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BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF: :  
CONSENT MARKETS, TARIFFS AND RATES - ELECTRIC :  
CONSENT MARKETS, TARIFFS AND RATES - GAS :  
CONSENT ENERGY PROJECTS - MISCELLANEOUS :  
CONSENT ENERGY PROJECTS - CERTIFICATES :  
DISCUSSION ITEMS :  
STRUCK ITEMS :  
- - - - -x

945TH COMMISSION MEETING

OPEN SESSION

Commission Meeting Room  
Federal Energy Regulatory  
Commission  
888 First Street, N.E.  
Washington, D.C.

Thursday, March 19, 2009

10:06 a.m.

1 APPEARANCES:

2 COMMISSIONERS PRESENT:

3 ACTING CHAIRMAN JON WELLINGHOFF

4 COMMISSIONER SUEDEEN G. KELLY

5 COMMISSIONER MARC SPITZER

6 COMMISSIONER PHILIP MOELLER

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P R O C E E D I N G S  
945TH COMMISSION MEETING

(10:06 a.m.)

ACTING CHAIRMAN WELLINGHOFF: Good morning. This is the open meeting of the Federal Energy Regulatory Commission that has been duly posted and noticed according to the Government In The Sunshine Act for the time and place for the matters on the agenda.

Please join in the Pledge of Allegiance.

(Pledge Allegiance recited.)

ACTING CHAIRMAN WELLINGHOFF: Before we get started this morning, I've got a couple of things. One, I want to thank Commissioner Kelly for her testimony on the Smart Grid before Congress. If you have any report on that, or any information you want to provide us, please feel free to do that.

I also want to thank Commissioner Moeller for his testimony on the Hill on Renewables on Federal Lands. Thank you very much.

Commissioner Spitzer, do you know where President Obama is today?

COMMISSIONER SPITZER: I do not.

(Laughter.)

COMMISSIONER SPITZER: It shows these meetings are not rehearsed.

1 (Laughter.)

2 ACTING CHAIRMAN WELLINGHOFF: That is a very  
3 important point. He is in Pomona today. He's at the  
4 Southern California Edison Electric Vehicle Research Center.

5 COMMISSIONER SPITZER: Okay.

6 ACTING CHAIRMAN WELLINGHOFF: Looking at electric  
7 vehicles there. Actually the largest fleet of electric  
8 vehicles in the United States, I believe, is at that Center.  
9 They have the Toyota Rab vehicle that they use to do meter  
10 reading and other maintenance, and he is touring the Center.  
11 So I thought you might be interested.

12 COMMISSIONER SPITZER: You have a very diligent  
13 convert.

14 (Laughter.)

15 ACTING CHAIRMAN WELLINGHOFF: I'm aware of that.

16 COMMISSIONER SPITZER: For the technology.

17 ACTING CHAIRMAN WELLINGHOFF: I'm aware of that.

18 Does anybody else have any comments this morning?  
19 Phil?

20 COMMISSIONER MOELLER: First, Mr. Chairman, thank  
21 you for the chance to testify in front of the Senate  
22 Committee on Tuesday. It turned out to be really quite an  
23 easy assignment, thanks to the leadership that you and  
24 Secretary Salazar showed in agreeing to work diligently  
25 toward a Memorandum of Understanding on how we will jointly

1 deal with the hydrokinetic development in the waters of the  
2 Outer Continental Shelf.

3 So the fireworks were not there, thanks to you  
4 basically defusing them with that agreement. Thank you for  
5 sitting down and showing that leadership with Interior so we  
6 can get this technology hopefully in the water and  
7 developed.

8 ACTING CHAIRMAN WELLINGHOFF: Thank you.

9 COMMISSIONER KELLY: Well thank you, Jon.

10 I appreciated the opportunity to testify on Smart  
11 Grid before the Senate Energy Committee. I think that it's  
12 fair to say that a consensus of the Committee members  
13 emerged from that hearing that they are very anxious to move  
14 forward with deployment of the Smart Grid.

15 They are particularly interested and concerned  
16 about the advancement of Interoperability Standards. That  
17 of course provides a lead-in to the main topic we are going  
18 to discuss today.

