



April 29, 2014

Commissioner Tony Clark

STATEMENT

Statement of Commissioner Tony Clark at National Hydropower Association Annual Conference April 29th President's Luncheon

"What a tremendous year for hydropower:

"Since this time last spring, hydropower has been one of the prime movers and shakers in the legislative and regulatory world, by being one of the few energy sources to successfully navigate an important piece of legislation to fruition.

"As a renewable resource with a dependable track record, fast ramping capability, and a reliable fuel source, hydro really is the package deal.

Commission's Hydropower Initiatives

"It should come as no surprise to anyone in this room that one of our primary objectives at FERC is to ensure that hydropower continues to provide safe, reliable, and environmentally sustainable energy to the benefit of U.S. consumers.

"In addition to our day-to-day responsibilities involving licensing and project oversight, the Commission is now advancing Congress' initiatives in the Hydropower Regulatory Efficiency Act of 2013 by processing numerous conduit exemptions and preliminary permit extensions.

"As expected, one of the greatest challenges presented by the Hydropower Regulatory Efficiency Act, which also has the potential to provide tremendous efficiency gains, is Congress' directive to FERC to investigate a 2-year licensing process for proposed projects at nonpowered dams and closed loop pumped storage projects.

"Pursuant to Congress' Act, the Commission held an initial workshop on October 22nd last year and received comments that informed our notice of solicitation for pilot projects to test the 2-year licensing process, which was issued January 6th.

"This is all happening in Docket No. AD13-9, where we've established a May 5th deadline for applications.

"In light of the hydropower industry's historic enthusiasm for such a process, we're anticipating a great effort that can hopefully advance the Commission's licensing procedures for the better.

"Outside of Congressional pursuits, FERC has also recently instituted several regulatory changes that have the potential to reduce barriers that are "damming up" the opportunity for hydropower resources to provide grid-level services.

"In 2011, for instance, the Commission issued Order No. 755 to increase compensation for resources such as hydro that are capable of providing frequency regulation services in organized markets.



"The Commission followed in the next year with Order No. 764, which removes barriers to the integration of variable energy resources, including hydrokinetic generating facilities, by providing transmission customers with the ability to more frequently change their schedules for transmission service.

"Also, just last year we issued Order No. 784, which provides asset owners with enhanced opportunities to obtain market-based rate authority for selling ancillary services.

"These recent rulemakings represent efforts by the Commission to reduce barriers for resources such as hydro, in order to hopefully ease open the "floodgates" by more adequately recognizing resource capabilities.

Hydropower and Pumped Storage Projects Supporting Grid Reliability Goals and the Integration of Variable Energy Resources

"As I'm sure you're aware, in the next few years our nation is facing a tightening electricity supply, which means we'll need every bit of help that resources like hydropower can offer.

"The North American Electric Reliability Corporation, or NERC, recently issued its 2013 Long-Term Reliability Assessment, which projects a net reduction of over 35 GW of coal-fired generation by 2023.

"In its report, NERC also expressed concerns about an aging nuclear fleet and an increasing amount of intermittent resources such as wind, and solar.

"This reliability assessment paints a picture where the grid of tomorrow will likely be served by tighter reserve margins and increased volatility, thus heightening the need for dependable and flexible generators.

"As the regulatory agency in charge of wholesale electricity markets and transmission service, FERC's efforts are concentrated on ensuring adequate system reserves and just and reasonable prices in the coming years.

"In that capacity, we've been analyzing the effects of the "dash to gas," a recent market shift spurred by an abundance of fuel from shale regions.

"I would hasten to add at this point that I believe, on the whole, this has been a tremendously beneficial development.

"Given present and future EPA regulations, I would hate to think what consumers would be paying to keep on the lights, and how much worse our economy would be right now, were it not for this resource that dropped into our laps at precisely the time our nation needed it most.

"Nonetheless, abundance of natural gas into the market is leading to increased reliance on natural gas-fired generation.

"This creates operational ramifications for both the electric and gas industries that FERC must address, and this is an issue with which we have been engaged for the last couple of years.

"However, more recently we observed operational constraints during cold-weather events in early 2014.

"At a technical conference earlier this month, grid operators and market participants discussed challenges associated with cold-weather operations, including a significant level of forced generator outages related to equipment breakdowns and a constrained fuel supply.

"One system operator, the PJM Interconnection, reported over 40 GW of forced outages on a single day in January.



"The challenges we heard at this technical conference emphasize the need for further resource investment to ensure a deep and diverse supply stack capable of providing resilient operations in the upcoming years.

"Altogether, these changes present an opportunity for hydropower to serve an expanding role in the nation's electricity supply.

"While hydro can incur outages, just like any other resource, the point is that having a deep supply stack, dependent on a variety of fuels, provides optionality that could make the difference between resource adequacy and a blackout, which is a prime concern for FERC specifically.

"More generally, from a consumer cost perspective, hydro helps ensure a diverse portfolio that can act as an effective hedge against the inherent fuel cost volatility risk that accompanies overdependence on any one fuel source.

"As mentioned earlier, FERC is currently implementing measures that will result in more efficient licensing practices and greater opportunities for hydropower development, but I'm always open to hearing from the industry about additional mechanisms that could be utilized.

"For instance, the Commission held another technical conference in September of 2013 to investigate the design of centralized capacity markets administered by regional transmission organizations and independent system operators.

"While we're still pouring through several hundreds of pages of comments and suggestions, there are potential avenues for further design enhancements, including the possibility of pricing fuel security and/or beneficial operational characteristics into these markets so as to avoid an overreliance on any single resource.

"If you have ideas about how to further recognize the services provided by hydro resources, I encourage you to actively engage in stakeholder processes and with your government to get your thoughts heard.

"Also, I wanted to put in a quick plug for the Department of Energy's study on hydro potential in the U.S.

"As you know, DOE's study, which is being conducted pursuant to section 7 of the Hydropower Regulatory Efficiency Act, explores the capacity for existing pumped storage facilities to support intermittent renewables and grid reliability, and to identify the development potential for conduit projects.

"I'm eagerly awaiting the outcome of this study and am hopeful it will contribute substantially to our understanding of hydro potential in ways that will guide further development in upcoming years.

Commission Efforts to Meet Additional Workload

"In the meantime, we'll continue to work through other pressing issues arising under our current regulatory construct.

"As presented by staff at our January Open Meeting, the Commission will be facing a substantial increase in the filing of relicensing applications between 2019 and 2025.

A total of 9.5 GW of hydro will go through the Commission's relicensing process during this time.

"Between this, the implementation of Congressional actions, and an increasing number of applications for original projects, the Commission has started to make changes to ensure staff's efforts are properly allocated for the tasks at hand.



"In planning ahead to meet these challenges, we're staffing up on key positions to make certain we have an adequate number of biologists, engineers, archeologists, and other staff available for the licensing process.

"Our Office of Energy Projects has also put into place a plan for distributing the surge of relicensing applications across the various office branches.

"Our overall objective is to keep our current processes running efficiently in order to address your concerns in a timely manner for the benefit of all parties involved in Commission proceedings.

"Thank you for your time. With that, I'll take any questions the audience may have."