

**Testimony of  
Commissioner Marc Spitzer  
Federal Energy Regulatory Commission  
Before the  
Energy and Environment Subcommittee  
Of the Committee on Energy and Commerce  
United States House of Representatives  
Oversight Hearing for the Federal Energy Regulatory Commission  
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Mr. Chairman and members of the Subcommittee:

My name is Marc Spitzer, and I am a Commissioner with the Federal Energy Regulatory Commission (Commission). Thank you for the opportunity to appear before you today. Today, I will focus on the benefit that properly designed and monitored competitive markets provide to the nation's consumers.

The primary responsibility of the Commission is to ensure the Nation's consumers have reliable energy supplies at just and reasonable rates. Since the late 1970s, Congress has made clear that the optimal means to ensure just and reasonable rates for consumers is through use of competitive markets. The Commission has acted over the last several decades to implement Congressional policy to support competitive natural gas and electric markets.

Competitive markets are not unregulated markets. In developing competitive markets, the Commission evaluates the effectiveness of these markets to ensure they are properly designed and implemented. The Commission vigorously monitors the markets to prevent and to punish the exercise of market power and market manipulation. I will spend the next few minutes discussing how competitive interstate natural gas and electric transmission markets have benefitted consumers and how the Commission monitors the competitive markets.

### **Competitive Natural Gas Markets**

In 1992, the Commission ushered in an open access, competitive interstate natural gas market. These reforms have resulted in an increase in the amount and diversity of natural gas supplies and expanded the infrastructure which has increased the deliverability of these supplies. These advances have moderated pricing volatility and have resulted in relatively lower prices.

According to the Commission's most recent Winter Assessment, "the prospects for natural gas markets are looking better for consumers than they have in many years. Gas prices are moderate, storage is full and supplies are plentiful." Current spot prices for natural gas are relatively low and are predicted to be in the \$5 to \$6 range for the next few years. Indeed, in 2009, the average spot natural gas prices declined 55% to the lowest levels in seven years. Several factors created the decline: flat demand, record storage inventories, a rebound in liquefied natural gas (LNG) imports, increased infrastructure and the development of unconventional shale natural gas reserves. Lower natural gas prices directly benefit gas consumers. However, lower gas prices have positive benefits on other sectors of the economy as well. For example, electricity consumers also benefit from lower gas prices because natural gas serves as a primary fuel for electric generation.

Low gas prices have not deterred gas production. Rather, competitive natural gas markets have led to production increases and therefore natural gas supplies were at an all-time high at the beginning of the 2009-10 heating season. In fact, during most of 2009, production ran ahead of 2008. Rig counts for horizontal drilling, typically used for shale gas, in Marcellus Shale are up 270% over September of 2008, while rig counts in Louisiana are up 194% (62 rigs). The large increase is almost entirely due to improvements in producers' ability to harvest gas from shale and to get it to markets at a reasonable cost. Notably, in June 2009, the Potential Gas Committee, an independent group that develops biennial assessments of gas resources, raised its estimate to over two quadrillion cubic feet, one-third more than its previous level, and almost 100 years of gas production at current consumption levels.

These new supply sources have led to an infrastructure boom, as Commissioner Moeller discusses in his testimony. Competitive markets work best when there is adequate infrastructure to move the supplies. For example, since enacting the reforms to allow for competitive interstate natural gas markets, interstate pipelines have added over 98.1 billion cubic feet per day (Bcf/d) of new pipeline capacity and over 854 Bcf/d of storage capacity with over 35,922 MMcf/d of deliverability. The addition of storage is a particular success story. During the traditional close of the injection season, October 31, 2009, there was 378 Bcf of gas in storage, and 186 Bcf of new storage capacity has been opened over the past two years, but even with this new capacity, U.S. storage fields were 98 percent full on November 1, 2009. Most importantly, investment in infrastructure has saved consumers money.

To accommodate the changes in natural gas supply and demand, the U.S. and Canada will need 28,900 to 61,900 miles of additional natural gas pipeline by 2030. This will require an investment of \$108 to \$163 billion in pipeline assets.

Moreover, between now and 2030, the U.S. and Canada will need 371 to 598 Bcf of additional gas storage capacity. Total expenditures on new storage capacity range from \$2 to \$5 billion. Consequently, the Commission will continue to encourage competitive natural gas market reforms.