19 ACTING CHAIRMAN WELLINGHOFF: Yes, Phil.

20 COMMISSIONER MOELLER: I have one other  
21 announcement. There are a number of business and government  
22 leaders from California visiting us today from the City of  
23 Modesto and Stanilaus County. I would like them to stand to  
24 be recognized. They wanted to know what a FERC meeting was  
25 like, and they made the effort to come.

1 (Applause.)

2 COMMISSIONER MOELLER: Thank you.

3 ACTING CHAIRMAN WELLINGHOFF: Thank you.

4 Well I would like to note that since the February  
5 19th Open Meeting we have issued 74 Notational Orders since  
6 then. And with that, Madam Secretary, if we could go to the  
7 Consent Agenda, please.

8 SECRETARY BOSE: Good morning, Mr. Chairman.  
9 Good morning, Commissioners.

10 Since the issuance of the Sunshine Act Notice on  
11 March 12th, 2009, Items E-18 and C-6 have been struck from  
12 this morning's agenda.

13 Your Consent Agenda items for this morning are as  
14 follows:

15 Electric Items: E-3, E-4, E-5, E-6, E-8, E-9, E-  
16 10, E-11, E-13, E-14, E-15, E-16, E-17, E-19, E-20, and E-  
17 21.

18 Gas Items are G-1 and G-2.

19 The Hydro Items are H-1 and H-2.

20 Certificate Items are C-1, C-2, C-3, C-4, C-7,  
21 and C-8.

22 As required by law, Commissioner Moeller is not  
23 participating in Consent Items E-10, E-20, and C-8.

24 We will now take a vote on this morning's Consent  
25 Agenda Items beginning with Commissioner Moeller.

1                   COMMISSIONER MOELLER: Noting my recusal in E-10,  
2 E-20, and C-8, I vote aye.

3                   SECRETARY BOSE: Commissioner Spitzer.

4                   COMMISSIONER SPITZER: Vote aye.

5                   SECRETARY BOSE: Commissioner Kelly.

6                   COMMISSIONER KELLY: Aye.

7                   SECRETARY BOSE: And Chairman Wellinghoff.

8                   ACTING CHAIRMAN WELLINGHOFF: Vote aye.

9                   SECRETARY BOSE: We will now have comments from  
10 Commissioner Moeller on certain Consent Agenda Items.

11                   COMMISSIONER MOELLER: Thank you.

12                   We have six reliability orders on this Consent  
13 Agenda. Three of them deal with a very technical but very  
14 important issue about available transfer capacity on the  
15 transmission system. It is an item that, again, although  
16 complicated is necessary to make sure that we have the most  
17 efficient and reliable transmission system possible, and I  
18 commend the staff for their hard work on that.

19                   The other three items deal with various  
20 iterations of already-existing standards. I think the point  
21 is that we are making a tremendous amount of progress--of  
22 progress, under some pressure, to get a suite of reliability  
23 standards that the industry can understand and conform to  
24 ultimately in a way to protect consumers to make sure that  
25 we have the most efficient grid possible.

1                   These are complicated, lengthy orders but I  
2 appreciate the Staff's diligence and the fact that they are  
3 on the Consent Agenda says a lot.

4                   Mr. Chairman, thank you for letting me make some  
5 comments on these.

6                   ACTING CHAIRMAN WELLINGHOFF: Thank you, Phil.  
7 Does anyone else have comments on the Consent Agenda Items?

8                   (No response.)

9                   ACTING CHAIRMAN WELLINGHOFF: Thank you. We can  
10 move then to the Discussion Agenda, please.

11                   SECRETARY BOSE: For presentation and discussion  
12 this morning is E-22 concerning a draft Smart Grid Proposed  
13 Policy Statement and Action Plan in Docket No. PL09-4-000.  
14 There will be a presentation by David Andrejczak from the  
15 Office of Electric Reliability and Ray Palmer from the  
16 Office of Energy Market Regulation. They are accompanied by  
17 Elizabeth Arnold from the Office of the General Counsel, and  
18 Bill Longenecker from the Office of Energy Market  
19 Regulation.

20                   MR. ANDREJCAK: Good morning, Mr. Chairman, and  
21 Commissioners.

22                   Item E-22 before you today for your consideration  
23 is a draft of a proposed policy statement and action plan  
24 that sets forth the Commission's policies and near-term  
25 priorities to help achieve the modernization of the Nation's

1 electric transmission system, one aspect of which is Smart  
2 Grid development.

