

## Interview

### FERC Chairman Jon Wellinghoff with John Kingston, Platts Energy Week July 24, 2011

**John Kingston:** This past week the Federal Energy Regulatory Commission OK'd a rule that set guidelines on a tricky issue, if a new transmission line gets built, who should pay for it. It has become a particularly important decision to make given the fact that many utilities are facing mandates to purchase more renewable energy, which often gets generated many miles from the place where it is consumed. Here to talk about what FERC did is its chairman, Jon Wellinghoff. Chairman, thank you for joining us on Platts Energy Week.

**FERC Chairman Jon Wellinghoff:** Thank you John.

**Kingston:** This was a rather contentious subject. Some U.S. senators chimed in on it. I know the widely read *Wall Street Journal* editorial page had a few pointed remarks to make. Yet it is probably inevitable, if you are going to have growth in renewable energy and in solar and wind, that a rule like this was passed. Can you recap what the rule does?

**Chairman Wellinghoff:** I certainly can. I think there have been some misconceptions about the rule. The rule really is a monopoly buster. It is going to create jobs and it is also going to lower costs for consumers. What the rule does, basically, is it sets up a system where we have regional planning for transmission so we can comprehensively look at the transmission needs, ensure how much transmission is needed to do things like deliver renewables, like lower congestion, and then lower costs for consumers, and also set up a system where we can determine how to pay for these lines and do it through regional stakeholder processes rather than from the federal government from the top down. We want to make sure that the regions have input, that the states have input, and that input meets their needs. Meets the needs of things like state renewable portfolio standards, where we now have 30-some states that have requirements for putting renewables into their resource mix. So we want to meet those needs of the states in a way that is cost effective and in a way that ultimately can ensure that consumers' costs are as low as possible.

**Kingston:** One of the criticisms going into this was that it socialized costs, that it was going to put costs of new transmission onto people who aren't going to benefit. Now, one of the FERC's guiding principals has always been that the beneficiaries of a project pay for it. You reiterated that in this plan. Was there anything new in the way you handled the idea of cost allocation?

**Chairman Wellinghoff:** There wasn't and again, in the sense that the misconceptions out there, what the rule does, what the rule really does is ensure that if there are no benefits, there will be no payment by consumers. So if you don't benefit, you won't have to pay. That was very clearly, clearly stated in the rule. What we do set forth in the rule though are general principles that costs have to be roughly commensurate with benefits, and that there has to be a cost allocation or cost payment methodology set up by the regions. So we have to have some method to pay for these new infrastructures that can lower costs for consumers. By doing so, that will give developers some certainty as to how to develop transmission, ensure that they can get transmission developed to deliver these lower-cost renewable resources and other resources to consumers.

**Kingston:** This rule requires these regional entities to take public policy decisions into consideration, which sounds like renewable fuel mandates or renewable power mandates. Does public policy involve just renewables or are there other factors involved.

**Chairman Wellinghoff:**No, public policy could involve other issues with respect to ensuring that economic interests are served. It could involve environmental issues as well, such as the new EPA environmental regulations that may come into effect, and ensuring that those are met in ways that reliability is served so that consumers have not only lower-cost power, but stable, reliable power as well. So all of those public policy issues are things that should be considered and that are required to be considered in these regional planning processes that are set out in the structure of the rule.

**Kingston:** Although renewables are at the heart of this decision, I think a lot of analysts believe that the biggest trend in electricity generation in this country is going to be the shuttering or conversion of coal plants to gas because of the bountiful supplies of gas. Does this affect that at all? Does it expedite that, or is that going to be a whole different rule? Or, maybe, are the rules already in place for that?

**Chairman Wellinghoff:** It certainly will expedite the building of needed transmission to get to those gas plants because those plants are going to need transmission as well. We certainly recognize that this rule isn't all about renewables, it is about any resource that comes on the line to reduce congestion and to provide for delivery of lower-cost resources to the consumer. So, we have to have a structure to plan for and pay for that, and that's what this does – it sets up that structure.

**Kingston:** I checked our archives, and the last time you were on the show was 14 months ago and you talked about this issue. Obviously it was long and it was rather difficult, so what were the most contentious issues that you had to overcome.

**Chairman Wellinghoff:** That's right, the draft rule was issued about 13 months ago so you are right on in your timing. Some of the contentious issues were the issue of doing away with the monopoly rights, the right of first refusal, which I think is a really critical aspect. But generally, I think most people agree that if we can if we can have more competition, if we can have more technically competent and financially competent outside developers coming in to develop transmission it's going to lower costs for consumers. That was one aspect of the rule that there was a lot of controversy about, but the controversy was largely from those aspects of the industry that want to preserve their monopolies. They want preserve their monopoly interest and we want to break those up. We want to ensure that consumers have the right to and the access to lower-cost power.

**Kingston:** And the right of first refusal you talked to involves the local utility having usually the right of first refusal to take on a project. With that gone under this rule, the expectation is that individual entrepreneurs are more willing to get into this.

**Chairman Wellinghoff:** Right, individual entrepreneurs who are technically competent and have the financial wherewithal. Large companies, very large companies who want to get into the electric transmission business. And a lot of those are affiliates of existing utility companies from other jurisdictions, so they are expanding. People like MidAmerican, American Electric Power and others – very large utilities that are looking to expand into other areas and want to build transmission because they see that as a new business line.

**Kingston:** Jon Wellinghoff, chairman of the FERC, thank you for coming in today on Platts Energy Week.

**Chairman Wellinghoff:** Thank you for having me.