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

## FERC Proposes New Compensation Method for Regulation Service

The Federal Energy Regulatory Commission (FERC) today proposed to ensure just and reasonable rates and eliminate undue discrimination in the procurement of regulation service in organized wholesale electric markets by requiring market operators to appropriately compensate providers for their services.

Regulation service is an ancillary transmission service that protects the grid by correcting deviations in grid frequency and balance on transmission lines with neighboring systems. Regulation service is distinguishable from frequency response, which involves automatic, autonomous and rapid action of resources to respond to changes in frequency (and is the subject of a Staff report available in Docket AD11-08-000). Today's Notice of Proposed Rulemaking finds that current compensation practices for frequency regulation service in the organized wholesale energy markets may not acknowledge the benefits of faster ramping resources, which may improve operational and economic efficiency and reduce costs to consumers.

The proposed rule offers a two-part market-based compensation method. First, all cleared resources would receive a uniform capacity payment, to include opportunity costs, for standing ready to provide frequency regulation service. Second, resources would receive a market-based performance payment for each megawatt, up or down, provided in response to a system operator's dispatch signal. This payment also would reflect a resource's accuracy of performance.

Participants at a FERC technical conference in May 2010 generally agreed that payments to regulating resources should reflect the service performed for the system, but they disagreed on whether current market designs achieve that goal. Today's proposal would ensure market rules send appropriate price signals to resources that are capable of participating in the regulation service markets.

Comments on the proposed rule, *Frequency Regulation Compensation in the Organized Wholesale Power Markets*, are due 60 days after publication in the *Federal Register*.

(30)

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