fully funded and therefore poses no adverse or material future effect on the Commission's financial position.

In addition, the Commission has two legal cases as of September 30, 2018 that requires a contingent liability. The District Court Matters case totals $30,000 and the Arbitration Matters case totals $50,000. The Commission also has one Equal Employment Opportunity (EEO) case where the probability of success for the claimants is reasonably possible. The amount of monetary relief in the EEO case could total $60,000 as of September 30, 2018.

(12) Custodial Activity

The Commission currently bills regulated companies annual charges as a custodian for certain Federal agencies. These agencies include the U.S. Army Corps of Engineers, the Department of Interior, and the Treasury. Accrual accounting is used to account for the Commission's custodial activities. The receivables are maintained by the Commission, and the collections are processed to each Federal agency on a monthly basis. In addition to the annual charges, penalty and administrative costs are assessed on past-due bills and remitted to the Treasury when received. For FY 2018 and FY 2017, these custodial collections totaled approximately $145.6 million and $79.9 million, respectively.

(13) Funds from Dedicated Collections

In accordance with the Federal Accounting Standards Advisory Board's Statement on Federal Financial Accounting Standards (SFFAS) No. 27 *Identifying and Reporting Earmarked Funds* and as amended by SFFAS No. 43 *Funds from Dedicated Collections: Amendment Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds,* the Commission is required to report separately on the Balance Sheets and Statements of Changes in Net Position, the non-exchange revenue, other financing sources, net cost of operations and net position attributable to funds from dedicated collections. In addition, the Commission must disclose the fund for which it has program management responsibility. The Commission's Collections Due to States fund meets the criteria for funds from dedicated collections, however, these funds are custodial in nature and therefore do not impact the Balance Sheet's net position or the Statement of Changes in Net Position. The balances as of September 30, 2018 and 2017 were $0.3 million and $0.3 million, respectively.

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

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

(14) Intragovernmental Costs and Exchange Revenue

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

Intragovernmental costs and exchange revenue for the years ended September 30, 2018 and 2017 consisted of:

		2018		2017
Just and Reasonable Rates, Terms, & Conditions				
Intragovernmental costs	$	39,655,475	$	39,229,684
Public costs		126,658,054		120,378,659
Total Just and Reasonable Rates, Terms, and Conditions costs		166,313,529		159,608,343
Intragovernmental earned revenue		68,584		47,245
Public earned revenue		166,244,945		159,561,098
Total Just and Reasonable Rates, Terms, and Conditions earned revenues		166,313,529		159,608,343
Infrastructure				
Intragovernmental costs		29,625,937		29,399,996
Public costs		94,624,097		90,215,667
Total Infrastructure costs		124,250,034		119,615,663
Intragovernmental earned revenue		51,238		35,407
Public earned revenue		124,198,796		119,580,256
Total Infrastructure earned revenues		124,250,034		119,615,663
Mission Support				
Intragovernmental costs		16,345,566		15,617,572
Public costs		52,207,104		47,923,465
Total Infrastructure costs		68,552,670		63,541,037
Intragovernmental earned revenue		28,269		18,808
Public earned revenue		68,524,401		63,522,229
Total Infrastructure earned revenues		68,552,670		63,541,037
Costs				
Intragovernmental costs		85,626,978		84,247,252
Public costs		273,489,255		258,517,791
Total costs	$	359,116,233	$	342,765,043
Revenue				
Earned intragovernmental revenue		148,091		101,460
Earned public revenue		358,968,142		342,663,583
Total earned revenue	$	359,116,233	$	342,765,043

(15) Apportionment Categories of Obligations Incurred

Apportionment categories of obligations incurred for the years ended as of September 30, 2018 and 2017 consisted of:

	2018	2017
Category A:		
Direct	$ 372,783,050	$ 345,879,832
Reimbursable	107,595	62,716
Total obligations incurred	$ 372,890,645	$ 345,942,548

Category A apportionments distribute budgetary resources by fiscal quarters.

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

The Commission had no differences between the Statement of Budgetary Resources and the Budget of the United States as of September 30, 2017. The statement can be reconciled to the President's budget by combining both of the budgets for Federal Energy Regulatory Commission (89-0212-0-1-176) and Payments to States under Federal Power Act (89-5105-0-2-806). The reconciliation as of September 30, 2018 is not presented because the submission of the FY 2020 budget occurs after publication of these financial statements. The Commission's Budget Appendix can be found under the DOE on the OMB website and will be available in early February 2019.

(17) Undelivered Orders at the End of the Period

Undelivered orders are obligations made by the Commission for services and purchases that have not been received and accepted as of the balance sheet date. The amount of Commission's budgetary resources reported as undelivered orders as of September 30, 2018 and 2017 were $59.9 million and $38.8 million, respectively, of which the full $59.9 million are in an unpaid status and $0 are in a paid status. The undelivered orders reported as of September 30, 2018 consisted of $22.5 million Federal and $37.4 million Non-Federal amounts

