DOE F 1325.8
(4/93)

United States Government **Department of Energy**

Memorandum

DATE: **November 13, 2008**

REPLY TO
ATTN TO: IG-30 (A08FN002)

SUBJECT: Federal Energy Regulatory Commission's Fiscal Year 2008 Financial Statement Audit Report No.: DOE/OAS-FS-09-02

TO: Chairman, Federal Energy Regulatory Commission

The attached report presents the results of the independent certified public accountants' audit of the Federal Energy Regulatory Commission (Commission) Fiscal Year 2008 and 2007 balance sheet and the related statements of net cost, changes in net position, budgetary resources, and custodial activity.

The 2008 financial statement audit was made under the provisions of the Inspector General Act of 1978 as amended (5 U.S.C. App. 3), the Government Management Reform Act (31 U.S.C. 3515), and Office of Management and Budget implementing guidance. To fulfill the Office of Inspector General's (OIG) audit responsibilities, we contracted with the independent public accounting firm of KPMG LLP (KPMG) to conduct the audit, subject to our review. KPMG is responsible for expressing an opinion on the Commission's financial statements and reporting on applicable internal controls and compliance with laws and regulations. The OIG monitored audit progress and reviewed the audit report and related documentation. This review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted Government auditing standards. The OIG did not express an independent opinion on the Commission's financial statements.

KPMG concluded that the financial statements present fairly, in all material respects, the Commission's financial position as of September 30, 2008 and 2007, its net costs and changes in custodial activities for the years then ended and its changes in net position and budgetary resources in conformity with accounting principles generally accepted in the United States of America.

The auditors' review of the Commission's internal control structure and compliance with certain laws and regulations disclosed no material weaknesses or instances of noncompliance required to be reported under generally accepted Government auditing standards or applicable Office of Management and Budget guidance.

Rickey R. Hass
Deputy Inspector General
for Audit Services
Office of Inspector General

Attachment

cc w/attachment:
Executive Director, FERC
Deputy Chief Financial Officer, FERC
Director, Internal Audits Division, FERC
Chief Financial Officer, CF-1
Director, Office of Financial and Accounting, CF-10
Director, Energy Finance and Accounting Service Center, CF-11
Team Leader, Audit Liaison, CF-1.2

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

The Federal Energy Regulatory Commission and the
Inspector General, United States Department of Energy:

We have audited the accompanying balance sheets of the Federal Energy Regulatory Commission (the Commission) as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity (hereinafter referred to as "financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these financial statements. In connection with our fiscal year 2008 audit, we also considered the Commission's internal controls over financial reporting and tested the Commission's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these financial statements.

Summary

As stated in our opinion on the financial statements, we concluded that the Commission's financial statements as of and for the years ended September 30, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses as defined in the Internal Control Over Financial Reporting section of this report. However, we noted no matters involving the internal control and its operation that we considered to be material weaknesses as defined in this report.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinion on the Commission's financial statements; our consideration of the Commission's internal controls over financial reporting; our tests of the Commission's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of the Federal Energy Regulatory Commission as of September 30, 2008 and 2007, and the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the years then ended.

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, 2008 and 2007, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the Performance Report and the Appendices are presented for purposes of additional analysis and are not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

In our fiscal year 2008 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

We noted certain additional matters that we have reported to management of the Commission in a separate letter dated November 6, 2008.

Compliance and Other Matters

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, as amended.

The results of our tests of FFMIA 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) United States Government Standard General Ledger at the transaction level.

* * * * * * *

Responsibilities

Management's Responsibilities. Management is responsible for the financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to the Commission.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2008 and 2007 financial statements of the Commission based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04, as amended. Those standards and OMB Bulletin No. 07-04, as amended require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2008 audit, we considered the Commission's internal control over financial reporting by obtaining an understanding of the Commission's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Commission's fiscal year 2008 financial statements are free of material misstatement, we performed tests of the Commission's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, as amended, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contracts applicable to the Commission. However, providing an opinion on compliance with laws, regulations, and contracts was not an objective of our audit and, accordingly, we do not express such an opinion.

