Federal Energy Regulatory Commission
November 15, 2007
Open Commission Meeting
Statement of
Chairman Joseph T. Kelliher

Items E-3, Southern California Edison Company (Docket No. EL07-62-000)

"The United States does not have a Third World power grid. We have the most extensive bulk power system in the world. However, we do not have the grid we need to assure reliability and support competitive wholesale power markets.

The question is – what is the best way to strengthen the grid? There probably is not a single step that will prove sufficient. Instead, FERC is pursuing a number of approaches. We are strengthening transmission planning, through the regional planning requirements in Order No. 890. The grid is regional in nature, and planning should reflect the true nature of the bulk power system.

We have established regional cost allocation rules in the organized markets, to reduce uncertainty about recovery of investment in grid expansion. We have allowed different approaches in different regions. I think that is appropriate, since there are significant differences in the physical nature and use of the regional power grids.

Congress recognized the importance of expanding the transmission grid in EPACT 05 by adopting the backstop transmission siting procedures and the transmission incentive rates rulemaking. We have implemented the new transmission siting authority Congress granted us two years ago. We have been careful in our approach and implemented rules that are consistent with the view that states retain the primary role in siting transmission and the FERC role is secondary and supplemental.

We also have granted incentives to make grid investment more attractive. We have granted a range of incentives, including allowing higher returns. To me, it only stands to reason that higher returns will encourage greater levels of grid investment. That approach has achieved great success in securing higher levels of investment in our natural gas pipeline network.

I believe FERC policies are making a difference. Since 2002, grid investment in the United States has roughly doubled. We are seeing the kind of major backbone transmission projects developed that have not been proposed for twenty five years. I believe these trends suggest the success of our current approach towards transmission.

However, while the level of investment is much higher, it is still not at the levels we need to assure grid reliability and support competitive regional power markets. To some extent, we are still playing "catch up" for the sustained level of underinvestment that only recently came to an end. We need to achieve still higher levels of investment.

The Commission has struggled with its approach towards incentives for transmission investment for a number of years. We issued a transmission pricing incentives policy statement in January 2003, but the real purpose of that policy statement was encouraging regional transmission organization membership rather than investment. Some members of the Commission, including myself, thought the focus should be on investment.

Congress helped focus our efforts with the transmission incentives provisions of the Energy Policy Act of 2005. There is no doubt that the primary object of the transmission incentives

provisions of section 1241 is encouraging greater investment. I acknowledge encouraging deployment of transmission technologies is also a stated goal.

In the wake of the Energy Policy Act of 2005, the Commission was able to issue transmission incentives rules. We issued a proposed rule and final rule unanimously under the prior Commission, and a rehearing order unanimously under the current Commission. I thank my colleagues for working in good faith with me and our other colleagues during deliberations on the rehearing order. The projects before us today seem just the kind of transmission improvements that Congress had in mind.

I think we should apply the test as defined in the rehearing order in our deliberations on transmission incentives. I appreciate we can reach different conclusions as we apply the test in the rehearing order. But if we depart from the test as defined in our own rules, we undermine regulatory certainty.

Despite our agreement on rehearing order, there are still differences among the Commission on transmission incentives. Probably the greatest difference is the extent to which we should allow higher returns to encourage greater investment. I believe we all agree there is a need for higher levels of transmission investment. But not all agree higher returns may be necessary to secure that investment. I believe we should allow higher returns, and that we are unlikely to secure adequate investment if we do not.

Despite these differences, the Commission has worked in good faith on the orders before us today. I support the three transmission incentives orders on the agenda today and believe they are consistent with the rules adopted by the Commission last year."