

# FERC AUDITS



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Conducting Public Utility Business in Uncertain Times  
Bruder, Gentile & Marcoux, L.L.P.  
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## AUDIT TARGETS AND PROCESS

- How does FERC decide who and what to audit?
- What should you expect when FERC auditors come knocking?



## FERC AUDITS

- According to FERC's "2008 Report on Enforcement," the Division of Audits completed 60 audits of public utilities and natural gas pipeline and storage companies in FY2008.
- A survey of FERC dockets shows that the Division of Audits commenced:
  - ❖ 75 audits in FY2008;
  - ❖ 65 audits in FY2007; and
  - ❖ 19 audits in FY2006.
- As of March 3, 2009, the Division of Audits had already commenced 19 audits in the FY2009.

## AUDIT TARGETS: TOPICS

- FERC selects audit subjects based on:
  - ❖ New rules
  - ❖ Commission priorities
  - ❖ Commission Orders
  - ❖ Regional concerns
  - ❖ Area of non-compliance discovered through another audit or investigation

## AUDIT TARGETS: TOPICS

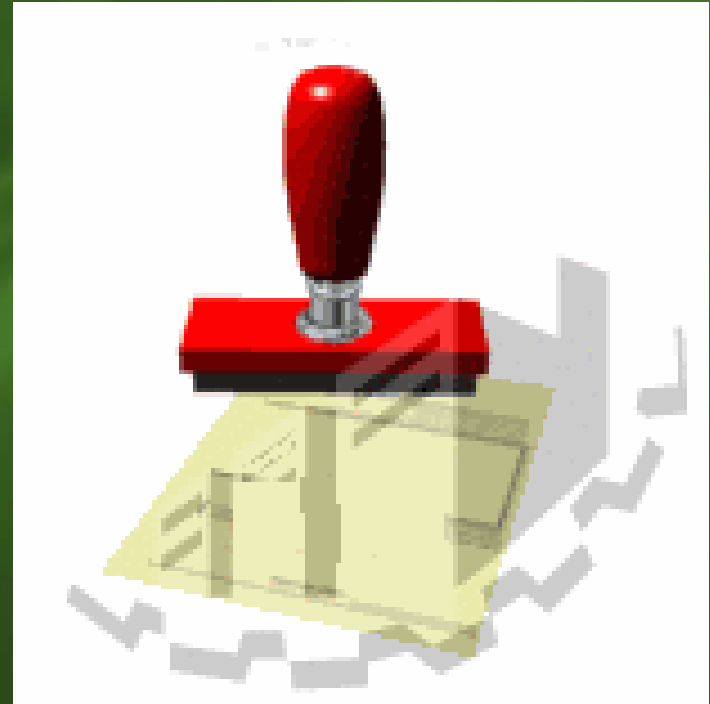
### ➤ New Rules

- ❖ Order No. 890
- ❖ Blanket Authorizations for Mergers and Acquisitions under FPA § 203
- ❖ PUHCA 2005