KPMG

This report is intended solely for the information and use of the Commission's management, the Department of Energy's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 6, 2008

FEDERAL ENERGY REGULATORY COMMISSION

Balance Sheets

As of September 30, 2008 and 2007
(in dollars)

		2008		2007
Assets (note 3):				
Intragovernmental:				
Fund balance with Treasury (note 4)	$	72,693,742	$	48,361,676
Accounts receivable (note 5)		13,399		22,640
Total intragovernmental assets		72,707,141		48,384,316
Accounts receivable, net (note 5)		22,896,225		4,647,677
Property and equipment, net (note 6)		6,307,483		7,987,011
Total assets	$	101,910,849	$	61,019,004
Liabilities:				
Intragovernmental:				
Accounts payable	$	3,037,177	$	3,434,843
Other (note 7):				
Accrued payroll benefits		1,291,035		996,000
Resources transferable to Treasury and other Federal entities		478,500		4,618,517
Miscellaneous receipts transferable to Treasury		5,254		5,098
Workers' compensation payable (note 9)		850,484		758,944
Total intragovernmental liabilities		5,662,450		9,813,402
Accounts payable		13,346,630		9,664,254
Other (note 7):				
Accrued payroll and benefits		6,397,959		5,363,070
Commitments and contingencies (note 11)		100,000		-
Revenue collected under protest		-		97,776
Refunds and other amounts due		10,534,131		1,730,332
Accrued leave (note 9)		12,425,724		10,973,250
Resources transferable to other entities from disgorged funds		38,905,088		16,472,603
Total liabilities		87,371,982		54,114,687
Net Position:				
Unexpended appropriations		24,646,344		4,493,446
Cumulative results of operations		(10,107,477)		2,410,871
Total net position		14,538,867		6,904,317
Total liabilities and net position	$	101,910,849	$	61,019,004

The accompanying notes are an integral part of these statements.

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Net Cost
For the Years Ended September 30, 2008 and 2007
(in dollars)

	2008	2007
Program costs:		
Regulation:		
Energy Infrastructure (note 14):		
Gross costs	$ 194,110,589	$ 183,580,477
Less: earned revenue	194,110,589	183,580,477
Net program costs	$ -	$ -
Competitive Markets (note 14):		
Gross costs	$ 30,313,293	$ 28,451,474
Less: earned revenue	30,313,293	28,451,474
Net program costs	$ -	$ -
Enforcement (note 14):		
Gross costs	$ 29,818,284	$ 28,018,671
Less: earned revenue	29,818,284	28,018,671
Net program costs	$ -	$ -
Total (note 14):		
Gross costs	$ 254,242,166	$ 240,050,622
Less: earned revenue	254,242,166	240,050,622
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, 2008 and 2007

(in dollars)

		2008		2007
Cumulative Results of Operations:				
Beginning balances	$	2,410,871	$	3,999,016
Budgetary Financing Sources:				
Appropriations used		240,272,102		226,871,540
Other Financing Sources (Non-Exchange):				
Transfers – out to Treasury without reimbursement		(263,440,238)		(239,839,793)
Imputed financing from costs absorbed by others (note 10)		10,649,788		11,380,108
Total Financing Sources		(12,518,348)		(1,588,145)
Net Cost of Operations		-		-
Net Change		(12,518,348)		(1,588,145)
Cumulative Results of Operations	$	(10,107,477)	$	2,410,871
Unexpended Appropriations:				
Beginning balances	$	4,493,446	$	9,463,468
Budgetary Financing Sources:				
Appropriations received		260,425,000		221,901,518
Appropriations used		(240,272,102)		(226,871,540)
Total Budgetary Financing Sources		20,152,898		(4,970,022)
Total Unexpended Appropriations	$	24,646,344	$	4,493,446
Net Position	$	14,538,867	$	6,904,317

The accompanying notes are an integral part of these statements.

