

Testimony of Jon Wellinghoff
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Introduction

Chairman Boxer, Ranking Member Inhofe, and members of the Committee, thank you for the opportunity to speak here today. My name is Jon Wellinghoff, and I am the Chairman of the Federal Energy Regulatory Commission (FERC or Commission). My testimony addresses S. 1733, the Clean Energy Jobs and American Power Act, in the context of the energy industries. The Commission has regulatory authority over various aspects of these industries. The Commission seeks to assist energy consumers in obtaining reliable, efficient, and sustainable energy services at a reasonable cost through appropriate regulatory and market means.

The Commission has taken various steps to remove barriers to the use of “low carbon” renewable resources and to encourage greater efficiency in the electricity system. These efforts, as described below, and the similar efforts of many States are helping to reduce the emissions produced by the generation of electricity.

Our Nation, however, has the capability to reduce these emissions much more. For example, studies show a potential to develop hundreds of gigawatts of renewable energy resources by 2030, if we expand our infrastructure adequately. Similarly, a study issued this summer indicated that energy efficiency efforts by consumers could reduce our overall energy usage by nearly 25 percent. Moreover, this study did not consider the

significant potential for improved efficiency on the utility side of the meter including the transmission system infrastructure under the Commission's jurisdiction.

A major reason why "low carbon" renewable resources and energy efficiency are not used more extensively is that the cost of greenhouse gas emissions is, in economic terms, an "externality." In other words, the effect of these emissions is not reflected in the price of energy in the marketplace.

S. 1733 can change this situation. This legislation is a way to recognize, in the energy marketplace, the effect of greenhouse gases. Doing so will encourage more energy efficiency and use of "low carbon" renewable resources, allowing us to reduce our greenhouse gas emissions while maintaining our quality of life. We have extensive amounts of untapped renewable resources and large potential to use energy more efficiently. S. 1733 will remove a major impediment to using those tools to this end.

Renewable Resources

Renewable resources can not only help reduce greenhouse gas emissions, but also diversify the fuels used to generate electricity. Fuel diversity helps stabilize our electricity supply against shortages or price spikes in particular fuel markets. Using domestic energy instead of foreign energy also strengthens our national security and reduces our economy's vulnerability to the risk and volatility of imports.

FERC has taken a range of actions to reduce barriers to renewable energy development and deployment. For example, the Commission has reformed transmission rates to exempt wind generators and similarly variable resources from certain penalties for deviating from their scheduled output, since these resources have only limited ability

to control their output. FERC also recognized that its policy for allocating transmission interconnection costs can be a barrier to entry by location-constrained resources like many sources of renewable energy, so we allow variations from our historical policy for such resources. FERC also has approved incentives and other ratemaking policies to facilitate the development of transmission facilities needed for renewable resources, such as facilities to deliver wind power from the upper Midwest to consumers in Chicago and other cities, and from Montana and Wyoming to consumers in Nevada and other Southwestern states. In addition, the Commission is supporting efforts by regional transmission organizations (RTOs) and independent system operators (ISOs) to reduce their backlog of interconnection requests by planned generation projects, many of which are wind projects.

This month, I provided Congress with the Commission's Strategic Plan for FY2009-2014 and committed to take additional steps to address possible barriers to development of renewable resources. The Commission set a long-term goal of exploring and, as appropriate, implementing reforms to allow renewable resources to compete fairly in FERC-jurisdictional electric markets. These efforts could include, for example, changes to market rules, or the implementation of operational tools to support reliable integration of renewable resources. The Commission will seek input from the industry and the public and will change its regulations, as appropriate, to achieve this goal.

A significant expansion of renewable resources in our electricity supply portfolio will require additional high-voltage transmission facilities, network upgrades, and feeder lines. It is highly unlikely that the inter-regional transmission facilities necessary to

deliver the output of certain renewable resources will be constructed without additional federal planning, siting, and cost allocation authority.

As to transmission planning, the Commission has adopted rules to improve transmission planning processes, such as having public utilities open their planning processes to developers of renewable resources and others. Congress has recognized the need for additional improvements, authorizing \$80 million earlier this year for the Department of Energy, after consultation with FERC, to facilitate inter-regional planning efforts. Several other bills have been proposed in Congress this year to encourage or require inter-regional planning, and this type of legislation would be a step to ensuring the success of these efforts.

As to transmission siting, I recognize and respect the long-standing role of the states in performing this function. Nonetheless, under limited and appropriate circumstances, transmission developers should have recourse to federal siting authority at the Commission. Such authority would be helpful even if limited to situations in which states have had an initial opportunity to address a proposal for transmission development and to transmission facilities that are primarily for moving renewable energy.

Finally, cost allocation is often a threshold consideration in the development of transmission facilities for delivering renewable energy. Legislation can help clarify the Commission's authority to allocate a project's costs reasonably among all of a project's beneficiaries. However, such legislation should avoid including unduly restrictive language on cost allocation, particularly language that would impose a requirement to

calculate the precise monetary benefits expected to accrue from a new transmission facility.

