



Federal Energy Regulatory Commission
April 23, 2007
Technical Conference AD07-11
Demand Response in Wholesale Markets
Statement of
Commissioner Jon Wellinghoff

"Good morning. This technical conference was initially conceived to examine the potential role of demand resources in upgrading the transmission system and to explore methods to provide for compensation to demand resources that may fulfill such a role. The Chairman suggested to me that we expand this conference to examine demand response in wholesale markets more broadly. Joe, I thank you for this.

FERC's job is to ensure that wholesale markets provide a reliable supply of electricity to customers at just and reasonable rates. We do this, in part, by designing and monitoring markets to operate efficiently and by encouraging "smart" investment in the operation and expansion of our transmission system. I believe demand resources can and should be an important tool in market operation and transmission expansion. Demand resources can discipline peak market prices, provide a hedge against volatile fuel prices, and potentially be a cost-effective means to delay or defer transmission expansion or improve the efficiency of transmission upgrades. It can also be a cost-effective tool in reducing greenhouse gas emissions and preserving our environment through the reduction in peak demand, the reduction in reserve requirements, and the deferral and delay of new capacity additions. A recent Gallup poll (reported March 14, 2007) found that American consumers prefer, by a ratio of 2 to 1, solving our nation's energy problems through efficiency solutions such as demand response over an emphasis on more energy production.

The Commission has seen the operation of demand resources in markets. The Commission Staff has reported to us that the total level of demand response reductions achieved by ISOs nationally on peak days during summer 2006 was approximately 8800 MW. These demand resources achieved reductions between 1.4 and 4 percent of ISO system peaks, with load reductions in load pockets such as Southwest Connecticut closer to 6 percent, and reductions in market clearing prices between \$100 and 300/MWh. These market clearing price reductions mean that consumers in this country saved hundreds of millions of dollars last summer alone due to the use of demand response.

Currently there are several initiatives underway by the Commission or RTOs/ISOs under our review to integrate demand resources into ancillary services, capacity markets, mandatory reliability standards and transmission planning. I see this conference as an opportunity to take stock of where we are with demand resources in wholesale markets, and to discuss where we may still need to go to make wholesale markets operate ever more efficiently in order to save consumers even more money.

Today we also want to explore the technical feasibility and capability of demand resources to be cost-effectively integrated into the transmission planning process. As part of the modernization of the transmission infrastructure, EPACT of 2005 provides that the Commission shall encourage, as appropriate, the deployment of advanced transmission technologies. These include the hardware and software of demand resource projects such as energy storage devices, distributed generation and loads directly controllable by the transmission provider. Demand resources and energy efficient technologies are among the investment options a transmission planner has available to use as a part of needed transmission infrastructure. I look to this panel to help us understand the technical capabilities and feasibility of using

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demand resources to cost-effectively enhance our transmission infrastructure. If investment in demand resources can be part of the transmission infrastructure solution in a cost-effective manner, then we need to explore the possible mechanisms to compensate customers that provide such demand response infrastructure upgrades.

Finally, as mentioned earlier, there are several initiatives underway to integrate demand resources into wholesale markets. The Commission has also determined in our recently issued Order 890 that demand response must be evaluated on a comparable basis to services provided by generation resources in meeting mandatory reliability standards, providing ancillary services and in planning the expansion of the transmission grid. With these initiatives under way around the country to bring demand resources into wholesale markets and into the operation of the transmission system, we need to know how to measure demand resources and how to determine that we can rely on them, today and tomorrow, to meet the reliability and other functions that transmission system operators pay them to perform. Therefore, I look forward to the panel's recommendations on "best practices" in measuring the impact of demand resources in market and transmission system operations and what our next steps should be.

Thank you."