



FERC 745-More Money for Smart Energy User

Discussion Topics:

- How FERC 745 puts money on the table
- What this means for large energy users
- How Viridity can help consumers take advantage of this opportunity

Background:

On March 15, 2011 the Federal Energy Regulatory Commission (FERC) issued Order 745 – resolving the debate over equal treatment for consumers who bid their electricity reductions into the wholesale energy markets. As directed by the Order, electricity users who reduce electricity consumption in response to higher wholesale power prices will now be paid for those reductions at the same rate that electric generators are paid.

Supply and demand on the electricity grid must constantly remain in balance - and consumers who reduce their electricity consumption contribute to that balance just as much as generators that increase their production.

Energy market participation will be lucrative enough for the end user to consider load reduction as an important revenue-creating tool in their overall energy strategy.

The economic benefits do not end there. The Order represents a significant step forward in the evolution of electricity markets. Customers providing load reductions to the energy markets will not only be directly impacting their own bottom line, but also putting competitive pressure on traditional generators, helping to bring down everyone’s electricity costs. This effect has been demonstrated repeatedly – when some customers control their load, other customers benefit in the form of lower rates. For example, PJM (Mid-Atlantic and Mid-West regional grid operator) estimated that in a one month period during 2006, payment of just \$5 million to compensate demand response saved all the ratepayers a sum of \$650 million (*source: Industrial Energy Consumers of America - IECA*).

The rule change will also help achieve sustainability goals. Economic demand response encourages energy users to reduce load at times when prices are highest. High prices are strongly correlated to peak system demand and thus the use of “peaker” power plants, which are among the most expensive and pollution intensive resources that the grid calls on. By reducing their load during critical periods, end-users can contribute to society meeting its needs through a cleaner portfolio of resources.

Fair compensation for demand reduction will put an emphasis on ‘behind the meter’ smart grid technology. ‘Behind the meter’ technology comprises new innovations that allow consumers to manage their energy consumption and load, thus decreasing demand on our national electric grid which produces economic, environmental and efficiency benefits for the public.

What does this mean for me?

The order will benefit those consumers who can reduce load in response to high prices in the wholesale energy markets. The rule change is, most essentially, a change in the formula that calculates how price-responsive energy users get paid for their curtailments. Traditionally, participating customers have been paid using the formula “Locational Marginal Price – [Generation + Transmission]” or LMP – [G + T]. In other words, generators have been getting paid LMP; consumers providing an equivalent service have had their payments reduced by the amount of the generation and transmission charges on their retail bill. This table illustrates the change resulting from the FERC order, for each megawatt-hour (MWh) that the customer reduces:

		LMP	Generation	Payment
Old Compensation Formula:	LMP – (G + T)	\$ 150.00 / MWh	\$ 65.00*	\$ 85.00
745 Ruling Proposal:	Full LMP	\$ 150.00 / MWh	No Charge	\$ 150.00

Both fixed and non-fixed price customers will now be paid the full LMP price for voluntarily curtailing load.

Consumers have barely begun to tap revenues from the energy markets; currently, consumers participate primarily in the capacity markets, where they reduce load not in response to price, but upon direction from the grid operator during an emergency.

Customers who buy their electricity from a utility or competitive supplier under a contract with a retail price that tracks the wholesale market price of energy can earn even greater benefits. Not only do these customers earn revenues from the wholesale market; they also save more on their supplies of electricity, since they are using less at times when they would have to pay the most. In addition, their ability to curtail gives them leverage to negotiate a better deal for their supply of electricity.

Regulatory support:

Opponents of the new rule argued that paying full LMP to a load-curtailing customer and allowing the customer to save money on its electricity supply amounted to overpaying the customer. The FERC understood that paying full LMP was simply the right level of compensation for anyone who contributes to the balance of supply and demand on the grid. The FERC's Order was based on that understanding.

Viridity's regulatory team was instrumental in persuading the FERC on this point. As these plans are reviewed and considered, Viridity will continue to work as an advocate on behalf of its

customers to ensure fair payment for Demand Response Participation.

What should I do to take advantage of FERC 745?

The first step is to find a reliable full service CSP (Curtailment Services Provider) that can demonstrate proficiency in providing Energy services under demand response. Many consumers are currently enrolled in a program that provides Capacity curtailment services. If these companies have a CSP providing Capacity curtailment services only, (depending on your contract with the CSP) they can hire another CSP to provide Energy services.

Get ready now! Consumers will want to take full advantage of FERC Order 745 as soon as it is implemented. Depending on the number of locations, your current EMS or BMS capability, and other factors, the set up and implementation could take weeks.

The bottom line:

RTO's (Regional Transmission Organizations) and ISO's (Independent System Operators) will now treat consumers fairly, like every other wholesale electric provider, and pay you full price for your curtailments. Customers are now a virtual energy supplier in the energy markets! Viridity is a full service CSP, and customers enrolling with us in these programs typically have no up-front costs to participate.

As a leading proponent of the rule ordered by FERC, Viridity Energy would be pleased to meet with you to discuss this matter in greater detail. Please feel free to contact our offices at info@viridityenergy.com.

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