



October 20, 2011

Commissioner John R. Norris

STATEMENT

Docket Nos. RM11-7-000 & AD10-11-000

Item No. E-28

Statement of Commissioner John R. Norris on Frequency Regulation Compensation in the Organized Wholesale Power Markets

“The final rule makes a finding that the rates for frequency regulation compensation in ISOs and RTOs are unjust, unreasonable, and unduly discriminatory, and requires ISOs and RTOs to remedy this problem. The Commission finds that faster-ramping and more accurate resources that can and do provide more regulation service should be compensated accordingly. The rule recognizes that certain types of resources are better equipped to respond to grid operator dispatch instructions and to continually change their energy output on a second-to-second basis, and that those resources should be compensated for their increased performance.

I see three areas of benefits stemming from the implementation of this rule: reduced costs to consumers, enhanced reliability, and reduced emissions levels.

First, with regard to consumer costs, the final rule serves to remove barriers to the participation of faster-ramping and more accurate resources in the frequency regulation markets. The utilization of these more accurate resources will lead to reductions in the amount of regulation capacity that each balancing authority must procure – savings which can then be passed on to consumers. Furthermore, the rule will also allow the mostly thermal generation fleet that currently provides regulation to instead more efficiently operate in the energy markets at their optimum heat rates, where they can submit lower offers to supply energy and thus further lower costs to consumers. Because the energy market is much larger than the regulation market, this is where there may be greater savings.

Second, this final rule should enhance reliability as it incents new resources to come online and provide system operators in the ISOs and RTOs with additional tools and flexibility to manage the grid. As I have repeatedly indicated, we are asking our aging grid infrastructure to do more and more as regional electricity markets expand and we seek to transmit power over long distances from location constrained resources. We need to make sure that the operators of the grid are prepared to deal with these challenges with tools like the enhanced regulation market design we are directing today.

Third, I believe that this final rule will result in an overall reduction in emissions from the generation fleet. Some of the new resource technologies that are faster and more accurate produce no emissions themselves. Further, the mostly thermal generation that traditionally has provided regulation will now be able to bid their capacity into the energy markets at their optimum heat rates. This will enable the thermal generators to maximize their efficiency, which in turn will reduce their emissions.

In closing, I would note that energy storage resources such as batteries and flywheels appear to be particularly well-suited to providing regulation service, given their ability to ramp quickly and to respond accurately to dispatch signals. I believe today’s final rule is a positive first step by the Commission in



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recognizing the unique characteristics and the value that storage resources offer in providing ancillary services such as frequency regulation. As we move forward, I strongly believe that storage will become ever more critical as we look to integrate increasing amounts of variable energy resources.”