



Federal Energy Regulatory Commission
February 21, 2008
Open Commission Meeting
Statement of
Commissioner Jon Wellinghoff

**Item E-1, Wholesale Competition in Regions with Organized Electric Markets
(Docket Nos. AD07-7-000 and RM07-19-000)**

"As the Commission states in this Notice of Proposed Rulemaking (NOPR), from the commencement of our first technical conference in this proceeding one year ago, our goal has been to identify specific reforms that can be made to optimize the efficiency of organized wholesale electric markets for the benefit of customers and, ultimately, the consumers who pay for electricity services. This NOPR marks an important step toward that goal, and I am pleased to support its issuance.

I would like to draw attention to a few areas of this NOPR, on which I particularly encourage interested persons to submit comments.

In this NOPR, the Commission highlights the importance of demand response to the organized markets. The Commission states that demand response helps to reduce prices in competitive wholesale markets in several ways, such as by reducing generator market power and flattening an area's load profile. The Commission also recognizes that the need for, and the focus on, demand response will continue to increase.

The Commission makes several notable proposals in this NOPR related to demand response. One issue on which I encourage comments is the Commission's proposal to require each RTO and ISO to accept bids from demand response resources, on a basis comparable to any other resources, for ancillary services that are acquired in a competitive bidding process. The Commission states that this policy would increase the competitiveness of ancillary services markets, help reduce the price of ancillary services, and improve the reliability of the grid. I am interested in hearing from interested parties whether our proposals in this area are adequate to achieve those goals.

The Commission also states that we intend to direct our staff to convene a technical conference shortly after we receive comments on this NOPR to consider critical issues related to demand response, such as appropriate compensation for demand response. Compensation for demand response is an issue in which I am very interested, in part because I believe that there are areas in which demand response remains undervalued. The technical conference will also address other critical issues, including potential solutions to remaining barriers to comparable treatment of demand response. In my view, comparable treatment must recognize the distinctive technical and operating characteristics of demand response resources.

Drawing on this technical conference, we also propose to require each RTO and ISO to submit a study on these critical issues within six months of the issuance of a Final Rule in this proceeding. Those studies would include proposed solutions along with a timeline for implementation. I encourage interested parties to provide comments on this approach and to identify particular issues or areas that should be addressed in these RTO and ISO studies.

In addition, I strongly encourage interested parties to comment on the Commission's proposal in this NOPR concerning market rules that govern price formation during periods of operating reserve shortage. It is important to note that these are infrequent periods when more resources, both generation and demand resources, are needed to maintain reliable

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electric service to consumers. I appreciate the extensive comments that we received on this issue in response to the ANOPR. I believe that this proposal in the NOPR is an improvement in several respects over the discussion in the ANOPR. Most notably, the Commission proposes to adopt requirements to ensure that proposals for pricing during periods of operating reserve shortage are designed to protect consumers against the exercise of market power and are supported by an adequate factual record. More specifically, we propose that a primary criterion for approving such pricing proposals would be an adequate record demonstrating that provisions exist for mitigating market power and deterring gaming behavior, including, but not limited to, use of demand resources to discipline bidding behavior to competitive levels during periods of operating reserve shortage. I am particularly interested in receiving comments as to whether this and the other criteria proposed in this NOPR are appropriate, how the Commission should apply these criteria if we adopt them in a Final Rule, and whether there are additional criteria that we should consider in evaluating an RTO's or ISO's proposal for pricing during a period of operating reserve shortage.

Finally, I would like to note that the Commission in this NOPR is directing each RTO or ISO to provide a forum for affected consumers to voice specific concerns (and to propose regional solutions) about market designs in its particular region, including concerns as to the value to the market of significant changes to the market rules. We are also directing our staff to convene a technical conference on two proposals that were submitted in comments in this proceeding. Through these and other steps taken in this NOPR, it is my intention for the Commission to demonstrate how seriously we take our statement that the proposals in this NOPR do not represent our final effort to enhance the efficient functioning of competitive organized markets for the benefit of consumers."