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FERC Approves Market-Based Demand Response Compensation Rule

The Federal Energy Regulatory Commission (FERC) today established a new rule intended to benefit customers and help improve the operation and competitiveness of organized wholesale energy markets by establishing the approach to compensation for demand response resources in those markets.

The new rule will help ensure the competitiveness of organized wholesale energy markets and remove barriers to the participation of demand response resources in those markets. The rule requires organized wholesale energy market operators to pay demand response resources the market price for energy, known as the locational marginal price (LMP), when those resources have the capability to balance supply and demand as an alternative to a generation resource and when dispatch of those resources is cost-effective. The order finds that it will be cost-effective to pay that market price for energy to demand response resources when a net benefits test shows that the benefits to load from the reduced LMP that result from dispatching demand response resources exceed the costs of paying LMP to those resources. The rule requires RTOs and ISOs to meet specific requirements for the establishment of the net benefits test to determine when demand response resources are cost-effective.

"Today's final rule is about bringing benefits to consumers," FERC Chairman Jon Wellinghoff said. "The approach to compensating demand response resources as we require here will help to provide more resource options for efficient and reliable system operation, encourage new entry and innovation in energy markets, and spur the deployment of new technologies. All of this contributes to just and reasonable rates."

Today's final rule recognizes that in the Energy Policy Act of 2005, Congress established a national policy to eliminate unnecessary barriers to demand response participation in organized wholesale energy markets. In approving the new rule today, FERC continues to recognize that markets function most effectively when both supply and demand resources have appropriate opportunities to participate.

Organized wholesale market operators will be required to make compliance filings by July 22, 2011, that include conforming tariff provisions and identify price thresholds to estimate where customer net benefits would occur, and thus above which it would be cost-effective to dispatch and pay demand response resources the market price for energy. By September 21, 2012, each market operator must undertake a study examining the requirements for and effects of directly determining the cost-effective dispatch of demand response resources in both the day-ahead and real-time energy markets, and to file the results of the study with FERC.

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