



Federal Energy Regulatory Commission
February 15, 2007
Open Commission Meeting
Statement of
Commissioner Jon Wellinghoff

Item E-1: Preventing Undue Discrimination and Preference in Transmission Service (RM05-17-000, RM05-25-000)

Congratulations

"I want to first thank our Print Shop for the overtime that they put in on this project, and I want to recognize the rest of our staff, who picked up the slack from the team that worked on the rule and made it possible for the Commission to continue to function in an efficient and timely manner. They are good public servants.

I want to thank the team that developed this order for its countless hours reviewing this voluminous record, conducting extensive outreach, and, of course, seemingly never-ending writing and rewriting. John Moot, our General Counsel, also deserves special mention for his leadership in guiding this massive undertaking. Since the Chairman joined the Commission in 2003, OATT Reform has been his number one priority. He should be commended for his foresight. Lastly, I would like to thank the many commenters for the time taken to help educate us about what works and what does not work in the real world, outside of the Commission, and for their creative ideas.

Need for the Final Rule

Order No. 888 responded to a radical change in the electric industry. Since the passage of the FPA in 1935, the electric industry had evolved from an industry characterized by self-contained transmission systems covering a limited service area to one witnessing rapid expansion of independent power producers and the potential for broader markets and enhanced competition. This change was driven in large measure by technological advancements. Since the issuance of Order No. 888, the electric industry has experienced another radical transformation, again fueled in large part by technological advancements and facilitated by Congressional and Commission actions. The electric industry now reflects significantly increased trade in bulk power markets, with the transmission grid being used more heavily and in new ways. At the same time, there has been a decline in investment to support these bulk power markets, and a failure to aggressively encourage advanced technologies. Together, those trends are threatening reliability, causing billions of dollars in congestion costs, and undermining competition.

We cannot simply build our way out of those problems. The impetus of change in the past, and no doubt of change that we will see in the future, is primarily technology. Therefore, we must spend smartly. We must spend efficiently. We must promote investment in efficient transmission facilities and state-of-the-art transmission technologies, as well as facilitate demand response, distributive generation, and renewables, in order to begin to solve the nation's energy problems.

In EAct 2005, Congress emphasized many of these same principles. In particular, Congress required the Commission to promote reliable and economically efficient transmission and bulk power markets by, among other things, encouraging deployment of advanced technologies. Indeed, Congress provided us with guidance as to the types of technologies to encourage, including, flexible AC transmission systems, controllable load such as demand response, distributed generation, and enhanced power device monitoring. Today's Final Rule expressly recognizes that the reforms to the OATT we adopt today are consistent with the policies and principles

embodied in EAct 2005.

Therefore, it is particularly timely that we address our open access rules for transmission service. The Western Governors Association stated that it is important to demonstrate that the existing grid is being efficiently utilized to build the case for transmission expansion. I agree. I view OATT Reform as inextricably linked to efficient grid management.

Important Aspects of the Final Rule

My colleagues will discuss many important aspects of today's Final Rule. Rather than repeating those points, I would like to highlight a few aspects of the Final Rule that I see as particularly noteworthy.

First, the reforms we make to the pro forma OATT today put demand resources, for the first time, on an equal footing with other resources in directly contributing to the reliability and efficient operation and expansion of the electric transmission system. It provides that demand resources, distributed generation, and other non-generation resources capable of providing the service may provide the ancillary services Reactive Supply and Voltage Control, Regulation and Frequency Response, Energy Imbalances, Spinning Reserves, Supplemental Reserves, and Generator Imbalances. Further, we find that demand resources capable of performing the needed functions should be permitted to participate on a comparable basis in the open, transparent transmission planning process this Order requires. And we also provide a forum for stakeholders to come forward with demand response project proposals that they wish to have considered in development of the transmission plan.

Second, the final rule recognizes the intermittent nature of renewable resources like wind. As a result of that recognition, we have in the Final Rule established a conditional firm option for firm point-to-point service that will allow renewable resources greater access to the transmission grid and, at the same time, make more efficient use of existing grid capacity. In addition, the final rule states that imbalance charges "must account for the special circumstances presented by intermittent generators and their limited ability to precisely forecast or control generation levels..."

To sum up, removing undue discrimination in transmission service and enhancing and expanding the grid smartly will promote ever more competitive markets and lower costs to consumers."