

Testimony of Patrick Henry Wood, III
Nominee to be a Member of the Federal Energy Regulatory Commission
Before the
United States Senate Committee on Energy and Natural Resources

May 16, 2001

Chairman Murkowski, Senator Bingaman, and members of the Committee, I am honored to be here today as a nominee for the Federal Energy Regulatory Commission (FERC). I would like to express my appreciation to President Bush for his trust in me. It has been a privilege to serve him and the people of Texas for the past six years at the Public Utility Commission of Texas. And, if confirmed for this position, I look forward to serving the nation with the same collegiality, vigor and purpose I have brought to utility regulation in my native state.

I bring some relevant experience with me. As the Chairman of the Texas PUC, I have worked to implement the Federal Telecommunications Act of 1996, which has opened up our local telephone monopolies. With two superb colleagues, I have also presided over Texas' transition from a fully regulated electric power market to a competitive wholesale and retail marketplace.

Texas is unique in that electric providers serving some 86 percent of Texans are in the Electric Reliability Council of Texas (ERCOT), and thus under the retail and wholesale jurisdiction of the Texas PUC. In other parts of Texas, as in all other parts of the nation, wholesale electric jurisdiction is under the FERC. In ERCOT, this situation has allowed the Texas PUC to move forward to address the identical market opening issues that the FERC is addressing.

The absence of jurisdictional ambiguity has allowed Texas to move assertively in setting up its wholesale electric market. Our ability to formulate a market vision and then implement detailed rules on market structure was unfettered. Early on, Governor Bush asked my fellow commissioners and me to set out clear and predictable incentives so that companies would be confident about investing in Texas. Our policies on streamlined generation siting, regional transmission planning, expedited transmission licensing, transmission cost responsibility and retail cost recovery have stimulated an extraordinary investment in new, clean power plants and record investment in new transmission projects. Our market-based approaches toward distributed generation, renewable energy, demand-side bidding and conservation have garnered significant attention.

-2-

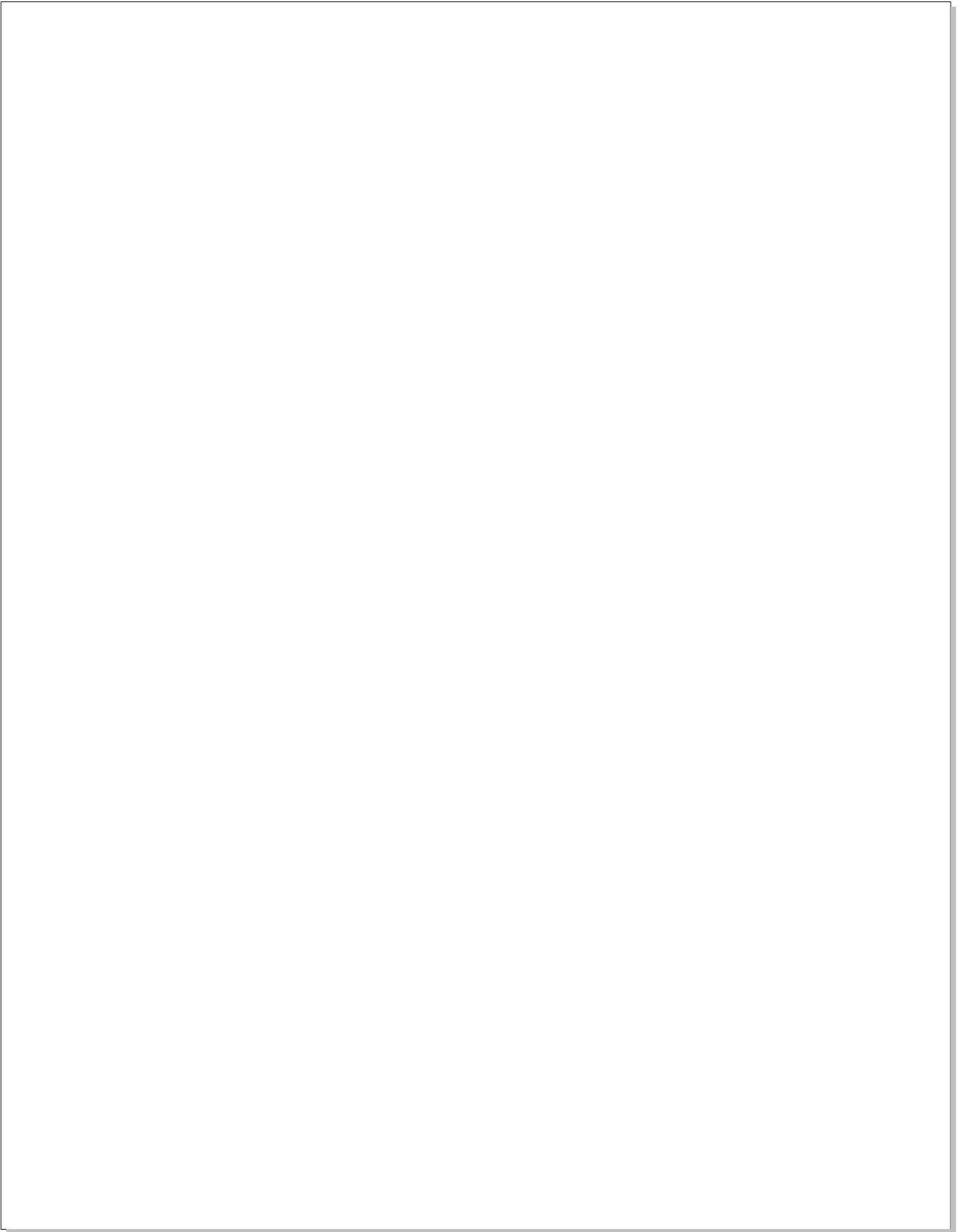
Texas is on the verge of opening its retail markets to competition. One potential blemish is the insufficient number of retailers who have announced plans to serve customers in the non-ERCOT regions of Texas. It discourages me that the basic wholesale market infrastructure is not in place outside ERCOT to allow Texas customers there to benefit from retail electric competition. Congress mandated wholesale electric competition in 1992. It is within FERC's power to establish robust regional wholesale electric markets, and I am committed to getting them in place across the nation this year.

