

WOOD EXITS FERC

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Not enough has been done to avert a major power outage, and Congress seems incapable of deciding national energy policy. At least that's what Patrick Wood III, chairman of the U.S. Federal Energy Regulatory Commission, had to say in a recent interview with *EnergyBiz*. Wood was selected for the job by the Bush administration four years ago based on his success in deregulating the Texas energy sector as state regulator. Now, as he prepares to relinquish his job the end of June, Wood talks candidly about the national power picture and the lessons he's learned in Washington.

energybiz: Have we done enough since the massive power failure of August 2003 to prevent a similar power catastrophe?

WOOD: No.

energybiz: What remains to be achieved?

WOOD: The core concern is the level and quality of investment in the overall grid, including not only the physical grid but also the cyber security parts of the grid as well.

energybiz: Do you think energy legislation will pass this session of Congress?

WOOD: You know, I've said yes to that question since 1998, and my nose is starting to grow. I don't know anymore. I wish I did.

energybiz: What's the obstacle? Who needs to spend some political capital here to get it done, and why isn't it being spent?

WOOD: Unfortunately, unrelated issues tend to be the deal breakers here. I'm hoping they can get the magic done this year, but we've got to kind of move ahead anyway. FERC is looking to get some of this done through current FERC law, and we have taken some steps in that regard since April 2004. But our reach is only to about 80 percent of the nation's transmission. If there is anything I have learned as a regulator, you really shouldn't have any back doors that people can come in and just pull down the grid. You need everybody to be playing by the same rules.

energybiz: Do you think the Bush administration should be willing to break grid reliability issues away from other energy matters to help improve the transmission of power?

WOOD: Yes. I've said that to them, and I'd say it again.

energybiz: What's the main obstacle in the Bush administration in getting that achieved?

WOOD: The president recognizes that legislation originates in Congress, and his ability to force a detailed approach to energy is not going to be the first priority. He's stated in pretty much every energy speech he's given in the last two years that he wants mandatory electric reliability rules and to modernize the electric grid.

energybiz: Do you think the electric power industry could do a better job of demanding that the grid issues be tackled by Congress?

WOOD: Yes. The larger companies have been pretty strong on this front. I assume some of the medium and small companies are for it, but I haven't seen them put a lot of elbow grease behind it. I don't think anybody doesn't want reliability rules. But I wonder if there is just energy bill fatigue.

energybiz: Can you comment on current reliability standards?

WOOD: We have identified through our staff discussions with the North American Energy Reliability Council some of the areas where we think its energy could be better spent in the near future. The structure is in place, which is very important, and we are 80 percent of the way there.

energybiz: Do you think we are vulnerable to major outages in the next few years?

WOOD: Looking at history, we have always had the vulnerability. About every 10 years or so, something happens. I don't think we'll see it in the region of the country where it happened before.

energybiz: Which areas of the country are most vulnerable today?

WOOD: The West did a lot in 1996 to respond to its blackouts. However, it will be under some unusual stress this summer due to the shortage of infrastructure in Southern California.

energybiz: How about other regions?

WOOD: Some are better than others. If you look at some of those readiness reviews of all the control areas in the country and the reliability coordinators, you'll see there are definitely some men and some boys. There is a difference between the capabilities in some of these areas to handle the level of readiness for reliability that we ought to have — the ability to have

backup control rooms, the type of training that the employees get, the visualization tools that they have. I was at the Midwest Independent Transmission System Operator control room and the visualization tools that those operators have to see everything going on in that grid compared to 12 months ago is dramatic. It is the type of grid oversight control center I wish we had everywhere. Then I would really sleep well at night. Also, we don't need 140 little control areas. We need 18 or 25 in the whole country.

energybiz: What's it going to take to make that happen?

WOOD: It takes competitive trade and fair markets. People start trusting ISO New England, ERCOT, New York ISO, PJM and California ISO. People trust that markets will be administered on a fair and impartial basis, and they don't have to set up their own little kingdoms and protect their own little turfs through a control area, getting all the benefits that come from being a control area operator.

energybiz: As an elder statesman-to-be, what model makes the best sense for running our transmission grid?

WOOD: Stand-alone, independent transmission is the end game. So it would be where you have independent transmission companies similar to what we've got on the gas side, where people don't have a vested interest in the commodity or in the sale of the commodity — they just want to deliver the commodity. Independent wire companies are what we like to see happen. Those folks, they see transmission as a profit center so that's what they focus on, running well and running profitably. And they keep customers happy by moving power as much as they can at a reasonable price as opposed to viewing transmission as kind of the redheaded stepchild of a great big energy enterprise.

energybiz: How much investment do you think is needed in the transmission grid? I've seen figures as high as \$50 billion.

WOOD: I don't have a real good number on that. We haven't explored the ability to utilize new technologies on the grid. New technologies are still slowly trickling into the marketplace, and I don't really have a good sense of what the economics are. We have seen \$2 to \$3 billion nationwide per year when it probably ought to be up in the \$5 to \$7 billion range. What we have to construct here is an interstate highway system for electricity — and we don't have it. We have got a lot of good quality systems around all the major urban areas. In some regions of the country, you have the different urban areas interconnected with pretty good interstate



Photo courtesy of The Federal Energy Regulatory Commission

highways of electric commerce. But it's hit and miss. How power will be interconnected over relatively large regions is still a movement in its infancy.

energybiz: If you were an optimist, how long would you say it would take before this highway system is constructed?

WOOD: Well, had Congress enacted the bill in the late 1990s it would have been a whole lot faster. Congress needs to just get something done, or say they are not going to do anything for the next five years and then just be finished. The overhang of just thinking that Congress could make some dramatic changes that affect investment is very destabilizing. People don't know what the answer is. I have lived under that shadow now for my entire regulatory career of "there is going to be an energy bill," and yet people just sit around. This is a very conservative industry. It's nice to know the rules. That's not a lot for the utilities to ask.

energybiz: How long would it take to get the interstate power system you are talking about going?

WOOD: Eight years.

energybiz: Assuming that we are there eight years from now, what would the electric business look like in the United States?

WOOD: It would look like that interstate highway system in 1960 compared to the one in 1950.

energybiz: What advice are you going to give your successor?

WOOD: Carry on the agenda. Continuity is important to the industry. Consistency is really needed right now. Keep the pressure on because changes are needed to make the customers in the country better off. We are not there yet. ☺



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