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Budgetary Resources

For the Years Ended September 30, 2008 and 2007

(in dollars)

	2008	2007
Budgetary Resources:		
Unobligated balance, beginning of period	$ 3,429,690	$ 5,748,933
Recoveries of prior year unpaid obligations	651,567	676,291
Budgetary authority		
Appropriation	3,127,077	3,094,042
Collected	260,474,032	221,917,880
Change in unfilled customer orders		
Without advance from Federal Sources	(43,057)	40,979
Subtotal	263,558,052	225,052,902
Total Budgetary Resources	$ 267,639,310	$ 231,478,125
Status of Budgetary Resources:		
Obligations incurred: (note 15)		
Direct	$ 250,815,633	$ 228,015,257
Reimbursable	39,790	33,178
Subtotal	250,855,423	228,048,435
Unobligated balances available and apportioned		
Apportioned	16,783,887	3,429,690
Total status of budgetary resources	$ 267,639,310	$ 231,478,125
Change in Obligated Balance:		
Obligated balance, net		
Unpaid obligations, brought forward, October 1	$ 20,628,189	$ 23,174,182
Less: Uncollected customer payments from Federal sources, brought forward, October 1	(87,283)	(46,303)
Total unpaid obligated balance, net	20,540,906	23,127,879
Obligations incurred, net	250,855,423	228,048,435
Less: Gross outlays	(238,844,144)	(229,918,138)
Less: Recoveries of prior year unpaid obligations, actual	(651,567)	(676,291)
Change in uncollected customer payments from Federal sources	(43,057)	(40,979)
Obligations balance, net, end of period		
Unpaid obligations	31,987,901	20,628,189
Less: Uncollected customer payments from from Federal sources	(44,226)	(87,283)
Total, unpaid obligated balance, net, end of period	$ 31,943,675	$ 20,540,906

(Continued)

Net Outlays:

Gross outlays	$	238,844,144	$	229,918,138
Less: Offsetting collections		(260,474,032)		(221,917,880)
Less: Distributed offsetting collections		(45,163,340)		(85,255,615)
Net outlays	$	(66,793,228)	$	(77,255,357)

The accompanying notes are an integral part of these statements.

FEDERAL ENERGY REGULATORY COMMISSION

Statements of Custodial Activity

For the Years Ended September 30, 2008 and 2007

(in dollars)

		2008		2007
Sources of collections:				
Cash collections – annual charges	$	56,548,067	$	82,035,815
Accrual adjustment		(940,339)		(12,179,467)
Total custodial revenue (note 12)		55,607,728		69,856,348
Disposition of collections:				
Transferred to others:				
United States Army – Corps of Engineers		(7,743,045)		(13,153,812)
Department of Interior		(6,726,135)		(8,774,079)
United States Treasury		(38,948,424)		(59,477,033)
Various states		(3,127,077)		(3,094,042)
Decrease (increase) in Amounts Yet to be transferred		936,953		14,642,618
Net Custodial Activities	$	-	$	-

The accompanying notes are an integral part of these statements.

(1) Description of Reporting Entity

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

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

The Commission administers laws and regulations involving key energy issues. These include 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 (FPA), the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978, and the Public Utility Regulatory Policies Act of 1978.

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

Energy Infrastructure

The Commission's overall objective is to encourage investment in the infrastructure needed to sustain energy markets by removing roadblocks, providing cost recovery clarity and welcoming innovative thinking about rates and the use of new technology. By focusing on infrastructure, this segment covers many of the Commission's important traditional activities, for example, pipeline certificates, hydropower licenses and preliminary permits, compliance activities, environmental and other licensing conditions, dam safety inspections and most rate determinations.

Competitive Markets

Another Commission objective is to complete the transition to competitive energy markets as comprehensively as possible. This requires the growth of certain new institutions, particularly clearly defined and independent regional transmission organizations (RTOs), to make electric markets work. The Commission also needs to establish balanced, self-enforcing market rules in wholesale electric markets, and encourage continued efforts by industry groups to standardize reliability and business practice standards, promote the use of demand-side participation in energy markets, and establish regional transmission planning. Along with some traditional work in the area of rate determinations, this segment includes work on initiatives begun in the last couple of years such as RTOs and new policies for natural gas.