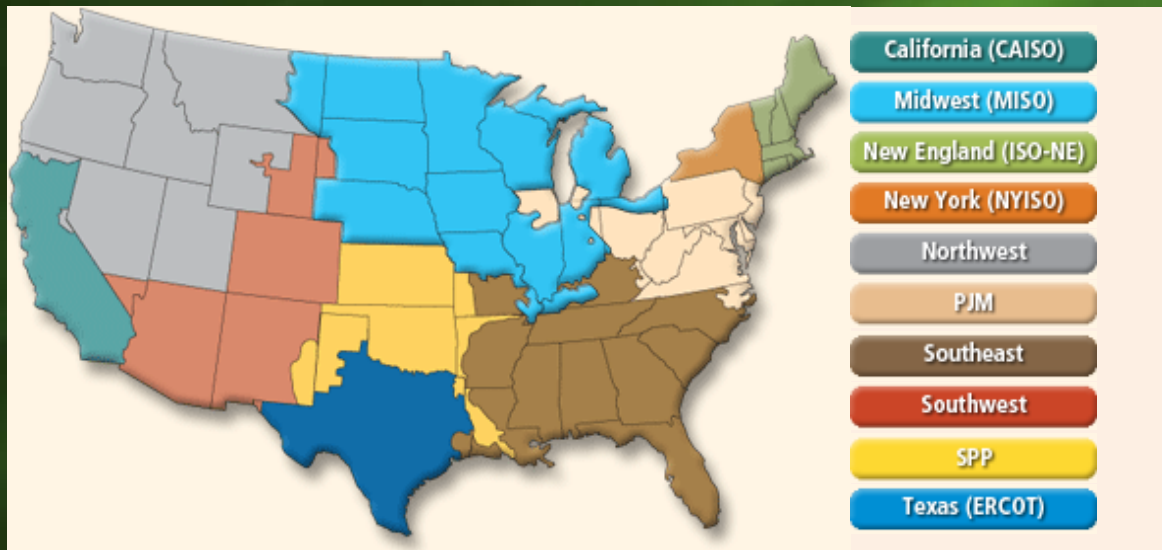
## AUDIT TARGETS: TOPICS

- Commission Priorities
  - ❖ ISO/RTO Independence
  - ❖ OASIS
  - ❖ Reliability
  - ❖ Annual charges
- Commission Orders
  - ❖ Southern Company



# AUDIT TARGETS: TOPICS

## ➤ Regional Concerns



## ➤ Area of non-compliance discovered through an audit or investigation

## AUDIT TARGETS: CANDIDATES

- FERC selects companies on a random basis.
- For each topic, there is a limited universe of companies that fit the audit program.
  - ❖ Type of company (e.g., ISO/RTO, IOU)
  - ❖ Region
  - ❖ Applicability of audit topic (e.g., Interlocking Directorates, Section 203 Blanket Authorization)

## AUDIT TARGETS: CANDIDATES

- Within those topics, candidates may be selected as a result of:
  - ❖ Information gleaned from a monitoring activity.
  - ❖ Information stemming from internally developed screens.
  - ❖ Input from other program offices and agency officials.
  - ❖ Commission Order or mandate.

## AUDIT PROCESS

- FERC audits come in different shapes and sizes.
  - ❖ They may involve multiple data requests and site visits.
  - ❖ They may last from only a few weeks to over a year.
- A FERC audit involves three stages:
  - ❖ Preparation;
  - ❖ Fieldwork; and
  - ❖ Issuance of Audit Report.
- Companies may appeal disputed findings.

## AUDIT PROCESS: AUDIT SCOPE

- Broad or multi-scope audits:
  - ❖ Encompass several topics.
  - ❖ Typically last from six months to over a year depending on the complexity of the matters and the level of noncompliance.
  - ❖ Involve several data requests of varying detail.
  - ❖ Involve a minimum of one site visit (multiple site visits often occur).

## AUDIT PROCESS: AUDIT SCOPE

- Narrow scope audits:
  - ❖ Consist of one topic (e.g., OASIS, Index of Customers, or Annual Charges).
  - ❖ Typically last from a few weeks to three months.
  - ❖ Involve minimal data requests.
  - ❖ Generally do not involve site visits.

## AUDIT PROCESS: PREPARATION

- Audit program
- Audit survey
- Commencement letter and initial phone contact with company



## AUDIT PROCESS: FIELDWORK

- Audit fieldwork is Staff's opportunity to gather and analyze information.
  - ❖ Data requests
  - ❖ Site visit(s)
  - ❖ Interviews
  - ❖ Testing



# AUDIT PROCESS: AUDIT REPORT AND COMPLIANCE

- Audit Report
  - ❖ Initial draft audit report
  - ❖ Consultation with the company and revised draft audit report (may be an iterative process)
  - ❖ Final audit report and compliance program
- Compliance Filings
- Appeals Process (audited companies may dispute FERC's findings)