Federal Energy Regulatory Commission
March 17, 2011
Staff Presentation
Demand Response Compensation Rule
Order No. 745 (RM10-17-000)

"Good morning Mr. Chairman and Commissioners. On Tuesday March 15th the Commission issued Order No. 745 - a Final Rule on Demand Response Compensation in Organized Wholesale Energy Markets.

The Commission issued a Notice of Proposed Rulemaking on March 18, 2010. The Commission issued a Supplemental Notice of Proposed Rulemaking in response to the first round of comments and held a subsequent technical conference; providing the opportunity for additional comment. This process resulted in considerable input from, and discussion with, market participants and stakeholders as well as nearly 3,800 pages of comments in total.

To ensure just and reasonable rates, this Final Rule requires that RTOs and ISOs pay demand response resources participating in the Day-Ahead and Real-Time Wholesale Energy Markets the Locational Marginal Price (or LMP) when two conditions are met: demand response resources must be capable of balancing supply and demand in the wholesale energy markets, and dispatching and paying LMP to demand response resources must be cost-effective as determined by the net benefits test described in the Final Rule.

The Final Rule recognizes that demand response should be dispatched only when the benefits of demand response outweigh the energy market costs to consumers of compensating the demand response with the LMP. However, it recognizes dispatching demand response resources may result in an increased cost per unit ($/MWh) to the remaining wholesale load associated with the decreased amount of load paying the bill. This is the case because customers are billed for energy based on the units, MWh, of electricity consumed, and the draft Final Rule refers to this potential result as the billing unit effect of dispatching demand response.

Therefore, to address this billing unit effect, the draft final rule requires that RTOs and ISOs implement the net benefits test to establish a monthly threshold price, based on the unique supply conditions of each RTO and ISO, above which demand response resources must be paid LMP. The objective of the net benefits test is to ensure that the overall benefit of the reduced LMP that results from dispatching demand response resources exceeds the cost of dispatching and paying LMP to those resources.

This Final Rule also requires that the costs of demand response payments be allocated among all customers who benefit from the lower LMP resulting from the demand response.

This Final Rule also directs each RTO and ISO to include as part of their compliance filing an explanation of how, in light of the requirements of this Final Rule, its Measurement & Verification protocols will continue to ensure that appropriate baselines are set and that demand response will continue to be adequately measured and verified as necessary to ensure the performance of each demand response resource.

Each RTO or ISO must submit a compliance filing on or before July 22, 2011, to reflect these requirements in its tariff. These compliance filings will become effective prospectively from the date of the Commission orders addressing those filings.

Finally, the Final Rule also requires each RTO and ISO to undertake a study examining the requirements for and impacts of implementing a dynamic approach to incorporation of the billing unit effect in the dispatch algorithm, into both the day-ahead and real-time energy markets, and to file the results of the study with the Commission on or before September 21, 2012.

The Final Rule finds that this approach for compensating demand response resources helps to ensure the competitiveness of organized wholesale energy markets and remove barriers to the participation of demand response resources, thus ensuring just and reasonable wholesale rates.

This completes our presentation. We would be happy to answer any questions."