Enforcement

The Commission also needs to ensure that competitive energy markets benefit the Nation over the long run. The Commission must offer the public and market participants credible assurance that the Commission will identify and remedy energy market problems to maintain just and reasonable rates. At the systemic level, the Commission needs to recognize problems before or when they develop and craft solutions quickly. Effective internal compliance programs within companies and self-policing will also help achieve this goal. The Commission will conduct traditional investigations and apply its expanded penalty authority when appropriate.

Cost Recovery

As described below, the Commission recovers 100% of its annual appropriation from the U.S. Treasury (the Treasury) through annual charges and filing fees authorized by the Omnibus Budget Reconciliation Act of 1986 and other laws.

Annual Charges

The Commission recovers most of 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 changes are summarized as follows:

Hydropower

Authority – Section 10(e) of 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.

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

(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 Office of Management and Budget (OMB) Circular Number (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 small allotments from DOE appropriation (89X5105). Both of the Commission's appropriations relate to budget functional classification code 276, 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 a budget appropriation that provides the Commission with authority to use funds from the Treasury to meet its operating and capital expenditure requirements. The appropriated funds are not restricted to use in a specific fiscal year. All revenue from annual charges and filing fees is remitted to the Treasury when received.

(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 receives funds for its operating and capital expenditures through an appropriation allotment from DOE. For financial statement purposes, the appropriation allotment is recognized as a financing source when operating expenses (primarily salaries and benefits), other than depreciation, are incurred and when capital assets are purchased.

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. Revenue is recognized for filing fees when received.

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 appropriated 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 (other than furniture) and equipment purchases with a cost greater than $25,000 and a total useful life exceeding two years. The Commission capitalizes furniture purchases with a cost greater than $50,000, and commercially purchased or internally developed software with a cost greater than $100,000. Depreciation is calculated based on an estimated useful life of 20 years 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.

(i) ***Revenue Collected Under Protest***

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

(j) ***Collections Due to States***

The Commission disburses 50% 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) ***Accrued Leave***

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

(l) ***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 United States 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. An actuarial estimate of unbilled claims is recorded by DOE at the departmental level and was not separately calculated for the Commission.

(m) 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 disgorged funds as a liability until they are disbursed to appropriate entities.

(n) Net Position Accounts

Net position account balances consist of the following components:

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

Cumulative results of operations – Represents the Commission's net results of operations since inception, including (1) the amount in the Special Receipts fund balance with Treasury, (2) the cost of property and equipment acquired that has been financed by appropriations, 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, 2008 and 2007 consisted of:

	2008	2007
Intragovernmental:		
Fund balance with Treasury:		
Revenue collected under protest	$ -	$ 97,776
Disgorged funds	16,523,256	16,455,511
Miscellaneous receipts held in suspense	214,752	609,775
Special receipts fund	7,222,919	7,222,919
Other	5,254	5,098
Total intragovernmental	$ 23,966,181	$ 24,391,079
Accounts receivable, net	22,673,141	639,612
Total non-entity assets	$ 46,639,321	$ 25,030,691
Total entity assets	55,271,527	35,988,313
Total assets	$ 101,910,849	$ 61,019,004

(4) Fund balance with Treasury

Fund balance with Treasury at September 30, 2008 and 2007 consisted of:

	2008	2007
Fund balances:		
Appropriated funds	$ 48,727,561	$ 23,970,597
Revenue collected under protest	-	97,776
Disgorged funds	16,523,256	16,455,511
Miscellaneous receipts held in suspense	214,752	609,775
Special receipts fund	7,222,919	7,222,919
Other	5,254	5,098
Total	$ 72,693,742	$ 48,361,676
Status of Fund balance with Treasury		
Unobligated balance:		
Available	$ 16,068,828	$ 3,429,690
Unavailable	24,637,014	24,303,797
Obligated balance not yet disbursed	31,987,901	20,628,189
Total	$ 72,693,742	$ 48,361,676

