



FEDERAL ENERGY REGULATORY COMMISSION

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Chairman Jon Wellinghoff

Statement of Chairman Jon Wellinghoff NARUC Summer Meetings International Presentation on A Shared Energy Vision for North America: Regulations, Markets, and the Environment

"President Butler, fellow members of the Association, and NARUC meeting attendees: Good morning. Thank you for inviting me to this discussion on "A Shared Energy Vision for North America." It's a pleasure to be here among my colleagues from our three countries to discuss a topic of accelerating importance to regulators, legislators and consumers alike.

Vision

Well, we have come here to talk about a shared vision. And I have a vision of our energy future that I want to share with you this morning.

It is a vision for a future:

- Where clean, affordable, and reliable energy are the everyday norm. And maybe we regulators have all retired!
- Where energy efficiency, demand response, micro-generation, combined heat and power and other distributed resources are the first source of energy services for most consumers. And those distributed resources are fully supplemented with competitive procurement of large-scale wind, solar, hydro, geothermal and other renewable resources rounding out a significant share of our total energy resource mix for North America.
- And where customers have robust and transparent interaction and control of the energy resources and services they use and rely on for their energy needs.

But to achieve this vision, the electric power industry and the natural gas industry will need to work together with their customers and their regulators to begin planning and operating in ways that differ significantly from the ways of the past.

Historically, the main industry goal was to plan for reliable energy services at least cost. We called this "Least-Cost Utility Planning" back in 1983 when I wrote one of the first comprehensive utility planning statutes as Nevada's Consumer Advocate.

But times have changed radically in those 26 years. Now, the main driver must be smart planning for environmentally sustainable energy services that provide customer choice—as well as reliable service—at the least total economic and societal cost. Former externalities such as carbon and heat emissions must now be internalized as costs in the equation.

One way (and I pause to assure you there are potentially many others) to achieve this vision is to tailor





our countries' legislation and regulations to rely on robust competitive markets that can fully account for and incorporate the societal costs of sustaining our global environment. Such carefully structured market forces will guide which supply and demand options need to be developed for a sustainable future. But market forces cannot prevail to shape this future unless legislators and regulators act decisively and cooperatively to put the structure in place to achieve this vision.

Cooperation

And cooperation among governments and regulators is essential to achieve this vision. The Commission will continue to work together with our energy partners and neighbors in Canada and Mexico, and we will build upon and strengthen our federal-state partnerships here in the United States.

One good example of this cooperation among our three nations is in the area of reliability.

Regulators in our three countries approve and enforce reliability standards that apply in the Eastern, Quebec, ERCOT, and Western Interconnections, with the Western Interconnection spanning parts of all three countries. Increased attention to reliability not only provides consumers with a greater assurance of dependable energy services, but it also enhances system efficiency through improved maintenance and operational awareness.

A second example of our cooperative efforts is that senior staff of all three North American agencies meet three times a year to discuss regulatory developments and exchange views on best policies and practices.

One outcome of these meetings has been Memoranda of Understanding between the U.S. and Canada and between the U.S. and Mexico to increase coordination and cooperation between our countries' energy agencies when significant cross-border energy infrastructure projects arise.

Similarly, U.S. federal and state governments must cooperate to achieve *our* energy and environmental goals. And I think we have been doing very well with that lately. And I commit to you as Chairman of FERC to continue in that effort.

We must build, strengthen, and enhance our current efforts to work together to implement continuing Congressional and the state legislative initiatives in energy policy. The NARUC-FERC Demand Response Collaborative and the NARUC-FERC Smart Grid Collaborative are both outstanding examples of our state/federal cooperative efforts.

There is much to do together to achieve this vision.

Renewable Energy and Transmission

First, on the supply side: we must cooperate in the joint development of renewable energy resources and a smart and reliable transmission system to deliver those resources to our load centers.

President Obama has stated that the country that harnesses the power of clean, renewable energy will lead the 21st century.

And the President also stated that we will soon lay down thousands of miles of power lines to carry new clean energy to cities and towns across this country. That certainly will happen. But we need to do that in a smart and efficient way.



I believe that we need a national policy commitment to develop the transmission infrastructure necessary to bring renewable energy from remote areas where it is produced most efficiently into our large metropolitan areas where most of the power is consumed.

This commitment can only be realized if the planning of our nation's transmission systems is focused on this challenge.

Renewable energy resources must be integrated into the transmission system in a manner consistent with the reliable operation of the grid. And from the perspective of reliability, even renewable resources closer to loads, such as wind offshore on the Atlantic shelf, will require substantial transmission upgrades to reliably integrate that resource into the Eastern grid.

I believe, and I have told Congress, that some additional federal transmission planning, siting and cost allocation authority would help to achieve both federal and state renewable energy goals.

