



March 17, 2011

Chairman Jon Wellinghoff

**STATEMENT**

## Statement of Chairman Jon Wellinghoff on Market-Based Demand Response Compensation Rule

"Thank you for this presentation. I thank the entire Team for assisting the Commission so ably as we considered and debated the issues presented here. You provided us with the foundation, support, and clear thinking upon which to make the decisions we have made. I also want to thank Commissioner Moeller and his team for providing us with his counterpoints to the rule in his comprehensive dissent. I find his perspective valuable.

The Commission's proposed rulemaking elicited comments from almost 150 commenters. We heard from representatives of large and small customers who told us they are interested in demand response because they want reliable electricity service at the lowest reasonable cost. Mayors and governors are interested in keeping energy costs affordable for their citizens and businesses because it critical to the continued growth and prosperity of their cities and states. They told us that they see demand response as a way to help grapple with difficult budget issues, meet sustainability goals and help all users of electricity save money. Utilities and aggregators of demand response are interested in offering consumers innovative ways to manage their energy costs. RTOs and ISOs want to run their systems efficiently and reliability. We heard from generators, the "competitors" to demand response resources if you will, who want the competition to be on a level playing field. Not surprisingly, these commenters have strong views about how to achieve these goals. I thank the commenters for articulating those opinions for us. And I appreciate the discussions that I have had with my colleagues on these issues.

After careful consideration, we decided that the RTO/ISO should be able to accept the voluntary offer of a customer to reduce his/her demand in order to balance supply and demand on the system when the total cost to all customers is lower if the RTO accepts the demand response rather than a higher offer from an alternative resource. And because the marginal value to the market of the resources necessary to balance supply and demand is the market clearing price, the LMP, it makes sense that the cost-effective demand response resource should receive the LMP, as do the other resources dispatched for that hour. As the order explains in detail, we put conditions on this compensation approach: first, that the demand response resource is capable of balancing supply and demand for the system and second, that it is cost-effective to dispatch and pay the LMP to the demand response resource for the service it provides.

I believe that the approach to compensating demand response resources required by the Final Rule will have three important effects. It will help to provide more resource options for efficient and reliable system operation, it will encourage new entry and competition in energy markets, and it will spur the deployment of new technologies. I believe that with this action we have acted to ensure just and reasonable and not unduly discriminatory or preferential wholesale rates for ratepayers.

For these reasons, I voted for this Final Rule."