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Session I:

Recent Regulatory Developments at FERC

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7TH US-EU ENERGY REGULATORS ROUNDTABLE



Presentation By

Commissioner

Marc Spitzer

Federal Energy Regulatory Commission



FERC Policy Goal

**Wholesale Customers Benefit through Properly Structured,
Competitive, and Reliable Markets**



Wholesale Competition in Regions with Organized Electric Markets

- Order No. 719, issued October 17, 2008, is a final rule that is aimed at strengthening and improving the competitiveness of organized wholesale electric markets.
- The goal is to ensure that proper price signals are sent to consumers during times of scarcity and to give them better tools such as demand response that allows them to respond to those prices.
- The final rule also requires additional oversight of the operation of the markets and improves responsiveness of Independent System Operators (ISO) and Regional Transmission Operators (RTO) to concerns of customers.



Development of Adequate Infrastructure

- Competitive markets rely on adequate infrastructure.
- On the electric side, Congress through the Energy Policy Act of 2005 (EPAAct 2005) directed the Commission to give incentives to spur the development of electric transmission.
- The Commission issued Order No. 679, which outlined how the Commission would grant transmission incentives. The Commission's decisions granting incentives have not been unanimous. As we gain more experience in implementing this new Congressional authority, we may revisit our policies.



Development of Adequate Infrastructure *continued*

- On the natural gas side, EPAct 2005 instructed the Commission to provide natural gas storage providers market-based rates.
 - Since 2006 and through August 2008, the Commission has approved storage projects totaling 409.6 Bcf of capacity with deliverability of 14,140 MMcf/day.
 - In that same period, the Commission has approved over 6,100 miles of new interstate natural gas pipelines with almost 40 Bcf/day of capacity at a cost of just over \$21 billion.
- In EPAct 2005, Congress also gave the Commission exclusive jurisdiction over the siting, construction, and operation of facilities for importing and exporting liquefied natural gas.
 - As of July 2008, there were nine LNG projects under construction or undertaking site preparation.



Development of New Technologies

The Commission established a simplified process for licensing hydrokinetic pilot projects. Hydrokinetic projects are those that are small (5 MW or less), removable and able to shut down on relatively short notice, not located in waters with sensitive designations, and those being built to test new technologies or to determine appropriate sites for deployment of these technologies. The goal is for these pilot project licenses to be issued in as little as six months but with the appropriate environmental and safety safeguards.



Miscellaneous Gas Topics

- **MLP.** One of the main topics of dispute in a natural gas rate case before the Commission is the appropriate return on equity. The Commission issued a policy statement that established that entities formed as Master Limited Partnerships could be considered in the proxy group established to reflect the risks of the entity seeking the rate increase. The historic composition of natural gas pipeline groups has evolved; changing and including MLPs in the natural gas proxy group will make those proxy groups more representative of the business risks of the regulated firms whose rates are at issue.
- **Capacity release.** The Commission eliminated the price cap on short-term releases enabling shippers to offer competitively-priced alternatives to pipelines' negotiated rate offerings and permits short-term capacity release prices to rise to market clearing levels. This development fostered the Commission's goal of allocating capacity to those who value it the most.



Enforcement

- Enforcement is a critical tool to ensuring that markets operate properly.
- Main goal of enforcement is to ensure compliance with FERC rules, regulations and orders.
- The Commission has provided guidance on how to comply. The Commission also updated its standards of conduct, which regulate communications between public utilities, interstate natural gas pipelines, and their affiliates to prevent improper affiliate dealings.



Reliability

- FERC oversees the development and review of mandatory reliability and security standards. FERC also ensures compliance with the approved mandatory standards by the users, owners, and operators of the bulk power system. These efforts are in conjunction with the North American Electric Reliability Corporation.
- Cyber security
 - FERC has approved mandatory reliability standards for critical infrastructure protection.
 - Currently debating the roles that FERC and US DOE will play in developing and implementing cyber security rules. FERC has been vocal in asking Congress to give FERC greater authority to deal with imminent cyber security threats.



Future of Energy Markets in US

- Electric cars
- Renewables and Demand Response (comparable treatment)
- Technology: smart grid, smart meters
- Cost allocation and regional planning for electric transmission
- Unconventional production (shale development)