

12/15/04

**Prepared Remarks by Chairman Pat Wood, III  
Federal Energy Regulatory Commission  
Made at the Commission's December 15, 2004 Open Meeting**

**2004 ROUND-UP**

This has been a very good year. Last December, Joe and Suedeen joined the Commission, and I know I speak for Nora, it's been great pleasure and honor to have them on board -- a pleasure reinforced by Suedeen's reconfirmation to a full five-year term.

It has also been a great pleasure and honor to work with the 1,250 Commission employees -- in my view, the most dedicated and hardworking employees in the Federal government. Thank you for your continued commitment to excellence.

I also want to take this opportunity to highlight some of accomplishments of the Commission, our staff, the industries we regulate, and the customers we serve in the Year 2004.

First, some statistics. As you know, a lot of the Commission's work is reflected in its orders. During 2004, we issued 1,286 Commission orders and 6,282 delegated orders -- numbers that will grow by the end of the year, especially after THIS agenda. That means that to date we have issued over 20 orders a day on average. We also issued 5,508 notices, and processed close to 60,000 submissions.

On the policy front, I'll begin with Commission's actions to advance competitive market institutions across the entire country -- a progression to organized energy markets commenced in Order No. 888 and Order No. 2000. To be sure, this has been a very busy and productive year at the Commission -- one that has brought us into what can fairly be described as a two-thirds/one-third world. Two-thirds of the nation's economy is now in the footprint of an RTO or ISO.

Specifically, during 2004, the Commission in actions from the east to west coasts:

- Approved the ISO NE as an RTO
- Approved enhanced real-time scheduling in NY ISO
- Eliminated "through and out" rates at seams (1) between PJM and MISO and (2) ISO NE and NYISO
- Approved PJM South as part of PJM RTO
- Oversaw the successful integration of PJM West as part of the PJM RTO
- Oversaw the integration of Commonwealth Edison, Dayton, and AEP into PJM West
- Approved the energy markets plan for the MISO

- Approved the PJM RTO-MISO Joint Operating Agreement
- Resolved (using expedited due process) the treatment of grandfathered transmission agreements in MISO
- Approved the SPP RTO
- Approved a regional state committee in SPP
- Approved major parts of the CAISO market redesign
- Approved the last elements of the Path 15 case so that the line was energized on 12/14

The Commission has also:

- Added a field office in Little Rock, AR, that joins the Folsom and Carmel offices
- Issued a Day One RTO cost study and an NOI on cost recovery and management
- Consolidated all market design decisions in an RTO Handbook available on FERC.gov
- Held several two-day conferences with market monitors, and convened monthly conference calls for monitors and Commission staff

Besides advancing competitive market institutions across the entire country, the Commission has continued its commitment to fostering competitive energy markets by establishing balanced, self-enforcing market rules. Specifically, the Commission has:

- Established new interim market power screens related to granting market based rates (and to date, including the actions on today's agenda, the Commission will have processed or plans to process by the end of the year over 90 of those filings)
- Initiated a market-based rate rulemaking with respect to public utilities
- Implemented the standards of conduct for transmission providers and began compliance audits.
- Announced two new affiliate policies: one for affiliate electric sales contracts (*Mountainview*) and one for acquisition of jurisdictional facilities from affiliates (*Ameren*)

And with respect to the business aspect of the regulated companies, the Commission has:

- Clarified the credit policy for electric transmission providers and proposed procedures for interstate gas pipelines to determine creditworthiness of shippers
- Adopted new quarterly financial reporting requirements for public utilities
- Recognized regulatory asset for minimum pension liability

In the past year, the Commission has additionally increased its efforts to protect customers and market participants through vigilant and fair oversight of both traditionally regulated and transitioning energy markets. This has been a very active enforcement year here at the Commission. For example, the Commission has:

- Achieved settlements in the California refund proceedings that have begun to flow more than \$625 million back to California customers
- Completed more than 90 investigations, including (1) the physical withholding investigation and anomalous bidding investigations that were spawned by the California energy crisis of 2000-2001, and (2) settlements in a gas storage information investigation, which resulted in \$8 million in civil penalties and refunds from three companies for violations of the standards of conduct and undue preferences in connection with sharing non-public natural gas storage information data with affiliates and favored customers
- Completed 27 financial audits that (1) will result in about \$7.3 million of refunds by seven public utilities that improperly billed costs through FERC formula rates; (2) disclosed over \$10 million of pipeline assessment and testing costs were improperly capitalized; and (3) verified FERC formula rate refund calculations of about \$2.2 million.
- Completed 12 operational audits that resulted in over 100 recommendations to remedy deficiencies found that were adopted and implemented by the audited companies
- Received and handled over 286 Hotline calls
- Processed 3,974 EQR filings, terminated the market based rate authority of 90 companies no longer active in energy marketing (for a total 129), and standardized the location and contract terminology to improve analysis and quality control
- Provided leadership and guidance on reporting electric and natural gas price publications
- Completed the initial round of compliance review for qualifying facilities

The Commission has also vigilantly and effectively kept an eye on market operations. To that end, the Commission:

- Responded quickly to the January 14 electric and gas price spike in New England with fact-based analyses reporting the results to New England Conference of Public Utility Commissioners (NECPUC)
- Worked closely with the CFTC to analyze and assess the natural gas price surge that began in December 2003, providing update to Congressional staffs and the consuming community
- Produced a State of the Markets Report covering electric and gas markets in all regions
- Published a summer and winter assessment identifying areas of concern for each upcoming season
- Completed a first pass internally on needed additions and deletions to our reporting requirements (FIAT)

Turning now to where it all starts – the energy infrastructure of our nation. Our goal, of course, is to promote a secure, high-quality, environmentally responsible infrastructure. The record this year is outstanding. In particular, the Commission has:

- Issued 49 hydropower licenses representing over 1,780 megawatts of energy, including the large St. Lawrence project
- Completed an environmental assessment for the Priest Rapids project on the Columbia River in Washington, to increase the installed capacity of its Wanapum development from 900 MW to 1038 MW and include design features to improve survival of fish passage through the units
- Held the fourth hydropower licensing status workshop (last week), where it was announced that we have reduced the average age of pending cases from a high of 4.5 years in 2001 to an average of less than three years
- Took steps to remove barriers to entry of wind energy (with more to come in 2005)
- Certificated 20 major natural gas pipeline projects, three storage projects, and two LNG projects (representing 5.7 Bcf/d of pipeline capacity, 7 Bcf/d of storage capacity, and 2.1 Bcf/d of deliverability, respectively).
- Established a separate LNG Engineering Branch within OEP
- Continued our field conferences on infrastructure with New York City, Hartford, and Cleveland conferences
- Approved a settlement of the Cross-Sound Cable reenergizing
- Acted promptly on the new legislation on an Alaskan pipeline by issuing an NOPR on open seasons and conducting a conference in Anchorage two weeks ago
- Conducted a conference focused on underground storage and other factors that differentiate regional natural gas deliverability and market needs
- Executed MOUs with the NEB of Canada and the CRE of Mexico to more closely coordinate North American regulatory matters

Critical to the nation's energy infrastructure were the steps taken in 2004 to support and implement the recommendations of the U.S.-Canadian Task Force on the Blackout of August 2003. Since the Final Report was issued in April, the Commission has:

- Created and begun to fully staff a new Reliability Division in OMTR
- Participated in the NERC reliability and readiness audits
- Issued a policy statement related to bulk power system
- Issued a vegetation management study and reported its result to Congress
- Surveyed (or about to survey – on this agenda) transmission providers with respect to operator training
- Performed a number of critical needs studies to guide future efforts

The Commission continued to focus on the safety, security, and reliability of the nation's infrastructure in other very important ways. For example, this past year, the Commission:

- Increased its capabilities regarding the use of state-of-the-art steady and unsteady flow modeling techniques to resolve flooding complaints
- Played a major role in the development of the Dam Sector Plan and the Energy Sector Plan of the Department of Homeland Security's National Infrastructure Protection Plan (NIPP)
- Led a successful drive to establish a new federal security subcommittee of the Interagency Committee on Dam Safety, which evolved into the National Government's Coordinating Council for Dams, and developed a new vulnerability assessment method for dams currently being used by over 180 organizations in five countries
- Protected over 100,000 downstream residents of Columbia, SC, by requiring and overseeing the \$275 million remediation project at Saluda Dam, while minimizing the environmental and public impact of the reservoir drawdown
- Entered the Second Year of the Potential Failure Modes Analysis and Performance Monitoring Program in which FERC has received widespread support and under which significant safety improvements have already been made
- Entered into an Interagency Agreement on LNG Safety and Security to assure all interested parties that the DOT, US Coast Guard, and FERC are working in a seamless fashion to study and inspect waterfront LNG facilities
- Developed a site specific LNG Hazard Assessment modeling capability to study the hazards of LNG proposals before the Commission
- Continued to apply and monitor the application of the Critical Energy Infrastructure Information regulations, which we refined this past year

So far, I've set forth the significant policy decisions and actions taken by the Commission and primarily its agenda advisory staff in the past year. Behind those activities are many, many people who set the stage or otherwise facilitate and promote the agency's decision making. For example,

- During 2004, the Commission set 95 new cases for hearing or settlement judge procedures. Thirty-four of these new cases have already been terminated, either through settlement or decision. For all of the new and pending cases, 84 cases have been settled this year, and 26 have been the subject of initial decisions.
- The Commission continued to focus on creating a paperless environment, and for that purpose has:
  - Significantly increased the number and types of filings that can be made electronically;
  - Reinforced its eSubscription service;
  - Improved eLibrary (now capable of providing the public with access to

- over TWO MILLION documents with over TEN MILLION pages);
  - Enhanced eForms by releasing quarterly financial reporting software;
  - Introduced Virtual Agenda for the internal scheduling and distribution of action items;
  - Continued to improve the Commission's website; and
  - Issued an NOPR on eTariffs and released prototype software for filers
- The Commission has also been greatly served in the operation of this agency by its logistics, IT, dockets, human resources, budget, financial, procurement, and administrative employees

In the past, the Commission has primarily issued rules, reports, and orders. But today, a good part of our effort involves expansive outreach to customers, utilities, Congress, other agencies, and other countries. The Commissioners and Commission staff have made over 300 formal presentations at conferences, seminars, and meetings. We have also organized or otherwise participated in almost 40 formal fact-finding and policy-development conferences – many on the road. In addition, there have been hundreds of technical conferences and scoping meeting conducted by Commission staff in 2004, and countless number of briefings conducted for state, tribal, and foreign visitors. (For example, we have made 54 presentations to domestic groups and 38 presentations to foreign delegations visiting the Market Monitoring Center alone.) This is government in the Sunshine – government for the people.

As a final note, I'd like to thank my colleagues and the staff for their incredibly generous support of the Combined Federal Campaign. Commission employees have donated \$391,720 to the CFC, which represents 85.3% participation, and an average of \$410 per headquarters employee – compared to \$296,536 representing 71% participation in 2003 – with great leadership from Cyndy Marlette and Ed Gingold. This hopefully will make those less fortunate than us a little better off this holiday season and in the year to come. How fitting that such a public-minded staff would be so incredibly generous to our community.

So what a year! And the promise of more to come. So, without further ado...