



February 17, 2011

Commissioner John R. Norris

**STATEMENT**

FEDERAL ENERGY REGULATORY COMMISSION

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

Item No. E-4

## Statement of Commissioner John R. Norris on Proposed New Compensation Method for Regulation Service

"Today's notice of proposed rulemaking (NOPR) is all about performance, innovation, and efficiency. The Commission's aim here is to develop a mechanism to compensate resources providing frequency regulation in a way that rewards them for quickly responding to the needs of the system. This should in turn spur innovation in new technologies that provide this quick response, promote efficiency, and result in costs to consumers that reflect this efficiency.

This NOPR appropriately recognizes that if two different resources are providing frequency regulation, but one resource does substantially more to help the system operator balance supply and load in real time, that resource should be paid commensurate with the service it is providing. Simply put, we are looking at pay-for-performance in the regulation market, which should result in a need to procure less regulation capacity and in a more efficient utilization of our existing supply resources.

Importantly, the proposed rulemaking is agnostic with respect to which technologies can take advantage of this new pay-for-performance framework. In addition to those generators that have traditionally provided regulation service, demand response resources and new storage technologies such as batteries and flywheels will be able to compete on a more level playing field.

Just as important as what this NOPR does address, I want to emphasize two issues that it does not deal with. First, the NOPR addresses frequency regulation, not frequency *response*. Frequency *response* is the subject of a Commission staff study that was released at the Commission's meeting last month and we are currently taking comments on that study. Second, this NOPR does not address frequency regulation issues outside of ISO and RTO markets, recognizing that there are significant differences in the way that frequency regulation is procured and compensated in those regions.

While I support our initial focus on the ISO and RTO markets, I also believe that we should look at how frequency response resources are procured and compensated in non-ISO and RTO regions. There may be efforts we should undertake in those areas as well that could create efficiencies and benefit consumers. That is why I would encourage the Commission to take a closer look at frequency regulation as it exists in non-ISO and RTO markets."