## **Competitive Electric Markets**

The Commission is committed to competitive electric markets that will achieve the same degree of supply diversity and investment in infrastructure as has been maintained in the competitive natural gas market.

We have undertaken various efforts to ensure the competitiveness of the wholesale electric markets of the Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs). As the Chairman mentioned, in October 2008 the Commission issued rules to improve the operation of organized wholesale electric markets. These reforms finalized regulations that strengthen the operation and improve the competitiveness of organized wholesale electric markets through the use of demand response and by encouraging long-term power contracts, strengthening the role of market monitors and enhancing RTO and ISO responsiveness. In addition, during my tenure with the Commission we have also reexamined our open access transmission tariff and the ways in which those policies should be implemented in RTO and ISO regions. As part of that analysis, the Commission instituted reforms to its decade-old open-access transmission regulatory framework that will ensure transmission service is provided on a non-discriminatory basis at just and reasonable rates, as well as provide for more effective regulation and transparency in the operation of the transmission grid.

Competitive wholesale electric markets have also been enhanced through a diversity of supply. Coal and natural gas continue to account for more than 70% of the total installed generation capacity. However, the push for cleaner and more efficient generation sources has led to advances from hydroelectricity, wind, geothermal, solar and other resources. As Chairman Wellinghoff noted, the Commission's policies also recognize that non-generation resources such as demand response are competing with traditional generation resources. Importantly, the Commission does not make decisions about the best supply mix for a particular community; those decisions are properly made at the state level. The Commission does, however, seek to ensure a diversity of supply by ensuring there are no undue barriers to resources' ability to participate in the wholesale electric markets.

The RTO and ISO competitive markets also play an important role in providing market signals to highlight where generation and electric transmission should be built. Consumers are the ultimate beneficiaries of these investments.

Another benefit of competition is that it allows technological developments to compete as alternative resources. We have seen that through the increased development of storage technologies, such as batteries and flywheels. The Commission also recognizes that new technological advances are essential to ensuring that wholesale electric markets are working properly. One of these advances is the development and deployment of smart grid technology, as Chairman Wellinghoff discussed. I anticipate that smart grid technology will permit regulators and consumers to more accurately quantify usage and demand. This, in turn, will allow for the design of rates that encourage appropriate and efficient usage of electricity and the nation's transmission grid. I envision that this technology will ultimately allow regulators (federal and state) to customize rates and services in a manner to date not possible. Smart rates that are tailored to the users' needs will, in turn, allow for higher quality of service to consumers at better rates.

As I mentioned earlier, competitive markets do not mean unregulated markets. In the Energy Policy Act of 2005, Congress greatly expanded the Commission's enforcement authority over natural gas and electric markets. The Commission has increased its monitoring of market manipulation and price transparency. Moreover, the Commission's Division of Energy Market Oversight regularly monitors and analyzes the wholesale natural gas and electric power markets and related financial markets. Further, the Commission's Office of Enforcement focuses on fraud and market manipulation, violations of the reliability standards, anticompetitive conduct, and behavior that threatens transparency in regulated markets. In short, the Commission is monitoring competitive natural gas and electric markets for anticompetitive conduct or conduct that interferes with market transparency, which could ultimately undermine the confidence in the wholesale energy markets upon which the nation's consumers rely.

## **Conclusion**

As a proponent of competitive markets, I believe that the Commission must continue to focus on enhancing competition in wholesale electric and interstate natural gas markets. The Commission must continue in its role as an independent wholesale energy regulator by developing rules and policies that allow all types of resources and infrastructure to compete fairly. Just as we should not adopt rules or

policies that ignore the laws of supply and demand, we should not adopt rules or policies that ignore any type of energy resource or infrastructure. Likewise, our rules and policies should not favor one type of resource or infrastructure over another. If we are to achieve the two primary goals of the Strategic Plan laid out by Chairman Wellinghoff, then the Commission's role should be to establish rules and policies that ensure all types of resources, whether they are natural gas, oil, hydro, nuclear, wind, solar or demand resources, have a full and fair opportunity to compete for the ultimate benefit of consumers.