



Federal Energy Regulatory Commission
February 17, 2011
Open Commission Meeting
Staff Presentation
Item E-4

Good morning Mr. Chairman and Commissioners,

The Notice of Proposed Rulemaking before you today addresses rates paid for the procurement of frequency regulation service in the RTO and ISO organized wholesale power markets. The draft proposed rule preliminarily finds that current frequency regulation compensation practices may result in rates that are unjust, unreasonable, and unduly discriminatory because faster-ramping resources are compensated at the same level as slower-ramping resources, even though they may provide more Area Control Error correction. Therefore, the proposed rule would require RTOs and ISOs to ensure that resources providing frequency regulation service are appropriately compensated.

Frequency regulation is the injection or withdrawal of real power by resources capable of responding appropriately to a transmission system's frequency deviations or interchange power imbalance, as measured by the Area Control Error. This service is delivered in response to a dispatch signal from a system operator. Frequency regulation is distinct from frequency response, which is an automatic and autonomous action in response to changes in frequency rather than to a dispatch signal. The draft proposed rule observes that taking advantage of the capabilities of faster-ramping resources can improve the operational and economic efficiency of the transmission system and has the potential to lower costs to consumers in organized wholesale markets.

The proposed rule would implement a two-part payment for resources providing frequency regulation service to RTOs and ISOs. The first part of this payment is a capacity, or option payment. While the RTOs and ISOs currently provide capacity payments for frequency regulation service, the proposed rule would refine existing practices by requiring that offers into a frequency regulation market include all opportunity costs, and that a uniform market-clearing price, that includes the marginal unit's opportunity costs, be paid to all cleared resources.

Second, the draft proposed rule would require that all resources dispatched to provide frequency regulation service receive a payment for performance. That is, each MW a unit is dispatched up or down should be reflected in its payment. Rather than netting the regulation up and regulation down provided by a resource, the absolute value of the movements up and the movements down would be summed in order to calculate a payment that acknowledges the service provided—Area Control Error correction.

Further, the draft proposed rule would require performance measurement for all resources providing frequency regulation service, with payments made to each resource reflecting its accuracy of performance in response to the dispatch signal.

The draft proposed rule is focused on the frequency regulation markets operated by RTOs and ISOs and, therefore, does not address frequency regulation service offered by transmission providers outside the RTO and ISO regions pursuant to their Open Access Transmission Tariffs. Within the RTO and ISO markets, the proposed rule preliminarily finds that implementation of a two-part payment for frequency regulation service will remedy undue discrimination and remove unnecessary barriers to the participation in the organized

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frequency regulation markets of all types of resources that are technically capable of providing frequency regulation service. The proposed rule seeks comments within 60 days of publication in the Federal Register.

This concludes our presentation. We are happy to answer any questions.