3 Smart Grid advancements will apply digital  
4 technologies to the grid and enable real-time coordination  
5 of information from both generation supply resources and  
6 demand side resources. These technologies will also help  
7 facilitate the integration of significant new renewable  
8 power sources into the transmission system.

9 The new efficiencies to the electric system from  
10 the improved communication and coordination between  
11 utilities and with the grid will produce both energy and  
12 cost savings in the provision of electric service.

13 Ultimately, these technologies are expected to  
14 facilitate demand response and other consumer transactions  
15 and activities that will allow consumers to better manage  
16 their electric energy costs.

17 The implementation of the Smart Grid technologies  
18 must also be done in a manner that will enhance the ability  
19 to operate and maintain a secure and reliable bulk power  
20 system.

21 Section 1305(d) of the Energy Independence and  
22 Security Act of 2007 requires the Commission to adopt  
23 interoperability standards and protocols necessary to ensure  
24 Smart Grid functionality and interoperability in interstate  
25 transmission and in wholesale electricity markets.

1           The proposed policy statement will help provide  
2           direction in achieving some of the tasks that need to occur  
3           before the Commission begins the formal process of adopting  
4           these standards and protocols.

5           I will now turn to Ray Palmer to discuss some of  
6           the details.

7           MR. PALMER: Under the Energy Independence and  
8           Security Act of 2007, the Commission is required to  
9           undertake a rulemaking process to adopt interoperability  
10          standards for the Smart Grid, once sufficient consensus has  
11          been reached in the development of such standards under the  
12          coordination of the National Institute of Standards and  
13          Technology.

14          The development and implementation of these  
15          interoperability standards is a challenging task which  
16          requires the efforts of industry, the states, and other  
17          federal agencies in addition to the Commission.

18          The Commission will use its authority in  
19          coordination and cooperation with other governmental  
20          entities to help achieve the goal of interoperability in a  
21          timely manner.

22          The purpose of the policy statement and action  
23          plan the Commission ultimately adopts will be to prioritize  
24          the development of key interoperability standards, provide  
25          direction to the electric industry regarding cyber security

1 requirements for Smart Grid projects, and contain--and  
2 provide an interim rate policy under which jurisdictional  
3 public utilities may seek to recover the costs of Smart Grid  
4 deployments before relevant standards are adopted through a  
5 Commission rulemaking.

6 Specifically, development of interoperability  
7 standards for inter-system communication and coordination,  
8 system and cyber security, wide-area situational awareness,  
9 demand response, energy storage, and electric vehicles  
10 should be priorities and accelerated.

11 The work done on these suits of standards will  
12 provide a foundation for development of many other  
13 standards.

14 The draft also proposes that Smart Grid  
15 investments that demonstrate system and cyber security and  
16 coordination with Commission-approved Reliability Standards,  
17 the ability to be upgraded, and other specified criteria  
18 will be eligible for timely rate recovery and other rate  
19 treatments.

20 The Commission would seek comments from the  
21 industry on these and other steps the Commission can take to  
22 encourage and expedite the development of Interoperability  
23 Standards and implementation of Smart Grid projects.

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

25 ACTING CHAIRMAN WELLINGHOFF: Thank you, team. I

1 want to thank all the people who worked on this, the Office  
2 of Energy Market Regulation, the Office of Electric  
3 Reliability, and the Office of General Counsel, and all the  
4 staff behind it. I think this is an extremely important  
5 order.

6 I think we are experiencing a profound change in  
7 the way our Nation produces and delivers and consumes  
8 electricity. A smarter Bulk Power System and the generation  
9 and demand resources associated with it will operate more  
10 securely, reliably, and efficiently.

11 Improved monitoring of the Electric System with  
12 real-time information from advanced sensors, and the  
13 enhanced ability to process information and coordinate  
14 actions of millions of devices and systems in real-time will  
15 allow system operators to optimize system reliability and  
16 reduce grid costs and congestion.

17 The Smart Grid will also play a critical role in  
18 the integration of new renewable resources and will be vital  
19 to enable advanced technologies such as plug-in hybrid  
20 electric vehicles, and vehicle-to-grid capabilities.