(5) Accounts Receivable, net

Entity and nonentity accounts receivable at September 30, 2008 and 2007 consisted of:

	2008 Annual Charges	2008 Other	2008 Total
Entity			
Uncollected billings	$ 4,262,767	$ 75,960	$ 4,338,727
Uncollected intragovernmental billings	-	13,399	13,399
Allowance for doubtful accounts	(4,115,170)	(473)	(4,115,643)
Total entity accounts receivable, net	147,597	88,886	236,483
Non-entity			
Uncollected billings	2,041,448	54,910,598	56,952,046
Allowance for doubtful accounts	(1,750,139)	(32,528,766)	(34,278,905)
Total non-entity accounts receivable, net	291,309	22,381,832	22,673,141
Total accounts receivable, net	$ 438,906	$ 22,470,718	$ 22,909,624

	2007 Annual Charges	2007 Other	2007 Total
Entity			
Uncollected billings	$ 8,131,010	$ 58,343	$ 8,189,353
Uncollected intragovernmental billings	-	22,640	22,640
Allowance for doubtful accounts	(4,174,607)	(6,681)	(4,181,288)
Total entity accounts receivable, net	3,956,403	74,302	4,030,705
Non-entity			
Uncollected billings	6,892,979	32,545,858	39,438,837
Allowance for doubtful accounts	(6,270,459)	(32,528,766)	(38,799,225)
Total non-entity accounts receivable, net	622,520	17,092	639,612
Total accounts receivable, net	$ 4,578,923	$ 91,394	$ 4,670,317

(6) Property and Equipment, net

Property and equipment and related accumulated depreciation at September 30, 2008 and 2007 consisted of:

	2008		
	Acquisition Amount	**Accumulated Depreciation**	**Net**
Equipment	$ 2,631,985	$ 2,468,514	$ 163,471
Furniture	9,070,773	9,070,773	-
Leasehold improvements	9,491,415	6,130,111	3,361,304
ADP software	17,034,785	14,917,698	2,117,087
Internal software developed - WIP	655,955	-	655,955
Capital assets	29,000	19,334	9,666
Total Property and Equipment, net	$ 38,913,913	$ 32,606,430	$ 6,307,483

	2007		
	Acquisition Amount	**Accumulated Depreciation**	**Net**
Equipment	$ 4,826,522	$ 4,554,602	$ 271,920
Furniture	9,070,773	9,070,773	-
Leasehold improvements	9,491,415	5,655,540	3,835,875
ADP software	18,422,855	14,562,972	3,859,883
Capital assets	29,000	9,667	19,333
Total Property and Equipment, net	$ 41,840,565	$ 33,853,554	$ 7,987,011

(7) Other Liabilities

Other liabilities at September 30, 2008 and 2007 consisted of:

	2008		
	Current	Non-Current	Total
Intragovernmental			
Accrued payroll and benefits	$ 1,291,035	$ -	$ 1,291,035
Resources transferable to Treasury and other Federal entities	478,501	-	478,501
Miscellaneous receipts transferable to Treasury	5,254	-	5,254
Workers' compensation payable	605,264	245,220	850,484
Total intragovernmental liabilities	2,380,053	245,220	2,625,273
Accrued payroll and benefits	6,397,959	-	6,397,959
Commitments and contingencies	100,000	-	100,000
Refunds and other amounts due	10,534,131	-	10,534,131
Accrued leave	12,425,724	-	12,425,724
Resources transferable to other entities from disgorged funds	-	38,905,088	38,905,088
Total other liablities	$ 31,837,868	$ 39,150,308	$ 70,988,176

