



Federal Energy Regulatory Commission
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Open Commission Meeting
Staff Presentation
Item E-28

"Good morning Mr. Chairman and Commissioners,

The draft Final Rule before you today addresses the rate design for frequency regulation service in RTO and ISO organized wholesale power markets.

Frequency regulation is the injection or withdrawal of real power by resources capable of responding appropriately to a transmission system's frequency deviations or interchange power imbalance, as measured by the Area Control Error. This service is delivered in response to a dispatch signal from a system operator. Different types of resources have differing capabilities to respond to frequency deviations. This draft rule requires changes to the compensation of resources providing frequency regulation in RTO and ISO wholesale markets to ensure that the compensation to all resources is just and reasonable and not unduly discriminatory or preferential.

Specifically, the draft Final Rule implements a two-part rate design for resources providing frequency regulation service to RTOs and ISOs.

The first part of this payment is a capacity payment. While the RTOs and ISOs currently provide capacity payments for frequency regulation service, the draft Final Rule refines existing practices by requiring that a uniform market-clearing price, that includes the marginal unit's opportunity costs, be paid to all cleared resources.

Second, the draft Final Rule requires that all resources dispatched to provide frequency regulation service be paid for their performance. That is, the actual quantity of service provided by a unit must be reflected in its payment. In this regard, the draft Final Rule requires performance measurement for all resources providing frequency regulation service, with payments made to each resource reflecting its accuracy of performance in response to the dispatch signal. The draft Final Rule does not mandate a specific pay-for-performance method, or a specific performance measurement. Given the differences in the designs of each RTO and ISO market, these details are left for the RTOs and ISOs to develop and propose.

Together, these reforms remedy undue discrimination by requiring pay-for-performance and ensure just and reasonable rates by requiring markets to send more efficient price signals to incent an efficient mix of resources to provide needed regulation services. This allows market participants to make efficient decisions and will also allow system operators to take advantage of the capabilities of all resources, improving the operational and economic efficiency of the transmission system and potentially lowering costs to consumers in organized wholesale markets.

Each RTO and ISO would be required to file a compliance filing within 120 days of the effective date of the Final Rule. This compliance filing would propose tariff revisions to implement a two-part payment design for frequency regulation service. An additional 180 days will be allowed to implement the provisions of the new rule.

This concludes our presentation. We are happy to answer any questions."