21 I expect that that this increased efficiency,  
22 reliability, and flexibility of the Electric System will  
23 offer consumers more choices, and the ability to manage  
24 their energy costs resulting in long-term savings for  
25 everyone.

1           The Commission is issuing this Proposed Policy  
2           Statement on Smart Grid to prioritize and accelerate the  
3           development of key interoperability standards that are  
4           needed to unlock the potential benefits of the Smart Grid.

5           The National Institute of Standards and  
6           Technology, FERC staff, DOE, and representatives of industry  
7           have been working diligently to develop interoperability  
8           standards.

9           In many cases, broadly accepted standards  
10          currently exist to support some portion of the areas that we  
11          have identified as high priority for standards' development.  
12          However, these existing standards need to be extended and  
13          broadened to be made to work with each other.

14          Security and reliability of the transmission  
15          system is of paramount concern to the Commission.  
16          Therefore, it is appropriate that the first priority we  
17          articulate in this Proposed Policy Statement is for the  
18          development of standards to ensure the reliability and  
19          security, both physical and cyber, of the electric  
20          system.

21          It is also appropriate that the Interim Rate  
22          Policy we announce to encourage Smart Grid investment  
23          requires demonstration that employment of new technologies  
24          will ensure system security and be compliance with  
25          Commission-approved Reliability Standards.

1           I also agree that development of interoperability  
2 standards for inter-system communication, wide-area  
3 situational awareness, demand response, electric storage,  
4 and electric transportation should be prioritized and  
5 accelerated.

6           The work done on these key standards will provide  
7 a foundation for development of many other standards. The  
8 guidance we provide today is also timely, given the  
9 expanding development of renewable resources of electricity  
10 in the United States.

11           We anticipate significant additions of wind  
12 generation, as well as generation from other variable  
13 renewable resources. This is driven in part by state  
14 renewable portfolio standards and by national tax and energy  
15 policies.

16           Renewable energy resources such as wind, solar,  
17 and geothermal are often located in economically developable  
18 quantities at dispersed sites remote from load centers. As  
19 I stated in our technical conference on March 2nd, I believe  
20 that developing the transmission infrastructure needed to  
21 deliver electricity from renewable energy resources is  
22 essential to meeting our national goals such as reducing  
23 greenhouse gas emissions, strengthening our national  
24 security, and revitalizing our economy.

25           The communication and coordination standards and

1 protocols of the Smart Grid will be critical to the  
2 efficient and reliable integration of these new renewable  
3 resources.

4 I look forward to the comments that we invite on  
5 these matters. Thank you.

6 Colleagues, comments? Suedeen?

7 COMMISSIONER KELLY: Thank you, Jon.

8 I think that the standards for which we propose  
9 priority treatment today are very important, and in  
10 particular the inter-system communication and security  
11 standards are paramount. I know that that is exactly what  
12 staff has proposed.

13 If we establish an array of devices to interact,  
14 communicate, and work with each other that is what really is  
15 the core capability of a Smart Grid. And without that  
16 ability, we don't have a Smart Grid.

17 On the other hand, without a sufficiently robust  
18 level of security we can't rely on the benefits of this  
19 interaction and communication.

20 Absent appropriate security, we may as well have  
21 parked our beautiful new car on the street with the doors  
22 unlocked and the keys in the ignition. Obviously the  
23 Commission is not about to let that happen. And in the  
24 proposed policy statement we say that the first goal is to  
25 ensure that the system is fully cyber secure.

1                   So I would like to ask staff several questions,  
2                   and this is my first question: What exactly do we mean when  
3                   we say that the Smart Grid is fully cyber secure?

4                   MR. ANDREJCAK: What we are looking for in  
5                   complete cyber security is of course to make sure that the  
6                   grid is safe and secure from any threats to it from  
7                   potential hackers, obviously. I think your analogy about  
8                   leaving the keys in the car is a very appropriate one, as is  
9                   the one that we have heard about banking where the banking  
10                  system, you've got that available online. We've got to  
11                  ensure that the protocols that discuss the ability to go  
12                  back and forth on the grid are secure so as to now basically  
13                  open the door to a vulnerability.

