

**Testimony of Neil Chatterjee
Commissioner, Federal Energy Regulatory Commission
Before the Committee on Energy and Natural Resources
United States Senate
June 12, 2018**

Introduction

Chairman Murkowski, Ranking Member Cantwell, and Members of the Committee:

Thank you for the opportunity to appear before you today to discuss the important work we are doing at the Federal Energy Regulatory Commission (FERC). I appreciate the Committee's attention to the major energy issues facing our nation and the role that FERC plays in addressing them.

This is an exciting and transformational period for our nation's energy future, and I take very seriously my responsibility to work with my colleagues on ensuring that all Americans have reliable and affordable energy. Today I will focus my remarks on the Commission's efforts on reliability and the Public Utility Regulatory Policies Act of 1978 (PURPA), as well as a discussion of my other priorities as a Commissioner.

Reliability Standards

As you well know, Congress delegated to FERC the responsibility to approve and enforce mandatory reliability standards for the grid in the Energy Policy Act of 2005 (EPAct 2005). This authority is limited to the "bulk-power system," as defined in Section 215 of the Federal Power Act (FPA), and excludes Alaska and Hawaii, as well as local distribution systems.

Under FPA Section 215, FERC cannot directly write or modify reliability standards, but must rely on a FERC-designated Electric Reliability Organization to perform this task. In 2006,

FERC certified the North American Electric Reliability Corporation (NERC) as this Electric Reliability Organization.

Thanks to the Commission's leadership and the dedicated efforts of NERC and industry, the reliability standards have matured considerably since they first became mandatory and enforceable in 2007. The reliability standards now form an effective baseline for addressing day-to-day grid reliability issues, like tree trimming, relay setting, communications, system planning, and emergency operations. The evolution of these baseline reliability standards has allowed FERC and NERC to focus more of their efforts on emerging threats such as cyber security, physical security and the potential grid impact of a geomagnetic disturbance (GMD).

Fuel Security Concerns Arising from Rapid Changes in the Generation Mix

The United States is experiencing rapid, unprecedented changes in its generation resource mix. A number of forces, including historically low natural gas prices and technological innovations, promise tremendous benefits to consumers through lower prices and greater choice. While this transformation may bring positive outcomes for consumers, it's critical that we remain vigilant during this transition to ensure that reliability is not adversely impacted.

For example, shifts in the generation mix which increase reliance on interruptible transportation of natural gas may in turn increase fuel security risks in certain circumstances, such as during periods of cold weather that drive heating demand, unless other resources or fuels are available. While some Regional Transmission Organizations (RTOs) and Independent System Operators (ISOs) have implemented market reforms to provide financial incentives to procure firm gas transportation or back-up fuels, utilities should continue to be mindful of the risk of relying too heavily on a particular pipeline or storage facility and should

develop plans in case such a facility experiences an outage.

Competitive markets generally encourage utilities to make reasonable fuel choices. However, even with competitive markets, reliability requires careful planning and analysis to ensure that risks are anticipated and addressed when necessary. To this end, I would highlight the important work that ISO-New England has done to assess the specific fuel supply vulnerabilities in its region. I think ISO-New England's analysis is an excellent example of how RTOs and ISOs should proactively evaluate their specific regional risks, and I am encouraged that PJM has now begun its own fuel security assessment. I expect that issues of fuel security will continue to be an area of interest for the Commission, both in our discussion of reliability and in our ongoing resilience proceeding.

In addition, given both the increase in cyber threats and our growing dependence on natural gas, I am concerned about the potential impact of a cyber-attack on our natural gas pipeline system. Because multiple generators are often supplied by a single gas pipeline, a cyber-attack against that pipeline could lead to the simultaneous loss of multiple generators, resulting in cascading outages across the grid. While the Transportation Security Administration has the authority to require mandatory cyber security standards for gas pipelines, it has not done so to date, instead relying on voluntary efforts. My colleague, Commissioner Glick, and I have been collaborating on addressing this risk, and I know it's a concern on which Ranking Member Cantwell also has been outspoken. The security of our natural gas pipeline infrastructure is critical to electric reliability, and my colleagues and I are committed to engagement with the members of this committee on this issue.

PURPA

In 1978, Congress enacted PURPA to foster the development of alternative energy resources and conserve what were then thought of as scarce resources, such as natural gas. Since that time, PURPA has played an important role in fostering the development of renewable technologies and the electric industry's transition to competitive markets. However, it's worth noting that the energy landscape that existed when PURPA was conceived was fundamentally different from that of today. That is to say, solar and wind power were fledgling technologies, there was no open access to wholesale electricity markets, and natural gas was in scarce supply. None of those things are true today. Moreover, many states have encouraged the development of renewable generation through renewable portfolio standards, and Congress adopted the Production Tax Credit to further spur renewable development. Congress acknowledged the impact of many of these changes by amending PURPA as part of EPAct 2005.

At our May open meeting, Chairman McIntyre announced that he was directing staff to evaluate potential reforms to the Commission's PURPA regulations. I applaud the Chairman for his leadership on this issue and his willingness to undertake this important work. I support reviewing our existing regulations to ensure that they fulfill PURPA's mandate to encourage the development of renewable and cogeneration resources while protecting customers and preserving competition. As part of our review, I support taking a broad look at the Commission's regulations to look for areas of potential improvement.

Other Priorities

I also would like to note another matter that I view as a priority for the Commission. FERC is currently undertaking a review of its 1999 Certificate Policy Statement, which guides our consideration of new natural gas pipeline certificates. I think it's essential that the Commission get this issue right; we must balance consumers' needs for abundant, affordable energy while

ensuring the rights of landowners are respected. As the Commission considers how we evaluate applications to construct pipelines, I am committed to ensuring that we have an efficient, transparent, and predictable process that encourages landowner participation. The Memorandum of Understanding implementing the Administration's "One Federal Decision" recently executed by the Commission will help achieve those goals.

Finally, I would also like to emphasize my continued commitment to securing our grid against cyber-attacks. While the Administration has taken significant steps to address cyber threats to our critical infrastructure, I believe that these threats will continue to grow. Sophisticated hacking tools are becoming more widely available, and cyber threats are constantly evolving making such attacks more versatile. To combat these evolving threats, both government and industry must remain vigilant and work collaboratively to address these complex issues. At the Commission, I strongly support our two-pronged approach to addressing cyber threats, which consists of a combination of mandatory reliability standards as well as voluntary best practices and information sharing. Still, more work remains on this issue, and I look forward to continued collaboration with my colleagues at the Commission and our partners across the government to ensure we're taking the proper steps to defend against future cyber-attacks.

Conclusion

Again, I appreciate the opportunity to come before you today. It's critical that we at the Commission work together with other agencies as well as Congress to address the various issues currently facing America's energy future, and I look forward to continuing this important dialogue.

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