Workable wholesale markets require a number of key ingredients: adequate generation (including a reserve margin), adequate transmission, the ability for at least some customers to respond to prices, a timely and accurate settlement system, standardized rules/protocols and a vigilant market cop walking the beat.

Earlier in my career, I was legal advisor to FERC Commissioner Jerry Langdon. In 1992, the FERC promulgated Order No. 636, which completed the transition to a competitive natural gas market. I have been proud to have been a part of that effort. Recently, as constraints in the gas delivery system are starting to abound, some have questioned whether competitive natural gas markets are still working well. I applaud the aggressive approach the FERC has taken in recent months to overcome this infrastructure lag. I recognize that staying on top of the supply, delivery and demand situation in the broad energy marketplace is a continuing obligation of the FERC.

Hydroelectricity is a key part of the electric power picture in some regions of the country. Of the three substantive areas of FERC responsibility, this is the one in which I have the least direct professional experience. Nonetheless, with the substantial numbers of transmission line certificates I have worked with in recent years at the Texas PUC, I am intimately familiar with the process of working with expert agencies in a timely manner to address environmental concerns in the licensing process.

There is simply no substitute for investment in pipelines, in transmission lines, in power supplies (both big and small) and in demand-side resources. The energy industry is the heart of our economy and should not be immune from the benefits that new technology and market forces have unleashed in the telecommunications industry. In the short seventeen years since major parts of the phone industry were opened up to competition, the explosion of entrepreneurial innovation has transformed our entire culture. Can the loosened electron be any less?



-3-

The demands of the nation require that states and the FERC work aggressively to get ahead of the investment curve, leaving jurisdictional arguments aside. There is plenty of work for everyone to do. A broad net must be cast, including environmental regulators, siting authorities, and state legislators.

Traditional regulation requires regulators to serve as substitutes for a market. Speaking from direct experience in that world for the last decade, it is inefficient, wasteful, subject to erratic changes and rife with bad incentives. But, if we are to supplant a century of traditional regulation, it ought to be with a better system. Wholesale energy markets are in their infancy, and it is important to get them firmly established on a strong foundation. I have a record of doing just that, but more importantly, that record is one based on broad industry-wide collaboration.

A regulator's job isn't to know the answers; it's to get the people that do know them a place at the table and to have the good sense to learn from them. My job for the past six years has been to serve as a catalyst for people from all sides of my state's electric power industry to work together, address the full range of issues and work through the many necessary details to implement a market. Throughout this transition, my chief role has been to keep everyone's eye on the ball: a competitive market that delivers benefits to all customers. If that is not the result, then we go back to the table.

Today the nation faces extraordinary challenges on the energy front. Every industry participant has to understand that our mutual benefit from solving these problems together far exceeds any individual benefits if we fail to comprehensively address them. And working together to implement a comprehensive solution is what we shall do.

Chairman Hebert and Commissioners Breathitt and Massey have faced daunting issues over the past year. If confirmed, I look forward to joining their team with my close friend Nora Brownell, as we work with Congress and the Administration to address our nation's energy concerns.

I appreciate this opportunity to testify before you today and will be happy to answer any questions you may have.