UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

	)	
Demand Response Compensation in	)	**Docket No. RM10-17-000**
Organized Wholesale Energy Markets	)	
	)	

TECHNICAL CONFERENCE OPENING REMARKS OF TIMOTHY J. BRENNAN ON BEHALF OF NATIONAL GRID USA

September 13, 2010

National Grid would like to thank the Commission for establishing and organizing this technical conference to allow further stakeholder input and discussions of the important questions posed in the Supplemental NOPR regarding demand response compensation in organized wholesale markets. National Grid appreciates the opportunity provided to present its views today as part of this "Panel 2" established to consider requirements for ensuring the proper allocation of costs associated with demand response compensation in the markets.

While this panel is not addressing the compensation itself, or the requirements of any net benefits test if used to determine when compensation might be appropriate (the issue of focus for "Panel 1" this morning), I would like to briefly remind the Commission of National Grid's position on the compensation proposed in this NOPR. As stated in our comments filed May 13th, for demand response resources dispatched in wholesale energy markets, National Grid supports full LMP compensation in certain limited hours when "net benefits to the market outweigh costs," and, for all other hours, supports compensation at

"LMP minus the generation costs they avoid in their retail rates by forgoing consumption" (i.e., "LMP-G"). Well respected economists have submitted opposing views on the appropriate compensation level in this proceeding. Some have argued that no compensation greater than LMP-G can be justified in any hour, while others have argued that principles of economic efficiency require allowing full LMP compensation in all hours. Given these well presented but opposing views, it appears quite reasonable for the Commission to consider the use of a net benefits test to determine in which hours full LMP compensation might appear most justified (e.g., in hours when the total energy market LMP savings from a demand reduction more than offset the costs of such compensation to the associated resource).

Of course, with any compensation of resources dispatched in the wholesale markets there is an associated cost which must be allocated. The Commission has asked this panel to focus on the issue of "what, if any, requirements should apply to how the costs of demand response are allocated." For National Grid, the single most fundamental requirement to apply is the requirement that the costs at issue in this proceeding, the compensation costs paid to demand resources actively competing with generating resources in the wholesale energy markets, be allocated entirely to the entities responsible for the load serving obligations in the wholesale energy markets. These costs should not be allocated as transmission charges to transmission customers.

Costs associated with demand response programs have at times been allocated as transmission charges rather than as market charges. However, such programs and associated costs were considered essentially unrelated to the competitive operation of the wholesale markets, but instead were supported as programs enhancing the reliability of the network during periods of peak demand. Clearly, the demand response programs and associated costs at issue in this NOPR are very different. As the Commission stated in the NOPR, "Our focus here is on customers providing - through bids - demand response that acts as a resource in organized wholesale energy markets" and that this "helps to improve the functioning and competitiveness of such markets in several ways" including through the lowering of energy market clearing prices and the mitigation of generator market power. Moreover, the Commission clearly stated its belief that the proposed comparable treatment of demand resources and generation resources "will improve the competitiveness of the organized wholesale energy markets and, in turn, help to ensure that energy prices in those markets are just and reasonable." It is National Grid's belief that the Commission will ensure the associated cost allocation is just and reasonable if it requires the costs to be allocated only to the entities that hold the wholesale energy market obligations for the load in the control area.

Once that fundamental requirement is applied, National Grid believes the Commission need not apply any additional requirements at this time. The RTO's/ISO's and stakeholders in each region should be allowed to take account of their particular energy market designs and settlement rules and then consider and propose how best to achieve the goals of this NOPR while properly allocating the compensation costs among their energy market participants. For example, The Consumer Demand Response Initiative has presented an interesting proposal consisting of day-ahead market pricing algorithms and settlement algorithms which may be worthy of further consideration. Also, regions and stakeholders will need to consider many allocation choices such as using day-ahead obligations versus real-time, using hourly periods versus daily, targeting all load serving entities versus the load serving entities realizing the load reductions, etc. With the simple but very important guidance from the Commission requiring that these energy market compensation costs be allocated only to entities responsible for the wholesale energy market obligations, National Grid is confident the regions will be able to work through the remaining details and propose a complete set of rules for the allocation of these demand response costs.

Again, on behalf of National Grid, I thank the Commission for this opportunity and look forward to participating in the panel discussion to follow.