14                 The communications and the security of it all  
15                 really tie together along with the wide area awareness so  
16                 that you can kind of function this all together. It fits.  
17                 It's inseparable how it fits together, at least from the  
18                 cyber standpoint.

19                 COMMISSIONER KELLY: And, Dave, are we optimistic  
20                 that that can be obtained?

21                 MR. ANDREJCAK: At this point I think we've got  
22                 some very key initiatives moving forward to getting the  
23                 standards in place that will allow that.

24                 Cyber of course is a whole new ballgame that  
25                 we're all kind of getting used to. I look back in the old

1 days of the grid when we actually had manned substations  
2 where the grid operator would call up by a phone line and  
3 issue orders to open and close breakers and capacitor banks  
4 as needed to operate the system reliably. And they had  
5 their own protocol for communications to make that happen.

6 This is just so much farther advanced with the  
7 new technologies we have, and I think we've got it in place  
8 going forward, but we've got to make sure that the standards  
9 are secure and developed properly to allow it to go forward.

10 COMMISSIONER KELLY: Okay. Thank you.

11 Our Proposed Policy Statement identifies, I think  
12 it's fair to say, three sets of priorities:

13 The Inter-System communication framework;

14 The Semantic framework; and

15 The Software to accomplish it.

16 Full security, including cyber security, of the  
17 system.

18 And then various aspects of Smart Grid technology  
19 that would enable functionalities that we have proposed to  
20 be very important including, as you mentioned, Dave, wide-  
21 area situational awareness, demand response, storage,  
22 electric transportation.

23 Why are these the top priority issues? And what  
24 creates the urgency around these issues?

25 MR. ANDREJCAK: I think once you go beyond the

1 security issue, we look at integrating all the renewables.  
2 And from a technical standpoint, we all understand that  
3 renewables do have certain issues with availability.

4 So we've got to ensure that the dance partners  
5 for the winds, for the solar, for the geothermal are  
6 available when we need it; or, potentially much better  
7 options are available as well such as the demand response  
8 plug-in hybrids in any types of energy electricity storage  
9 we may have available at the time.

10 So the Smart Grid really opens this whole thing  
11 up to us to allow the system to be run much more efficiently  
12 and in a much, hopefully, better environmental stewardship  
13 manner.

14 MR. PALMER: Just to follow up on Dave's comment,  
15 what we are proposing with regard to demand response, for  
16 example, is really just partly an extension of existing  
17 Commission policy. We have had a lot of rulemakings and a  
18 lot of work in that area, and what we are proposing is very  
19 much consistent with that, and using the Smart Grid  
20 technology to actually help demand response become more  
21 dispatchable and more reliable.

22 Indeed, these priority areas we look at, you  
23 know, the security is obviously a very, very important  
24 point, but we also are aware of the potential for increased  
25 efficiency in the grid overall, which ultimately should be

1 result in savings to consumers and, as Dave had mentioned,  
2 the capability for customers, consumers to better manage  
3 their energy usage and their energy cost.

4 COMMISSIONER KELLY: Thank you.

5 MR. CANNON: Just to--

6 COMMISSIONER KELLY: Yes, Shelton.

7 MR. CANNON: --tick that up one level, if you  
8 will, as we were trying to look at what was important in  
9 terms of prioritizing Smart Grid development, what we were  
10 looking for is where does Smart Grid intersect with  
11 Commission policies going forward, and trying to figure out  
12 where those intersections are.

13 And that is in large measure what informed us in  
14 terms of that whole third category, if you will, of  
15 priorities.

16 COMMISSIONER KELLY: Thanks, Shelton.

17 MR. CANNON: And as we go forward, I think that  
18 will continue to be sort of a driver from our perspective in  
19 terms of how we work with industry and how we work with NIST  
20 to try to establish future priorities.

21 COMMISSIONER KELLY: Well at the Senate Energy  
22 hearing we and NIST both talked about setting priorities.  
23 And the Senators were very interested in prioritizing  
24 standards' development so that it could proceed more  
25 efficiently and more quickly.

