



**Federal Energy Regulatory Commission  
July 16, 2009  
Open Commission Meeting  
Staff Presentation  
Item E-3**

"Good morning Mr. Chairman and Commissioners.

Item E-3 before you today for your consideration is a draft policy statement that sets forth the Commission's policies and near-term priorities to help achieve the modernization of the Nation's electric power system through new "Smart Grid" technologies that are encouraged by the Energy Independence and Security Act of 2007.

These Smart Grid advancements will apply digital technologies for two-way communications, automated controls, and advanced state estimation on the grid. These improvements will permit increased throughput in transmission as well as enable real-time coordination of information from both generation supply resources and demand side resources. This coordinated flow of information will help to facilitate the integration of significant new renewable power sources into the transmission system and also facilitate a greater level of demand response. Ultimately, these technologies are expected to allow both utilities and consumers to better manage their electric energy costs.

The Commission issued a proposed policy statement on March 19, 2009, and sought comment on proposed policies to discharge the Commission's responsibilities under Section 1305(d) of the Act. This section requires the Commission to adopt interoperability standards and protocols necessary to ensure smart-grid functionality and interoperability in interstate transmission and in wholesale electricity markets, once sufficient consensus has been achieved on standards being developed through a process coordinated by the National Institute of Standards and Technology.

The proposed policy statement requested comment on six key priority areas for the Institute and industry regarding interoperability standards. These priorities included the two cross-cutting areas of cybersecurity and standardized communications across intersystem interfaces, as well as the four functional areas: wide-area situational awareness, demand response, electric storage, and electric transportation.

The draft also proposed that smart grid investments that demonstrate cybersecurity and compliance with Commission-approved reliability standards, the ability to be upgraded, and other specified criteria will be eligible for timely rate recovery and other rate treatments.

We received over seventy comments on the proposed policy statement. In general, there was broad support for the key priorities that the Commission had proposed. Comments on the proposed interim rate policy were divided. The draft adopts the two cross-cutting and four functional priorities in the proposed policy statement. It also adopts an Interim Rate Policy for the period until relevant interoperability standards are adopted, which should encourage investment in smart grid systems. This rate policy provides for early adopters of smart grid technologies to recover smart grid costs that are subject to the Commission's rate jurisdiction under the Federal Power Act if they demonstrate cybersecurity, compliance with reliability standards, and the ability to be upgraded, among other factors. The draft states that the Commission has the authority to adopt interoperability standards for a wide range of smart grid applications, including those that affect local distribution systems and makes clear that this does not change Federal and state jurisdiction with regard to rates and economic regulation.

Thank you. We are ready to answer any questions."