Demand Response: FERC Order 745

Demand Response Is a Valuable Resource for Maximizing Market Efficiency and System Reliability

Demand Response Resource Overview

A demand response resource (DRR) is a resource managed by a MISO market participant that has agreed to reduce electricity consumption on-demand. MISO's market further delineates these resources based on the DRR's capability and willingness to perform in the MISO market. Some demand resources participate in the energy and operating reserve markets (DRR Type I and Type II) and others respond only to energy emergencies, while others choose to participate in a subset of these categories.

Did you know?

- A Demand Response Resource (DRR) is a resource that can reduce electricity consumption on-demand when dispatched or during contingencies.

FERC Order 745

Federal Energy Regulatory Commission (FERC) policy seeks to eliminate barriers to the participation of demand response in power markets by ensuring comparable treatment of all resources. Enabling demand-side resources, as well as supply-side resources, improves the economic operation of electric power markets by aligning prices more closely with the value customers place on electric power.

FERC Order 745, issued in March 2011, requires that authorized demand response services be compensated in the same amount (the locational marginal price) as electricity generators. FERC recognizes that a benefit of demand reduction is lower prices. In addition, each market participant whose retail customers reduce electric load may reap additional benefits above the lower prices realized for the participant's net purchases.

In accordance with Order 745, MISO worked with stakeholders to determine the best method for allocating costs for demand response. Two key elements include: 1) payment of full Locational Marginal Price (LMPs) to compensate DRRs providing economic energy when Location Marginal Price is greater than the net benefits price threshold as determined by the net benefits test; and 2) costs for demand response are applied within each reserve zone commensurate with the location of load reduction. Surcharges applied to all buyers in the real-time energy market in the applicable zone pro rata.

Current Disposition

In May 2014, the U.S. Court of Appeals issued an opinion vacating FERC Order 745, on the rationale that the rule: 1) Exceeded FERC's Federal Power Act jurisdiction over electricity wholesalers and intruded on retail jurisdiction reserved to the states; and, 2) Is arbitrary and capricious by requiring demand response providers, under limited circumstances, be compensated at the same locational marginal price (LMP) paid to electricity generators.

In January 2015 the U.S. Solicitor General, on behalf of FERC, requested that the U.S. Supreme Court hear the case. The U.S. Court of Appeals' opinion is on-hold pending the outcome of FERC's appeal.

Future

FERC Order 745 applies to all DRRs that participate in MISO's energy market. Regardless of the outcome of the court case, MISO will work closely with regulators, market participants, and other stakeholders to support the effectiveness of DRR as a resource for maximizing market efficiency and system reliability.