While these efforts on transmission issues are vital, we also should not lose sight of the critical role of local renewable energy. We must remove barriers to entry for local renewable resources. Developing and reliably delivering these local resources is important, but that effort must be made in concert with and not separate from developing the necessary transmission infrastructure. We need not choose between local and distant renewable resources; we need them both.

Consumer Energy Use Management

Consumer energy use management, also called demand response, refers to consumers reducing their usage at certain times that will result in improved grid efficiency. In June, the Commission issued an assessment of the potential for consumer energy use management both nationally and for each state, through 2019. The assessment found that the potential for peak electricity demand reductions across the country is 188 gigawatts, up to 20 percent of national peak demand. These savings, if realized, can reduce significantly the number of power plants needed to meet peak demand and thereby reduce carbon emissions by as much as 1.2 billion tons annually.

In its Strategic Plan for FY2009-2014, FERC commits to continue its efforts to identify and eliminate barriers to participation by demand resources in RTO and ISO markets. The Commission also will seek to identify best practices for demand response products and procedures and, if appropriate, initiate a proceeding to change existing market rules.

Smart Grid

Earlier this year, the Commission adopted a policy statement on the smart grid. The Commission identified several priorities for the development of standards for smart grid technologies, including standards needed for the integration into the power system of demand response resources, electricity storage facilities, and electric transportation systems. The Commission also adopted an “Interim Rate Policy,” specifying the criteria that “early adopter” utilities must meet to recover their smart grid costs. The Department of Energy and the National Institute of Standards and Technology (NIST) also have major roles in the development of the smart grid, and FERC is working closely with those agencies and with States in collaboratively fostering deployment of smart grid technology. Later this year, NIST may file a number of proposed smart grid standards for FERC’s review and adoption. If so, the Commission will solicit public comment and review the proposed standards expeditiously.

Renewable Portfolio Standard

While S. 1733 does not address Renewable Portfolio Standard (RPS) issues, a national RPS program is an important adjunct to climate change legislation. Many States have already adopted RPS requirements, and a properly-structured national RPS can add to the benefits achieved from the state requirements. A national RPS should be a “floor,” not a “cap,” on state programs. A national RPS also should encompass not only renewable resources but also distributed energy resources such as energy efficiency, consumer energy use management, combined heat and power facilities, and recycled energy (or waste heat recovery).

FERC is well-equipped to oversee implementation of a national RPS.

Implementation of a national RPS needs to be coordinated with other energy policies significantly affecting the ability of renewable resources to obtain transmission services and make sales into wholesale energy markets. Many of those key policies are within FERC's jurisdiction. FERC not only has day-to-day knowledge of the electric industry, but also has extensive experience in implementing and enforcing regulatory requirements for electric utilities. If a national RPS is enacted, FERC is the most logical and appropriate agency to oversee, implement, and enforce such a national standard.

Carbon Market Assurance

Section 131 of S. 1733 focuses on the need for oversight of carbon markets. Section 131 states the sense of the Congress that there should be a single, integrated oversight program, and specifies a number of defining principles. Section 131 does not, however, establish the program or designate an agency to oversee it. I defer to Congress on which agency should oversee such a program, so long as any legislative language preserves the Commission's existing jurisdiction, including its exclusive jurisdiction over transactions pursuant to a FERC-approved tariff of an RTO or ISO. RTOs and ISOs are regulated comprehensively by FERC, and their services and products are designed to ensure an adequate supply of electricity at reasonable prices for consumers. The RTOs and ISOs also are required to have market monitors, and these entities assist the efforts of FERC staff in detecting and penalizing any manipulation of RTO and ISO markets.

Office of Consumer Advocacy

Section 151 of S. 1733 would establish an Office of Consumer Advocacy (OCA). To ensure its independence from FERC, OCA should be placed within another agency or created as a separate agency. Similar functions in State government are typically performed by State Attorneys General or by agencies outside of State Public Utility Commissions.

Also, section 151 allows OCA to “investigate independently” the rates and services of FERC-regulated companies. But, it is unclear why OCA’s role should exceed the role of others advocating interests in Commission proceedings. Other advocates generally must request that FERC initiate an investigation, not initiate their own investigation. Additionally, the authority to independently investigate the same matters over which FERC has exclusive jurisdiction under the Federal Power Act or Natural Gas Act could create duplicative proceedings for regulated entities and disrupt ongoing FERC proceedings and investigations, including rate proceedings and market manipulation investigations.

Finally, Congress may want to consider funding the Office of Public Participation identified in section 319 of the Federal Power Act, in lieu of enacting section 151. While this Office was intended to, among other things, compensate participants in FERC cases for their litigation costs under certain circumstances, Congress has never funded this Office. Funding this Office may better fulfill the goals of section 151.

Conclusion

FERC is using its statutory authorities aggressively to eliminate barriers to renewable resources and consumer energy use management, and to encourage greater efficiency in the electricity system. As such, we are using the authority we have to implement regulations and policies to address greenhouse gas emissions. But those efforts and the efforts of other Federal and State agencies, while helpful, are not enough to efficiently stem the growing accumulation of greenhouse gases in our atmosphere. S. 1733 is the key to altering this trend. Congress should enact this legislation now.

Thank you again for the opportunity to testify today. I would be happy to answer any questions you may have.