



## What's Happening with Demand Response? FERC Order No. 745—One Year Later

By Jonathan Nelson - Research Associate | [1 comments](#)

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It's been almost a year since the Federal Energy Regulatory Commission (FERC) issued [Order No. 745](#). This landmark ruling was intended to effectively level the playing field for demand-response (DR) resources in energy markets across the United States. As we approach the anniversary of Order No. 745 next month (FERC issued the Order on March 15, 2011), I've noticed increased utility interest in the topic, especially regarding current technical changes in the market (AutoDR and openADR) and among utilities that want to offer more-robust and advanced DR programs to customers (demand response 2.0) that are beyond the traditional model of using DR only in emergency situations. I thought I'd share a few insights I recently gleaned from my own research on the topic. First, some quick-and-dirty background info.

A long, long time ago (actually not so long ago) in the Energy Policy Act of 2005, Congress directed FERC to remove the unnecessary barriers to DR resources participating in organized wholesale electricity markets. Last March, FERC met this obligation with Order No. 745. The landmark ruling basically requires grid operators to pay DR resources the same price as supply-side resources, known as the locational marginal price (LMP), when DR can effectively balance the grid and is deemed cost-effective relative to the other available capacity options. Prior to the Order, DR resources were not compensated consistently across electricity markets.

Because each grid operator manages its market differently, FERC required each to provide compliance filings outlining the specific changes that would need to be made in their respective markets. You can find more info on the current status of these compliance filings in the notes from FERC's [December](#) (PDF) and [January](#) (PDF) meetings. Some grid operators have submitted their compliance filings, but FERC has instructed many, including [CAISO](#) (PDF) and [MISO](#) (PDF), to make amendments and resubmit.

For utilities, the issue brings to light questions such as:

1. Will DR be more lucrative, allowing utilities to cut costs and earn revenue from selling negawatts?
2. Will utilities need to make changes to their programs, either technically (more advanced DR hardware that reacts to what's going on in the market) or programmatically (positively or negatively affecting the cost-effectiveness of DR programs)?
3. And finally, stemming from the first two, if technical changes need to be made that make DR programs more advanced, how will these changes impact utilities' overall business cases for grid modernization?

For end users, is DR now something that deserves a hard and honest look from building managers and owners to cut costs and earn additional revenue? Will the ruling help these stakeholders further understand efficiency and conservation of peak load as an asset with a concrete value proposition?

In an attempt to get my bearings on the current industry perceptions and insights on the issue, I reached out to three prominent aggregators in the market to ask them how the Order will change, or has changed, the business of DR for utilities, customers,

and themselves. Unfortunately, at the time of writing this post, I have yet to receive any responses.

I learned of one partnership where ConEdison Solutions, an energy-service company (ESCO) subsidiary of Consolidated Edison, is working with Viridity to [launch a DR program in which customers can bid DR capacity into the market](#) at times other than when the grid operator appeals to customers to reduce for emergency scenarios. This program would effectively fall in line with the directives given by the Order for grid operators to allow DR capacity resources to balance the grid alongside supply-side resources. I reached out to the ESCO directly to talk about this new program, but I haven't received a response.

Regarding the ConEdison program, its grid operator NY-ISO [had ambitions to implement the rule by March 31, 2012](#) (PDF). NY-ISO, however, has not yet received the go-ahead from FERC and has [appealed to the commission](#) to postpone the effective date of the changes until the commission issues a formal response to the initial compliance filing. This will likely set back ConEdison's new DR program until the grid operator receives further guidance from FERC.

At this point, I'm inclined to confidently say that it will be more time until grid operators can give clear direction to utilities and aggregators on how DR resources will participate in the newly adjusted markets. Though it's somewhat frustrating that information on the topic is slim, it's not all that surprising given that the rules of the Order are still nascent in implementation. As I've outlined above, this direction is dependent first on FERC approving each grid operator's respective compliance filing. Until the commission approves the compliance filings and the new rules are established at the grid-operator level, it will be difficult to fully discern the new opportunities for DR that will exist as a result of the Order.

Tomorrow (February 29, 2012) at noon MST, we're hosting our quarterly [Demand-Response Leaders Group Call](#). The call is an opportunity for our members to engage, share ideas, and discuss programmatic challenges they're facing. I'm hopeful that during the call, members will bring up Order No. 745, and that we'll get to hear directly from utilities what their thoughts are. I'd be willing to bet that they're earnestly seeking actionable information on the topic.

What are your thoughts on the issue? When will we have a clearer picture from FERC and the grid operators? What will that picture look like for DR? I invite your comments. Together, we can give the topic more visibility and squeeze out some actionable insights for the industry to follow and easily understand.

## Comments

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