

Transcript

Chairman Kelliher with Mark Haines and Erin Burnett, CNBC's "Squawk on the Street," June 9, 2008

Mark Haines: Soaring temperatures. Soaring energy costs. Increased consumer demand for electricity and natural gas. How will we make it through the summer? In a CNBC exclusive, fresh from the Opening Bell, we're joined by the Chairman of the Federal Energy Regulatory Commission, usually known as FERC, Joseph Kelliher. Good morning Mr. Chairman, thank you very much for being with us.

FERC Chairman Joseph T. Kelliher: Good Morning.

Haines: First of all, ConEd assured New Yorkers before this weekend began that there would be enough power because the forecast was so brutal. What shape are we in nationwide?

Kelliher: I think we're in pretty good shape, but the question really is heat. How hot will the summer be? If you remember 2006, that summer we set record levels of electricity demand in eight regions of the country. In some regions, we shattered the record three times in the space of a week. So, will this be like the summer of 2006 or the summer of 2007? 2007 was a more moderate summer. So that's the big variable.

Haines: Let me bring up an old chestnut, because in your portfolio is "ensuring the reliability of high voltage interstate transmission systems." Now, we had that big blackout a few years ago, and at the time there were all sorts of stories in the media about what terrible shape the grid is in. What's been done?

Kelliher: Well, the grid is in better shape than it was in 2003. We've pursued policies at FERC to encourage greater investment in the grid. And I'm happy to say that investment in the grid is roughly double since 2002. But I don't think we're investing enough yet in the grid. So we're encouraging greater investment, and we're also using new federal siting authority. We've had a request in California to site transmission, for the federal government to site transmission, and normally it's sited by state governments. So we're using those rules for the first time in Arizona and California.

Erin Burnett: So the issue, it appears, just to emphasize for people, is, especially in light of what's happening with oil prices, it's not that we don't have enough power. It really just continues to be maybe an antiquated distribution system that is getting investment, maybe getting better, but it's really all about how the wires go together, it's not about how much power we have.

Kelliher: I think it's both, really. Electricity demand really continues to rise, so we do need to build more power generation. But we also need to remove some of the bottlenecks and the chokepoints in the grid.

Burnett: What happens if hybrid cars really take off, and they all start needing to plug in

to the grid too?

Haines: Yeah, everybody plugs in, or, alternatively, natural gas powered cars, same deal, you know, you got to plug in at home.

Kelliher: Well, electricity cars, the plug in hybrid electric vehicle is very promising because one of the things that's missing from electricity markets that exists in most markets is the elasticity of demand, and some ability to store. Now, storage is a missing element by and large in electricity. And if you could store it in a plug-in hybrid electric vehicle, it flattens the load, it flattens demand. And it means that if you have that kind of car you could be selling electricity while your car is parked in your garage at work at noon, or 2 in the afternoon. And if you drive home on gasoline, it means you've made a lot of money that day because you've basically emptied your battery selling power at peak demand, getting peak prices. So it's very promising.

Haines: All right. What about natural gas? We had a fellow on a couple of weeks ago, made a very persuasive case for natural gas powered cars. It's flammable. It burns clean. And the question I had was, do we have an infrastructure, do we have a supply where you could, you know, go home and fill it up yourself?

Kelliher: Well, we don't quite have the infrastructure in terms of the stations yet but my concern is we can't use gas for everything. And right now, because of uncertainty in climate change policy, we, through decision or indecision, we have committed, subconsciously perhaps, to using natural gas to supply most of our additional electricity supply for the next 10 years or longer. And I think if we use gas for everything, there already is very strong upward pressure on natural gas prices and we use it for transportation as well as agriculture, industry, electricity, we're going to assure high gas prices continue for a long time.

Haines: Gas will be the new corn, something that we rely on for both food and fuel.

Kelliher: Well, it is used for more than one purpose, so that's true.

Haines: All right. Chairman Kelliher, thank you very much. Thanks for coming by, sharing your thoughts with us.