1           The ones we have identified really puts a full  
2 plate of work at NIST's doorstep. I know that we have been  
3 working with NIST, talking with NIST, working with NIST and  
4 talking about this effort to prioritize standards, so what  
5 do you think NIST's response to this proposal is going to  
6 be? Or I suspect you have shared it with them informally,  
7 but is this something that can be handled? This is a lot of  
8 work.

9           MR. CANNON: We have been in close contact with  
10 NIST in terms of trying to coordinate our processes, because  
11 the way the Energy Independence and Security Act is set up,  
12 the legislative structure here, the directive is for us to  
13 work with NIST, for them to develop consensus, and then to  
14 bring us standards for us then to do a rulemaking.

15           So we have been coordinating very closely with  
16 them. The areas that we have identified as priorities  
17 reflect a lot of their thinking and a lot of our  
18 conversations with them, but there's going to be a real  
19 commitment and necessity to continue that very close  
20 partnership working forward--because it is a lot of work,  
21 and this is going to be very much an evolutionary process  
22 that will continue.

23           I suspect again that we will have additional  
24 priorities that will occur, either from either industry  
25 driven, driven in terms of regulatory policies both at the

1 federal as well as the state level, and so we will probably  
2 hear a lot more in terms of whether we got it right or  
3 whether we missed anything in terms of the responses that we  
4 get back to this proposed policy statement.

5 COMMISSIONER KELLY: That actually transitions  
6 nicely into my last question, which is: In addition to the  
7 Interoperability Standards we have talked about in our  
8 Proposed Policy, what other standards still need to be  
9 developed--perhaps, obviously, I guess on a less urgent  
10 basis?

11 MR. PALMER: I think that--once again echoing  
12 Shelton--that it is important to see what kind of feedback  
13 we get from our Proposed Policy Statement, as well as some  
14 of the work that NIST has been doing with regard to the  
15 domain groups that they have set up.

16 We expect there will be a lot of feedback and  
17 there will be a number of things that can be followed up.  
18 We know that the industry, for example, is very interested  
19 in systems integration within the utilities, and that is  
20 certainly important.

21 But I think the industry also recognizes that  
22 some of these, you know, interfaces at kind of the  
23 boundaries of the utility system need to take the highest  
24 priority because that is where the most value can be  
25 achieved. And in terms of, you know, potentially making

1 demand more elastic, and in terms of ultimate benefit to the  
2 consumers.

3 And some of the areas like the distributed energy  
4 resources we talk about, for example, has tremendous  
5 potential for increasing the flexibility of the system  
6 overall, and that is going to take a lot of work to make  
7 sure that that all is set up properly and the appropriate  
8 standards get adopted.

9 MR. ANDREJCAK: I guess I would just jump in on  
10 that also, as well. We understand there is a whole  
11 different level on this thing at this point, and we are  
12 really looking at a bulk power system from the highest  
13 levels. And, as Chairman Wellinghoff mentioned, we have got  
14 this whole issue regarding a much better overall system plan  
15 to integrate everything.

16 So we understand there's a whole lot of different  
17 levels that are going to be brought into this as we move  
18 along. So we are kind of leaving that door open to progress  
19 logically to these steps we have identified, knowing that we  
20 have got additional things that we are going to follow right  
21 up with as we move along.

22 MR. McCLELLAND: If I could just add to that  
23 point, Commissioner. After NIST finishes its work for the  
24 standards and protocols and the Commission is directed under  
25 the same Act to issue a rulemaking to adopt such standards

1 and protocols as may be necessary to ensure the  
2 interoperability and the functionality of Smart Grid, under  
3 the Smart Grid and the Cyber Security Standards the  
4 Commission would refer, or can refer back to EPAct 215,  
5 Section 215, which is the Bulk Power System Mandatory  
6 Reliability Standards.

7 There are separate standards that do cover cyber  
8 security, but those standards are currently under revision.  
9 The Commission approved those standards. They're back out  
10 to industry now, and they are under revision.

11 So there is a lot of work to do after NIST  
12 finishes its work to compare where these standards might  
13 fit, how the Commission might issue a rulemaking, and in  
14 this particular example how they might or might not fit  
15 under the Section 215, the Bulk Power System Standards.

