



October 20, 2011

Chairman Jon Wellinghoff

STATEMENT

FEDERAL ENERGY REGULATORY COMMISSION

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

Item No. E-28

Statement of Chairman Jon Wellinghoff on Frequency Regulation Compensation in the Organized Wholesale Power Markets

"As I stated when we issued the Notice of Proposed Rulemaking in February of this year, frequency regulation is critical to maintaining the reliability of the transmission system.

In the ensuing months, we have developed an extensive record through a Technical Conference and comments submitted by 53 entities including the RTOs, several industry associations, frequency regulation service providers, state regulatory commissions, utilities and other market participants.

The record establishes that different resources have different capabilities to ramp quickly and respond accurately to the system operator's signal to correct frequency deviations. Several RTOs told us that they are already examining how best to use these new capabilities that are made possible through advances in technology and computing. But it became clear that, by not compensating for the amounts of frequency regulation service that different resources provide, organized markets do not adequately compensate for the additional work performed by faster and more accurate resources.

This Final Rule remedies that by putting in place requirements to recognize the different characteristics and pay for actual performance. I note that the level of compensation will be established by the competitive workings of the RTO markets for this service.

The record further provides significant evidence, based on commenters' actual experience and analyses, that use of faster and more accurate resources will allow the system operator to better maintain system balance and thus improve capabilities to maintain reliability at reduced costs.

The Final Rule focuses on using those resources that can respond most accurately to the system operator's signal to correct frequency deviations and to pay for the accurate performance. This should enable the system operator to make the most efficient use of resources capable of providing regulation service and minimize costs of this service to consumers.

I am pleased to note that, at the suggestion of Commissioner Norris at our February meeting, the Commission in a Notice of Inquiry issued on June 16, 2011, in RM11-24 is seeking comments on whether the goals of this rulemaking can be extended to regions outside the organized wholesale energy markets.

In summary, today the Commission is taking another step to improve the efficiency and cost-effectiveness of the operation of the grid for consumers and I am pleased to vote to approve this Final Rule."