	2007		
	Current	Non-Current	Total
Intragovernmental			
Accrued payroll and benefits	$ 996,000	$ -	$ 996,000
Resources transferable to Treasury and other Federal entities	4,618,517	-	4,618,517
Miscellaneous receipts transferable to Treasury	5,098	-	5,098
Workers' compensation payable	164,054	594,890	758,944
Total intragovernmental liabilities	5,783,669	594,890	6,378,559
Accrued payroll and benefits	5,363,070	-	5,363,070
Revenue collected under protest	97,776	-	97,776
Resources transferable to other entities from disgorged funds	-	16,472,603	16,472,603
Refunds and other amounts due	1,730,332	-	1,730,332
Accrued leave	10,973,250	-	10,973,250
Total other liablities	$ 23,948,097	$ 17,067,493	$ 41,015,590

Resources transferable to Treasury represents future collections on accounts receivable that will be forwarded to Treasury upon receipt.

Revenue collected under protest represent monies that may be forwarded to the Commission or protesting entities once the protest is resolved.

Refunds and other amounts due represent monies that ultimately will be returned to entities due to overpayments of prior billings.

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

(8) Building Lease

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 does not execute an agreement with GSA; the Commission, however, is normally required to give 30-120 days'notice to vacate. Expenses incurred for building leases amounted to $21.5 million and $19.9 million for periods ended September 30, 2008 and 2007, respectively.

Real Property Operating Leases

Fiscal Year	GSA	Non-GSA	Total
FY 2009	11,006,950	97,709	11,104,659
FY 2010	11,006,950	73,280	11,080,230
FY 2011	11,006,950	23,074	11,030,024
FY 2012	11,006,950	12,573	11,019,523
FY 2013	11,006,950	-	11,006,950
Beyond FY 2013	22,013,900	-	22,013,900
Total future minimum lease payments	$ 77,048,650	$ 206,636	$ 77,255,286

(9) Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources at September 30, 2008 and 2007 consisted of:

	2008	2007
Intragovernmental		
Workers' compensation payable	$ 850,484	$ 758,944
Total intragovernmental	850,484	758,944
Accrued leave	12,425,724	10,973,250
Total liabilities not covered by budgetary resources	$ 13,276,208	$ 11,732,194

(10) Pension Expense

Commission employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). Employees participating in CSRS contribute 7% of their basic pay to the plan, and the Commission makes a matching contribution. For employees participating in the FERS program, the Commission makes a contribution of 10.7% of basic 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.

The actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability of CSRS and FERS is not allocated to individual departments and agencies and is, therefore, not disclosed by the Commission. Total pension expense paid by the Commission for both plans for fiscal years 2008 and 2007 was approximately \$12.8 million and \$12.7 million, respectively as of September 30th. During fiscal years 2008 and 2007 as of September 30th, an additional \$10.6 million and \$11.4 million, respectively, of pension and life and health insurance expense was recognized by the Commission for amounts that will ultimately be funded through the Office of Personnel Management. This amount is also recorded as an imputed financing source.

(11) Contingencies

The Commission has a pending bid protest case where the probability of success is reasonably possible. The amount of monetary relief, if awarded, would not exceed \$100,000.

(12) Custodial Activity

The Commission currently bills regulated companies annual charges as a custodian for certain Federal agencies. These agencies include the United States Army Corps of Engineers, the Department of Interior's Bureau of Reclamation, 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 fiscal years 2008 and 2007, these custodial collections totaled approximately \$56.5 million and \$82.0 million, respectively as of September 30th. For fiscal years 2008 and 2007, custodial revenue totaled approximately \$55.6 million and \$69.9 million, respectively as of September 30th.

(13) Earmarked Funds

In accordance with the Federal Accounting Standards Advisory Board's Statement on Federal Financial Accounting Standards (SFFAS) No. 27, 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 earmarked funds. In addition, the Commission must disclose the earmarked fund for which it has program management responsibility. The Commission's Collections Due to States fund meets the criteria for earmarked funds. The balances as of September 30, 2008 and 2007 were \$0 and \$0 respectively.

Fund 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 CFR 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"

The Commission bills out of the receipt account 895105, requests a warrant for the amount of the collections, which is used to transfer the collections into the expenditure account, 89X5105. The actual payments to the states are made from account 89X5105.