I want you to know that I could support appropriate limitations on any such additional federal authority:

- If it could be limited to a backstop for state planning and siting authority—to be used only if regional or state processes do not facilitate achieving national or other states' renewable goals;
- If it could be limited to transmission that is primarily for shipping renewable energy, again to satisfy national or other states' renewable goals;
- If it could recognize the primacy of state and regional cost allocation agreements for such transmission projects; and
- If it could acknowledge that states that receive no benefits from such projects should not be allocated a portion of such project costs.

I hope you agree that this is a reasonable approach, and I welcome your views on how we can cooperate to achieve the goal of optimizing the development of our Nation's most efficient and cost effective renewable resources.

Demand Response and Energy Efficiency

Second, turning from energy supply to energy demand, we must cooperate and collaborate in identifying and developing the opportunities for enhancing the development and deployment of demand response and energy efficiency.

The potential for demand response and energy efficiency to reduce or reshape our nation's need for energy is enormous.

As one step toward realizing that potential, the Energy Independence and Security Act of 2007 directs the Commission to complete a National Assessment of Demand Response and a National Action Plan on Demand Response.

Our National Assessment of Demand Response was published just last month.

Congress directed us to assess the potential for each and every state.

I sent a copy of the Assessment to the chairman of every state commission. Over the next two months, we plan to hold webinars with the state commissions so all of you are fully briefed on the contents of this report. We discussed the report extensively yesterday morning in the NARUC/FERC Demand Response



Collaborative.

Our Assessment finds peak electricity demand reductions across the country are already 38 gigawatts. But the potential for demand reductions goes as high as 188 gigawatts, or 20 percent of our peak load, with no demand response.

In other words, the nation could see almost five times as much demand response as it has today and reduce our peak load and the need for expensive carbon and heat emitting peaking plants significantly.

Let me emphasize that this number is not a recommendation or prediction by the Commission, but the findings of a staff-led study of what's achievable.

Congress also directed the Commission to develop an action plan for implementing this demand response potential, which is due next June.

Our staff has been working with a broad group of interested persons to outline that action plan, and we have received valuable advice from many state commissions, as well as from participants in the NARUC-FERC Demand Response Collaborative.

This fall, we expect to release a staff document on the scope of the Action Plan and to hold a conference to pursue a consensus about what should be done.

The 188 gigawatt potential savings for demand response does not count the additional energy and dollar savings that customers can achieve with improved energy efficiency.

It is well known that consumers could save tremendous energy—and money—with more efficient lighting, air conditioning, appliances and machinery.

But less well-known is the fact that the potential for efficiency improvements within the electric power industry from distribution to transmission and generation itself is large.

This may be a new topic for which state-federal cooperation might be very fruitful.

Smart Grid

Third, we must cooperate in bridging the technology gap to fully integrate supply and demand resources with a smart grid.

The smart grid uses two-way communications technologies to enable supply and demand sides of the electric business to co-optimize intelligently. Smart grid technologies are not only advanced in and of themselves, but they are the means for optimizing the deployment of other advanced technologies including renewable resources and electric transportation.

For example:

- A Smart Grid can integrate wind forecasts with load forecasts, with power line loading information and other information to facilitate the reliable integration and delivery of the maximum level of wind energy to load centers.
- When the wind dies down, a Smart Grid can provide the signals for demand response to lower customer demand instead of ramping up load following fossil generation. Similarly, when wind or other variable generation comes back on the grid, it can signal loads such as plug-in hybrid or electric vehicles to begin charging to absorb those generation resources. And a Smart Grid can



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even enable a plug-in hybrid car's battery to provide and get paid for regulation services while the battery is charging.

- Where state regulators allow retail prices to vary with system conditions, the smart grid can enable customers to lower their electric bills by setting appliances to run when prices are lower or allow smart appliances to automatically sense prices and decide when it is cheapest to operate.

The smart grid might do some, none, or all of these things—but it has the capability to do all these things and more. And whether that vision happens depends on the policy choices made by utilities, consumers, and regulators.

The Commission, on its own initiative, adopted a Smart Grid Policy Statement a few days ago.

Among other things, our Policy Statement presents an interim rate recovery policy, which encourages utilities to invest in smart grid technologies and provides for rate recovery without having to go through a full-blown rate case. I urge my state regulatory colleagues to consider whether adopting a similar rate policy to encourage early smart grid deployment is appropriate for your commissions.

In closing, our nation – and our continent – face unprecedented energy challenges. North America has the means necessary to meet these challenges: It has the natural resources, the human resources and the technological resources. Once you have a vision of how best to address these challenges, the way ahead is clear, promising—even exciting.

We regulators of the electric and natural gas energy industries must work together to make that vision for the future a reality.

Thank you all and I look forward to continuing to work with you on this vision."