Federal Energy Regulatory Commission
July 20, 2006
Open Commission Meeting
Statement of
Chairman Joseph T. Kelliher

Item No. E-3: Promoting Transmission Investment through Pricing Reform (RM06-4-000);
Item No. E-4: Allegheny Energy, Inc., Monongahela Power Company, The Potomac Edison Company, and West Penn Power Company (EL06-54-000); and
Item No. E-15: American Electric Power Service Corporation (EL06-50-000)

"One of the major goals of the Energy Policy Act of 2005 was strengthening our energy infrastructure, especially the interstate transmission grid. Today, we issue final rules that should spur greater investment in the bulk power network.

The U.S. transmission system has suffered from underinvestment for a sustained period. In 2005, the expansion of the interstate transmission grid in terms of circuit miles was only 0.5 percent. At the same time, congestion has been rising steadily since 1998.

Transmission underinvestment is a national problem. We need a national solution. Pricing reform is an important part of the solution to this problem.

Today, we issue final rules that would make certain reforms in transmission pricing, and provide certain incentives. The goal of the final rule is clear: securing greater investment in the transmission grid. A stronger transmission grid will increase electric system reliability and promote competition, by encouraging development of a transmission grid that can fully support competitive wholesale markets. Greater grid investment will also make it more difficult to engage in undue discrimination and preference in transmission service, since it is more difficult to detect undue discrimination and preference when the grid itself is constrained.

The final rule takes a more flexible approach towards transmission pricing than the Commission has taken in the past. A number of these incentives reflect departures from what the Commission has allowed in the past with respect to the nature and timing of rate recovery. The rule does not grant any incentives to any particular utility, but instead identifies specific incentives the Commission will allow when justified in the context of specific applications. The burden remains on the applicant to justify incentives.

We are acting within our discretion under the Federal Power Act. The courts have affirmed that the Commission can allow rate incentives, including higher returns, to promote policy objectives such as increased grid investment.

We also honor our legal duty to protect wholesale customers against excessive rates. Under the rule, incentive rates remain bounded by the "zone of reasonableness" in the Federal Power Act. The final rule strikes a careful balance between encouraging greater transmission investment and guarding against excessive rates.

The final rule encourages investment in all regions, in both organized markets and in bilateral markets, and by both transcos and vertically integrated utilities. The final rule reflects a recognition that most transmission in the United States continues to be owned by vertically integrated utilities. At the same time, the rule recognizes that transcos are a proven vehicle for transmission investment, and that transcos are dedicated solely to the business of providing transmission service.

The rule was authorized by the Energy Policy Act of 2005, and we issue the final rule before the deadline established by the Act. So, this rule marks another Energy Policy Act deadline that the Commission not only met, but exceeded.

The Commission has been working on transmission pricing reform for more than three years. I am pleased that we are taking this final action today.

The AEP and Allegheny orders, although not issued pursuant to the Final Rule which will not become effective until 60 days after publication in the Federal Register, are consistent with the new flexibility in Commission transmission pricing policy. With respect to AEP and Allegheny, we grant the petitions for declaratory order, finding the requested rate incentives are just and reasonable. Our orders clear the path for further development of these important projects, but do not constitute final Commission review of jurisdictional rates, terms and conditions. That would take place in future orders on subsequent rate filings."