Since the earmarked funds managed by the Commission are custodial in nature, there are no equity balances to report on the financial statements as of September 30, 2008 and 2007.

(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 at September 30, 2008 and 2007 consisted of:

	2008	2007
Energy Infrastructure:		
Intragovernmental costs	$ 39,344,434	$ 39,345,874
Public costs	154,766,154	144,234,603
Total Energy Infrastructure costs	194,110,589	183,580,477
Intragovernmental earned revenue	47,870	48,289
Public earned revenue	194,062,719	183,532,188
Total Energy Infrastructure earned revenue	194,110,589	183,580,477
Competitive Markets		
Intragovernmental costs	6,144,226	6,097,860
Public costs	24,169,067	22,353,614
Total Competitive Markets costs	30,313,293	28,451,474
Intragovernmental earned revenue	7,476	7,484
Public earned revenue	30,305,818	28,443,990
Total Competitive Markets earned revenue	30,313,293	28,451,474
Enforcement		
Intragovernmental costs	6,043,892	6,005,100
Public costs	23,774,392	22,013,571
Total Market Oversight costs	29,818,284	28,018,671
Intragovernmental earned revenue	7,353	7,370
Public earned revenue	29,810,930	28,011,301
Total Market Oversight earned revenue	$ 29,818,284	$ 28,018,671

(15) Apportionment Categories of Obligations Incurred

Apportionment categories of obligations incurred as of September 30, 2008 and 2007 consisted of:

		2008		2007
Category A:				
Direct	$	250,815,633	$	228,015,257
Reimbursable		39,790		33,178
Total obligations incurred	$	250,855,423	$	228,048,435

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, 2007. 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, 2008 is not presented, because the submission of the FY 2010 budget occurs after publication of these financial statements. The Commission's Budget Appendix can be found under the Department of Energy on the OMB website (http://www.whitehouse.gov/omb/budget) and will be available in early February 2009.

(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 budgetary resources reported as undelivered orders as of September 30th for fiscal years 2008 and 2007 were $7.9 million and $1.1 million respectively.

(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.

	2008	2007
Resources used to finance activities:		
Budgetary resources obligated:		
Obligations incurred	$ 250,855,423	$ 228,048,435
Less: spending authority from offsetting collections	(261,082,542)	(222,635,150)
Obligations, net of offsetting collections	(10,227,119)	5,413,285
Less: offsetting receipts	(45,163,340)	(85,255,615)
Net obligations	(55,390,459)	(79,842,330)
Other resources:		
Transfers-out, net of appropriations received	6,183,584	(17,938,275)
Imputed financing from costs absorbed by others (note 10)	10,649,788	11,380,108
Net other resources used to finance activities	16,833,372	(6,558,167)
Total resources used to finance activities	(38,557,087)	(86,400,497)
Resources used to finance items not part of the net cost of operations:		
Change in budgetary resources obligated for goods/services/benefits ordered but not yet provided (+/-)	(6,778,893)	2,624,898
Resources that fund expenses recognized in prior periods	-	(38,082)
Budgetary offsetting receipts that do not affect the net cost of operations	45,163,340	85,255,615
Resources that finance the acquisition of assets	(977,244)	(997,518)
Payments to States (note 12)	(3,127,077)	(3,094,042)
Total resources used to finance items not part of the net cost of operations	34,280,126	83,750,871
Total resources used to finance the net cost of operations	(4,276,961)	(2,649,626)
Components of the net cost of operations that will not require or generate resources in the current period:		
Components requiring or generating resources in the future periods:		
Increase in unfunded liabilities	1,644,014	265,753
Total components of net cost of operations that will require or generate resources	1,644,014	265,753

Components not requiring or generating resources:		
Depreciation and amortization	2,656,772	2,595,296
Other	(23,825)	(211,423)
Total components of net cost of operations that will not require or generate resources	2,632,946	2,383,873
Total net cost of operations that do not require or generate resources in the current period	4,276,961	2,649,626
Net Cost of Operations	$ -	$ -