16 COMMISSIONER KELLY: Well thank you. Thank you,  
17 very much. Thank you, Jon.

18 ACTING CHAIRMAN WELLINGHOFF: Thank you, Suedeem.  
19 Marc.

20 COMMISSIONER SPITZER: Thank you, Mr. Chairman.  
21 This is obviously a preliminary step in seeking comment, but  
22 it is incredibly important. And I would certainly encourage  
23 folks to submit comments, to take a look at it. It is a  
24 technical issue.

25 I am going to be posting a fuller statement on

1 the internet, but I wanted to make four points briefly of  
2 some issues that I find salient in this general discussion.

3 First, as has already been alluded to, widespread  
4 deployment of plug-ins is dependent upon technology, but the  
5 technology is proceeding apace. And the problem  
6 increasingly is the regulatory structure has not caught up  
7 to technology. So it is important that we proceed apace so  
8 the plug-ins can become a viable option. And I think there  
9 is pretty widespread agreement on that importance.

10 Secondly, innovation is the key to saving  
11 ratepayers money and to reducing the environmental impact of  
12 the electric grid. And the benefits in terms of innovation  
13 that will be spurred by uniform standards and  
14 interoperability is critical. Suedeen spent a lot of time  
15 on cyber security. Clearly a critical issue. The dilemma  
16 is that the benefits of widespread use of technology,  
17 particularly the cutting edge grid information technology  
18 that we propose to deploy, exposes the grid to vulnerability  
19 and cyber security has to take a front seat, not a back  
20 seat.

21 And then finally, there has been a lot of  
22 discussion--of course we had the conference on general  
23 issues in transmission, and identified a massive need for a  
24 build-out of our transmission grid. As someone who was in  
25 the field siting infrastructure, there is often public

1 opposition to transmission siting based on the contention  
2 that the existing grid is not being used efficiently. And  
3 that contention often has quite a bit of merit.

4 And in order to obtain public acceptance of a  
5 widespread investment in infrastructure necessary for a bulk  
6 transmission system, it is imperative that we made the case  
7 in the court of public opinion that the existing grid is  
8 being used efficiently. And Smart Grid technology can I  
9 think assure the ratepayers of the United States that the  
10 grid will be used more efficiently and thereby reduce some  
11 of the opposition in the line-siting cases.

12 Thank you.

13 ACTING CHAIRMAN WELLINGHOFF: Thank you, Marc.  
14 Phil.

15 COMMISSIONER MOELLER: Thank you, Jon.

16 I have a statement that I will post on the  
17 Internet as well, in addition to the one on the Reliability  
18 Order, as I mentioned earlier, but I would like to make a  
19 few points and then get the staff's reaction to it.

20 The first is that a lot of people have a lot of  
21 different ideas about what the Smart Grid is. And in some  
22 people's minds, and probably predominantly, it is that  
23 there's a machine in your house that will control your  
24 appliances and allow you to use electricity more  
25 efficiently.

1           But this part of the Smart Grid is dependent on  
2 what states do not only in terms of recovery of investments,  
3 but also whether they will be allowing real-time pricing to  
4 the end consumers, something that many states have resisted  
5 to this point.

6           But Smart Grid in terms of, particularly, what we  
7 deal with is critical to the transmission side of the  
8 equation because we can use communication, other  
9 technologies that allow real-time visuals into what is  
10 happening with congestion, potential overloading so that  
11 blackouts can be prevented; we can reduce line losses, and  
12 that has its own positive impact in terms of fewer  
13 emissions. And our policies today I think critically  
14 propose interim rate treatments, as you said Mr. Chairman,  
15 that we hope will create the kind of incentives to get this  
16 deployed, and also allow early adopters the assurance that  
17 those investments will not be stranded. Pretty key in a  
18 field where technology is changing constantly.

19           And I am glad the emphasis has been on cyber  
20 security. In my office we have spent a lot of time on that  
21 issue. It is very critical.

22           What I would like to know from the staff going  
23 forward is: What is your major concern, each of you, on  
24 this larger subject? Is it that potentially the  
25 expectations are too high in terms of what we can get in the

1 short term--not talking long term? Is it that the standards  
2 process might be a little too difficult, or more timely?

3 Is it that the states may resist real-time  
4 pricing and thus many of the benefits might not flow to the  
5 end-consumers? Or is it the cyber issue?

