



FEDERAL ENERGY REGULATORY COMMISSION

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

Item No. E-4

February 17, 2011

Chairman Jon Wellinghoff

STATEMENT

Statement of Chairman Jon Wellinghoff on Proposed New Compensation Method for Regulation Service

"Frequency regulation is critical to maintaining the reliability of the transmission system. Historically, frequency regulation service has been provided by generators. In recent years, due to innovations in technology and communications, new resources have developed that are capable of providing this service. These could include storage technologies such as flywheels and electric vehicles, demand resources and possibly even residential water heaters. The record we have created in this proceeding indicates that some resources, both new and existing, can respond more quickly and accurately than others to the system operator's dispatch signal for frequency regulation service. However, as the Staff indicated, the organized markets may not be capturing the value of this faster and more accurate service because currently compensation to the providers is not typically based on performance.

I think it is particularly important that we are issuing this notice of proposed rulemaking at this time. The electric industry is engaged in planning the transmission system for an increasingly varied mix of demands and types of supply. The ability to have adequate resources to provide frequency regulation to maintain reliability is essential.

This proposed rulemaking seeks to explore the value that faster and more accurate regulation service may provide to the organized markets. And it makes proposals and seeks comment on how providers should be compensated for their performance so that they have the incentive to invest in regulation capability and participate in RTO markets for regulation service. Properly designed, these markets will provide the efficient and least-cost mix of resources for regulation service. Further, these markets have the potential to attract new sources of frequency regulation capability which can be viable options to consider in transmission planning. Actions both to improve operational efficiency and plan for the future have the potential to lower costs to consumers for this service in the organized wholesale markets.

Therefore, I look forward to reviewing the comments we will receive on this proposed rule."