

## PART TWO

Chris Newkumet: Welcome back Chairman Wellinghoff. Demand response and distributed generation, these are near and dear to your heart, these topics, the notion that FERC has taken several steps to provide incentives for power users to either forgo that power or generate it locally. Talk a little bit about what has happened recently, and why is this a good idea?

Chairman Wellinghoff: Well, let me put it first in context. The context is that demand response, or things that happen on the customer side of the meter, are important to incorporate into the overall energy markets because we want those markets to be as vibrant as possible and as competitive as possible. So more competitors that we can bring into that market, it is going to drive down prices for consumers, lower costs and make those markets work better. So if we can have consumers actually participate by modifying their loads, or consumers putting in their own local generation – solar systems and other systems that they can put in on a local basis – then the markets will work better overall.

And yes we have put in a number of initiatives to encourage those types of facilities that should be put in. One is that we've come up with a rule that indicates that if you are going to bid demand response into a market as an energy product then it should get paid the same thing a generator gets paid . . .

CN: locational marginal price...

Chairman: Yes, they call it locational marginal price, and it is an equal price that the generator gets paid because they are providing an equal service. So if you are providing equal services you should get equal value.

The other thing we did is we looked at certain types of local resources that can provide something called regulation service, which is fast-response stabilization of the grid. There are certain things like batteries, flywheels and other sort of local distributed resources that can do it much faster than the traditional resource – a generator. So we put another rule in place that says if you do it faster, you provide more value to the grid, you get paid more. You get paid what the value is that you supply to the grid.

CN: But you've suggested that should be even more than 1 to 1, maybe upwards of a 1.4 factor.

Chairman: That's another thing that we are looking at. We are looking at for capacity, on the capacity side, whether or not you should be paying distributed generation or distributed resources like demand response a higher amount because you are lowering line losses, you are reducing congestion and you are supporting the local distribution grid in a way that a central generator is not. So that is another initiative that we are looking at. We haven't got to a point of deciding how we are going to move forward with that particular initiative, but we are now investigating that one.

CN: Let's look at a typical situation, maybe in Ohio, all the Walmarts decide on a certain day in August they are going to turn off half of their lights or they are going to turn on their diesel

generators. Some people are critical of the fact that it seems that Walmart gets paid twice for this. They get paid to do that, on a megawatt-to-megawatt price basis, but they also don't have to buy the megawatt. How do you respond to that criticism?

Chairman: I respond to it the same way we don't look behind a generator supplying energy to the system. The generator may have a good contract on their coal, a lower rate on their coal. They may have some other special break with respect to the way they are operating. You don't look behind that; you only look at the price that they provide to the system. Similar with the Walmart, if that Walmart can provide an increment of energy reduction to the system that is as valuable as an increment of energy of generation to the system, it should get paid the same amount. There is no need to look behind that because it is a market, and both sides of the market are playing equally so ultimately they should get equal payment.

CN: You mentioned "of value," how do you quantify that? Give me some numbers Jon, let's say in PJM. How do you know this is working, how do you know this is benefiting consumers?

Chairman: PJM has over 15,000 MW of demand response under control, ability to bring it into the market. This summer prices in PJM went as high as \$500 to \$600 a megawatt-hour. PJM put in place demand response and within an hour they brought it down to under \$100 a megawatt-hour. So we had some very rapid and very clear indications that demand response provided great value to the system because it brought prices down for the whole system very rapidly.

CN: One [hundred dollars per megawatt-hour] rather than five [hundred dollars per megawatt-hour].

Chairman: That's right.

CN: Diesel generators are responsible for a lot of power generation in PJM, estimates as much as 50% of demand response. These have no pollution controls. Does that worry you?

Chairman: It doesn't in this sense. As long as you can make the case that the diesel generator as a very small generator putting a tiny amount of generation in overall in the entire system is lower than the amount that would have to go in if you pulled in a combustion turbine, ultimately the net amount of emissions is going to be lower. In fact there have been some studies done – I know EPA has a rule on this issue that they are looking at – and those studies seem to indicate that the net amount of emissions is still lower even though on a per-unit basis the diesel generators are dirtier. You are using less generation overall to accomplish the same purpose, much less generation.

CN: You have a deep background as a consumer advocate. The Commission's main role is to protect consumers. You've been the Chairman basically since President Obama has been in office. In this election season I have to ask: Are energy consumers in the US better off now than they were four years ago?

Chairman: I think they absolutely are. Number one, wholesale prices are much lower. Supplies are up. We have also in addition to the supply of natural gas that is up substantially, we also have

additional supplies on that demand side, of demand response that I was talking about. So ultimately I think the markets are much more vibrant, they are much more efficient and they are operating better, producing lower costs for consumers and overall protecting consumers.

CN: Jon, you've been a Commissioner since 2006, you've been Chairman since March 2009. Your term expires in June of 2013, and history suggests a year from now we will have a different FERC Chairman. What's next for you?

Chairman: Well, that's to be determined. I'm not going to be seeking anything until I determine at the end of my term exactly what is going to happen. You are right, it is June of 2013 that my current term ends, and that is something that I will have to address when I get there.

CN: Jon Wellinghoff, Chairman of the Federal Energy Regulatory Commission, thanks for joining us.

Chairman: Thank you, Chris.