6 I am just curious, each of you, your reaction on  
7 what concerns you the most going forward in the context of  
8 what we are trying to do in getting this policy statement  
9 out and providing some leadership to move forward.

10 MR. ANDREJCAK: I'll take the first crack at that  
11 one. When I got to bed at night I seem to worry about the  
12 financial crisis, the situation overseas, I worry about how  
13 I'm going to get my daughter through college, but I don't  
14 worry about, when I wake up, if I walk to the bathroom if  
15 the light switch is going to turn the lights on or not.

16 So I think overall we want to continue to have  
17 what we already have, which is a very safe and secure  
18 system. We have got to ensure that the protocols for that  
19 security are there. I think that probably keeps me up at  
20 night worrying about the system security more than anything,  
21 knowing that the more information that is available out  
22 there to us as regulators, and out there to industry, and  
23 also to consumers, is also vulnerable for someone else to  
24 use in threatening ways to the country.

25 It is great that the consumer would have a much

1 better understanding of what appliance is using what amount  
2 of power. It helps you manage it better. None of us wants  
3 to have a coin-operated grid where you've got to put a  
4 quarter in the refrigerator to keep it running for the next  
5 six hours, but know what's a better use for the type of  
6 equipment we have in there I think most consumers would  
7 probably alter their habits if they knew where that money  
8 was going.

9 MR. PALMER: I would just add that this is such  
10 an enormous project with so many different stakeholders and  
11 agencies and industries being involved with this that  
12 there's a tremendous coordination challenge. And I applaud  
13 the Commission for showing some leadership with regard to  
14 communications with the states on this issue by setting up  
15 and maintaining the NARUC/FERC Smart Grid Collaborative.

16 I think that is a very positive vehicle to  
17 exchange information with the states, because they are vital  
18 players in this. And I also applaud the Commission for more  
19 recently taking part in this close coordination with NIST,  
20 as well as DOE. And there are other agencies also that we  
21 coordinate with through the Smart Grid Task Force.

22 But I think it is going to be a challenge going  
23 forward to make sure that the coordination continues and  
24 that all the different players have their issues addressed.

25 COMMISSIONER MOELLER: Bill?

1                   MR. LONENECKER: I agree with both these  
2 gentlemen.

3                   (Laughter.)

4                   COMMISSIONER MOELLER: Elizabeth?

5                   MS. ARNOLD: Following up on some of Ray's  
6 comments, the challenge of the standards' development  
7 process seems pretty daunting. There are so many players  
8 involved and so many aspects of the Grid and transmission  
9 delivery that are going to have to fold together, and it's  
10 going to be pretty challenging.

11                  COMMISSIONER MOELLER: Any other thoughts?

12                  MR. ANDREJCAK: I would just weigh in with one  
13 other comment. Ray mentioned the Task Force that he and I  
14 participate on regarding the Smart Grid.

15                  I would just go back to the very first meeting we  
16 had. On one side of me I had someone that was really  
17 talking about a high-level way to help manage the system,  
18 the Synchrophaser Initiatives, and how important that could  
19 be in the long term in assessing the health of the Bulk  
20 Power System.

21                  And on the other side of me I had somebody  
22 talking about better use of programmable digital thermostats  
23 in the house. And I thought, we've got a lot of work to do.

24                  (Laughter.)

25                  COMMISSIONER MOELLER: We will be hearing more

1 from all of you. Thank you, in advance.

2 Thank you, Jon.

3 ACTING CHAIRMAN WELLINGHOFF: Thank you, Phil.

4 We're ready to vote, Madam Secretary.

5 SECRETARY BOSE: The vote begins with  
6 Commissioner Moeller.

7 COMMISSIONER MOELLER: Aye.

8 SECRETARY BOSE: Commissioner Spitzer.

9 COMMISSIONER SPITZER: Vote aye.

10 SECRETARY BOSE: Commissioner Kelly.

11 COMMISSIONER KELLY: Aye.

12 SECRETARY BOSE: And Chairman Wellinghoff.

13 ACTING CHAIRMAN WELLINGHOFF: Vote aye.

14 If there's nothing further to come before the  
15 Commission, thank you again. We are adjourned.

16 (Whereupon, at 10:44 a.m., Thursday, March 19,  
17 2009, the meeting was adjourned.)

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