

**March 17, 2011****Commissioner Cheryl A.****LaFleur STATEMENT**

Docket No. RM10-17-000 (Order No. 745)

## **Statement of Commissioner Cheryl A. LaFleur on Market-Based Demand Response Compensation Rule**

“Since I joined the Commission last summer, this rulemaking has been one of the matters that I have heard and read the most about, from people with strong views on all sides of the issues. As I have observed before, it seems to be an issue to which people bring an almost religious fervor, particularly with respect to whether they view demand response and generation as comparable resources in the energy market. You certainly know that a docket is important when experts like William Hogan and Alfred Kahn are so deeply involved, and it is poignant that this was Dr. Kahn’s last regulatory engagement of his amazing career.

I have thought a great deal about this issue, and am pleased to join my colleagues in supporting this Final Rule.

I believe that the Final Rule correctly reflects both the comparability and the differences between demand response and generation. Demand response and generation are equally capable of balancing supply and demand at the margin, and therefore both should receive the same price. However, because the market is measured and billed in megawatt hours delivered, demand response and generation have different effects on the market. Today’s order balances both of these characteristics of demand response, and requires demand response to be paid the locational marginal price when it is shown to be cost effective. I believe that the monthly net benefits test we proposed is workable, and respects the comments of the RTOs and ISOs about the challenges of integrating demand response in real-time dispatch.

I believe our Final Rule will increase the competitiveness of the organized electricity markets and help ensure that they produce just and reasonable rates for customers, to the benefit of the economy.

For a time earlier in my career, I had direct responsibility for delivering demand-side services to customers, including early generation direct load control. Based on that experience, I know that demand response doesn’t just happen, but requires technology, including aggregation technology, and customer communication. The Final Rule gets the market signals right, and will encourage investment in the infrastructure needed to allow customers to collectively participate in the wholesale markets, when they would not be able to do so directly.

The Final Rule also emphasizes the critical importance of measurement and verification. Demand response resources are not directly measured by a meter in the same way that generation resources are, but it is equally important that they be measured accurately. We must set clear expectations for how demand response resources will be measured, how their baselines will be set, and how their performance will be verified, and I believe the Final Rule does that.



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Finally, as with so many other aspects of our work at the Commission, I know that demand response requires efforts by both state and federal regulators. One of our jobs as federal regulators is to ensure that wholesale market rules are fair and effective, and that they evolve to allow new technologies to participate. I believe that the Final Rule is another important step in that effort.

Thank you to the team and my colleagues for all the hard work that has gone into this Rule.”