

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON DC 20426

OFFICE OF THE CHAIRMAN

September 30, 2004

The Honorable David L. Hobson
Chairman
Subcommittee on Energy and Water
Development
Committee on Appropriations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

As the fiscal year now draws to a close, I am taking this opportunity to forward the enclosed report detailing the Federal Energy Regulatory Commission's utilization of the \$5 million budget increase earmarked by Congress for power grid reliability in H.R. 2754, the FY 2004 Energy and Water Development Appropriations Act (Pub. L. No. 108-137, 117 Stat. 1827, 1859 (2004)). These funds, roughly 2.5 percent of the Commission's overall budget, were dedicated to "work related to the August 2003 blackout and for subsequent implementation of enforceable reliability standards."

I want to once again thank you for your leadership efforts and unqualified support for this funding. You recognized that the task of preventing future power outages demanded additional resources. While mandatory reliability rules are not yet in place, the Commission has, I believe, wisely spent these funds, within the limits of our statutory authority, to further programs that will help prevent region-wide disruptions of electrical service.

As the report explains in greater detail, the expenditures over the past year fell into three broad categories: 1) drawing upon the lessons of past experience; 2) assessing current conditions that have driven incremental reform; and 3) fostering strategic improvements for the future through research initiatives addressing long-term reliability and security issues.

Notable accomplishments include the Commission's pivotal participation in the joint U.S.-Canada blackout task force's investigation and report; implementing the task force's recommendations; and directing FirstEnergy Corporation to conduct a study of the characteristics and weaknesses of its Northern Ohio service area, where the blackout originated. The Commission has also provided a report to the Congress highlighting the current practices and deficiencies in vegetation management by the electric utilities responsible for maintaining the nation's transmission rights-of-way.

In January 2004, the Commission established a new Division of Reliability to begin to address critical power grid reliability and security issues. This team is made up of experienced

staff engineers and high-level consultants with extensive expertise in power grid planning, engineering, construction, operations and maintenance, along with permitting and regulatory issues.

Broadly, the initiatives our reliability team are spearheading include: 1) working with industry to adopt tougher and unambiguous reliability standards; 2) working with the North American Electric Reliability Council (NERC) in conducting reliability readiness “audits”; 3) beginning a range of research studies on reliability and security issues, including replacement transformers, operator training, system vulnerability to cyber attack, and the potential impacts of gas supply disruption on electricity production; and 4) working with the Department of Energy, the Nuclear Regulatory Commission, the Department of Homeland Security and the Canadian government to develop long-term institutional solutions for grid reliability and security challenges.

I think you will agree that the Commission has made important strides and produced tangible returns on a Congressional investment that represents roughly 10 cents for each of the 50 million people affected by the August 2003 blackout.

But, industry peer pressure and Commission encouragement will only get us so far. I strongly urge the Congress to enact comprehensive energy legislation that includes language authorizing a mandatory system of reliability standards for the nation’s bulk power supply. Without this unambiguous statutory authority, there will continue to be no clear regulatory regime to make sure reliability standards are complied with. This regulatory void increases the likelihood of another event.

Of course, for the Commission to continue to promote improvements in grid security and reliability, it needs additional funding. I support the reliability funding levels in the House-passed FY 2005 Energy and Water Development Appropriations Act and recommend its enactment.

I look forward to working with you and the industry toward our mutual goal of promoting continued improvements in our electric grid operation and efficient dispatch. If I can be of assistance, please do not hesitate to call on me.

Best regards,

Pat Wood, III
Chairman

Enclosure

cc: The Honorable Joe Barton, Chairman
Committee on Energy and Commerce
U.S. House of Representatives

The Honorable John Dingell, Ranking Member
Committee on Energy and Commerce
U.S. House of Representatives

The Honorable Ralph M. Hall, Chairman
Subcommittee on Energy and Air Quality
Committee on Energy and Commerce
U.S. House of Representatives

The Honorable Rick Boucher, Ranking Member
Subcommittee on Energy and Air Quality
Committee on Energy and Commerce
U.S. House of Representatives

The Honorable Peter J. Visclosky, Ranking Member
Subcommittee on Energy and Water Development
U.S. House of Representatives