



**Federal Energy Regulatory Commission**  
**September 21, 2006**  
**Open Commission Meeting**  
**Statement of**  
**Commissioner Jon Wellinghoff**

"Being appointed to the Commission is a privilege and an honor. The privilege is to serve in this capacity with the trust of the President, the Congress, and the American people. I respect that trust and will uphold it during my tenure here. The honor to serve at FERC includes working with the four other dedicated, competent, talented Commissioners and the FERC staff. In my short time at the Commission so far, I have met not only some of the most competent, knowledgeable, and hardworking people in the energy industry, but also compassionate individuals who deeply care about the impacts of their work on consumers.

I believe that the Commission needs to develop policies and rules that create incentives to invest in our country's aging energy infrastructure. For example, building new transmission and generation facilities is necessary to promote and sustain reliable and lower cost electric power for consumers that can fuel economic development and new jobs. It is also important to recognize, however, that building new facilities alone is not enough to bring these benefits to consumers. While at the Commission, I intend to concentrate on three issue areas that I believe will bolster our commitment to ensuring that consumers receive reliable power at just and reasonable rates. These areas are: (1) Providing a platform for participation of demand response in electric markets; (2) Promoting efficiency in energy infrastructure; and (3) Opening wholesale markets to renewable and distributed resources.

In each of these areas, Chairman Kelliher and Commissioner Kelly have guided this Commission to significant strides prior to my arrival at the Commission. Among others achievements, many of the country's organized wholesale electric markets provide opportunities for demand response resources to participate and be compensated with market value. The Commission also recently took steps to implement Congress's directive to promote the use of advanced, energy efficient electric transmission technologies. In addition, the Commission has recognized unique characteristics of wind generation in its interconnection rules.

I am committed to assisting my fellow Commissioners in building on these initiatives. I also would like to briefly highlight important issues in each area.

**1. Providing a Platform for Participation of Demand Response in Electric Markets.**

Together with energy efficiency, I believe that demand response is this country's untapped energy resource. Demand response, if properly implemented, can mitigate market volatility, eliminate price spikes, improve resource adequacy, alleviate congestion, and improve reliability.

Recent events provide a glimpse of the potential of demand response. PJM Interconnection, L.L.C. has reported that demand response saved \$650 million during this past summer's August heat wave. On one of the fiercest days, demand response produced more than \$230 million in savings that reduced prices by \$300 per megawatt-hour during the highest usage hours. Similarly, on August 1 and 2, during periods of record high demand conditions, the Midwest Independent Transmission System Operator reported that it received up to 3,000 MW of voluntary

load reductions at zero cost to the ISO, preventing operating reserve shortages that would likely otherwise have occurred and decreased prices.

There are five main areas in which FERC can help realize the potential of demand response:

**Align Demand Response Objectives with Customer Financial Interests.**

For the ever-growing segment of customer loads that can be more responsive to price and/or system reliability events, demand response programs must be economically attractive to the customers being asked to accept market price risks, modify production schedules, and adapt business models to participate.

**Open the Markets to Demand Response.**

We should encourage loads to participate as a resource in all energy, capacity, and ancillary service markets.

**Remove the Market Barriers.**

We should eliminate all unnecessary impediments to load participation as demand reduction resources.

**Encourage the most efficient technologies.**

Establishing available demonstrated technology protocols will enhance the ability of system planners and system operators to value and count on demand response resources in a manner similar to how they value and count on generation resources.

**Work in close collaboration with the States.**

We should encourage cooperation among states and regional transmission providers on all demand response matters, and we should work in collaboration with state commissions to address demand response issues that cross retail and wholesale jurisdictions.

Several of these areas are reflected in the order that the Commission is approving today on the California Independent System Operator's MRTU proposal. I believe that the order contains sufficient safeguards to mitigate any serious market price dislocations potentially affecting consumers, either within California or in adjacent states, that may inadvertently result from MRTU implementation. In my opinion, the most significant of these safeguards is demand response. The order ensures that demand response may participate in the CAISO markets under comparable requirements as supply and be paid fair market value. With the inclusion of robust demand response programs, the order will hopefully demonstrate that the functioning of electric markets can be improved for the benefit of all consumers. I look forward to working together with my colleagues toward demand response becoming an equal partner to supply side resources in electric markets by providing it equal access, enhanced opportunities, and fair market value.

**2. Promoting Efficiency in Energy Infrastructure.**

The energy infrastructure that this Commission addresses in its orders today will be with us for at least 30 and perhaps more than 60 years. We cannot afford to build that infrastructure in an inefficient manner.

Improving energy efficiency has the potential to reduce costs, make the best use of limited resources, and improve environmental quality, all of which will enhance

services and contribute to competition. In many instances, technological advances that will promote these goals are either already available or under development.

The Rockies Express project that the Commission addresses today is a prime example of a case in which the Commission should consider energy efficiency in energy infrastructure. Rockies Express is proposing to install a total of 176,930 hp of compression using a combination of turbine, reciprocating, and electric compressors. The turbine compressors produce waste heat that, with existing technology, could be recovered and converted to electricity. It may be possible to use this process to generate electricity that could reduce costs to consumers and also reduce environmental impacts. I recognize the need for increased gas supply, and I support the Rockies Express order as a preliminary determination on non-environmental matters for the project. However, I would request that the Chairman direct Staff to issue a data request in this case for information on consideration of energy efficiency options in this extensive infrastructure project.

More generally, I believe that this Commission, as a matter of policy, should consider energy efficiency as one important factor – and should provide appropriate incentives to that end – when it considers issues related to the construction of infrastructure for the gas and electric markets. Again, I look forward to working with my colleagues to promote these goals.

### **3. Opening Wholesale Markets to Renewable and Distributed Resources**

Finally, a diversity of supply in fuel sources can lower costs to consumers, stabilize markets, enhance reliability, and promote resource adequacy. These benefits are not theoretical. Taking just one example of how renewable resources can be part of a diverse supply, Xcel Energy has stated that the wind power used on its Colorado system yielded \$9.75 million in net benefits to the system in 2005. Similarly, the 10,000 MW of wind power installed in the United States today saves about 0.6 billion cubic feet of natural gas per day, or about 3.5 percent of the natural gas used across the country to generate electricity.

In support of those goals, it is important for the Commission to ensure that renewable and distributed generation resources have equal, non-discriminatory access to wholesale markets that recognize the unique operating, physical, and financial characteristics of these resources. Many areas may warrant consideration in this regard, such as ensuring that operating procedures and balancing markets take advantage of the diverse capabilities of renewable and distributed resources to provide energy and ancillary services.

Action toward these goals also recognizes and respects the public policy choices made by now more than 20 states to enact renewable portfolio standards. As with demand response, I look forward to working together with my colleagues to make distributed resources and renewable resources equal players in the wholesale energy markets that the Commission oversees.”