(18) Reconciliation of Net Cost of Operations to Budget

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

	2018	2017
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	$ 372,890,645	$ 345,942,547
Less: spending authority from offsetting collections and prior year recoveries	(371,466,546)	(351,150,511)
Obligations, net of offsetting collections and prior year recoveries	1,424,099	(5,207,964)
Less: Distributed offsetting receipts	(93,659,326)	(59,975,968)
Net obligations	(92,235,227)	(65,183,932)
Other resources:		
Transfers-out and other adjustments, net of appropriations received	5,470,388	(1,930,831)
Imputed financing from costs absorbed by others	14,692,152	10,231,810
Net other resources used to finance activities	20,162,540	8,300,979
Total resources used to finance activities	(72,072,687)	(56,882,953)
Resources (used to) or generating finance items not part of the net cost of operations:		
Change in budgetary resources obligated for goods/ services/benefits ordered but not yet provided (+/-)	(21,105,804)	(6,518,826)
Resources that fund expenses recognized in prior periods:	20,659	-
Budgetary offsetting receipts that do not affect the net cost of operations	93,659,326	59,975,968
Resources that finance the acquisition of assets	(390,010)	(1,364,347)
Payments to States	(4,622,618)	(4,316,976)
Total resources (used to) or generating finance items not part of the net cost of operations	67,561,553	47,775,819
Total resources used to finance the net cost of operations	(4,511,134)	(9,107,134)
Costs that do not require resources:		
Components requiring or (generating) resources in future periods:	2,039,577	4,085,369
Increase (or decrease) in unfunded liabilities	(121,678)	213,561
Total components of net cost of operations that will require or (generate) resources in future periods	1,917,899	4,298,930
Components not requiring or generating resources:		
Depreciation and amortization	2,280,857	3,167,439
Other	312,378	1,640,765
Total components of net cost of operations that will not require or (generate) resources	2,593,235	4,808,204
Total net cost of operations that do not require or (generate) resources in the current period	4,511,134	9,107,134
Net Cost of Operations	$ (0)	$ (0)

Other Information

(Unaudited)

Improper Payments Information Act (IPIA) Reporting (Unaudited)

The Commission has performed a review of its payments through September 30, 2018 and it has processed 99.5 percent of its payments without error. The Commission found only 32 erroneous payments out of 8,541 total payments. The value of those erroneous payments totaled $484,473 out of total payments of $94,687,951 for FY 2018.

Fraud Reduction Report (Unaudited)

In response to the Fraud Reduction and Data Analytics Act of 2015 and the updated OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, the Commission has initiated several actions to evaluate and address fraud risk.

The Commission assesses fraud risk as part of its annual FMFIA assessment. The results from FY 2018 continue to assess fraud risk as very low. In FY 2018, additional guidance was provided to staff and managers to increase their awareness of fraud risk and the Commission's related controls. These efforts led to three percent and 13 percent reductions of issues being reported during the FMFIA process related to the fraud risk principle and design control activities principle, respectively.

The evaluation also included a review of existing controls over financial management functions, including payables, accounts receivable and revenues, and financial reporting. The budgeting, acquisition, and payroll processes were also reviewed. There are sufficient segregation of duties, management oversight, and policies in place to mitigate fraud risk in these areas.

As the Commission continues to implement and mature its Enterprise Risk Management Program, it will ensure that fraud risk is fully integrated. Staff will continue to build on previous efforts to fully document the fraud risk assessment, existing controls, and identify strategies and other procedures to deter and detect fraud.

Civil Monetary Penalty Adjustment for Inflation (Unaudited)

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

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level ($)
Violation of any provision of Part II of the FPA or related rule or order	16 U.S.C. § 825o-1(b), Sec. 316A of the Federal Power Act	Jan-17	Jan-18	$1,238,271 per violation, per day
Violation of or failure/refusal to comply with any rule or regulation issued under Part I of the FPA or any related order or term of a license, permit, or exemption	16 U.S.C. § 823b(c), Sec. 31(c) of the Federal Power Act	Jan-17	Jan-18	$22,363 per violation, per day
Violation of or willful failure to comply with any order of the Commission; file any report required under the FPA; or submit any information or document or respond to subpoena required by the Commission in the course of an investigation conducted under the FPA	16 U.S.C. § 825n(a), Sec. 315(a) of the Federal Power Act	Jan-17	Jan-18	$2,852 per violation
Violation of any provision of the NGA or any related rule, regulation, restriction, condition, or order	15 U.S.C. § 717t-1, Sec. 22 of the Natural Gas Act	Jan-17	Jan-18	$1,238,271 per violation, per day
Violation of any provision of the NGPA or any related rule or order	15 U.S.C. § 3414(b)(6)(A)(i), Sec. 504(b)(6)(A)(i) of the Natural Gas Policy Act of 1978	Jan-17	Jan-18	$1,238,271 per violation, per day
Violation of or failure/refusal to comply with regulations or orders concerning posting and filing rate schedules issued by the Commission under section 6 of the ICA	49 App. U.S.C. § 6(10) (1988), Sec. 6(10) of the Interstate Commerce Act	Jan-17	Jan-18	$1,296 per offense and $65 per day after the first day
Violation of or failure to comply orders issued by the Commission under sections 3, 13, or 15 of the ICA	49 App. U.S.C. § 16(8) (1988), Sec. 16(8) of the Interstate Commerce Act	Jan-17	Jan-18	$12,964 per violation, per day
Violation of or failure to comply with Commission's requirements to provide information in connection with the Commission's valuation of a pipeline carrier's property under section 19(a) of the ICA	49 App. U.S.C. § 19a(k) (1988), Sec. 19a(k) of the Interstate Commerce Act	Jan-17	Jan-18	$1,296 per offense, per day
Violation of or failure to keep or submit certain accounts, records, or memoranda required by the Commission under authority granted in section 20 of the ICA	49 App. U.S.C. § 20(7)(a) (1988), Sec. 20(7)(a) of the Interstate Commerce Act	Jan-17	Jan-18	$1,296 per offense, per day

Appendix A: Statutory Authority

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

Electric, Hydropower, & General Statutes

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

Natural Gas Statutes

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

Oil Statutes

Interstate Commerce Act
Oil Pipeline Regulatory Reform

Environmental and Other Statutes

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

Appendix B: Acronym Listing

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

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