



**COMMENTS OF THE
NATIONAL ENERGY MARKETERS ASSOCIATION
ON THE
FEDERAL QUADRENNIAL ENERGY REVIEW 1.2**

The National Energy Marketers Association (NEM)¹ hereby submits comments on the second installment of the federal Quadrennial Energy Review (QER) 1.2. QER 1.2 is intended to, “develop a set of findings and policy recommendations to help guide the modernization of the nation’s electric grid and ensure its continued reliability, safety, security, affordability, and environmental performance through 2040.”² Stakeholders were invited to provide their recommendations for federal actions that will facilitate the modernization of the Nation’s electric grid. In this regard, NEM recommends the following: 1) utilities should focus their limited resources on the core monopoly competency of maintaining and improving the reliability, resiliency, and security of energy delivery infrastructure and should transition out of competitive, commodity supply and related functions; and 2) competitive retail energy providers should be provided with timely access to energy usage data so they can develop innovative, value-added energy services and facilitate active consumer engagement in energy consumption decisions.

¹ National Energy Marketers Association (NEM) is a non-profit trade association representing both leading suppliers and major consumers of natural gas and electricity as well as energy-related products, services, information and advanced technologies throughout the United States, Canada and the European Union. NEM's membership includes independent power producers, suppliers of distributed generation, energy brokers, power traders, global commodity exchanges and clearing solutions, demand side and load management firms, direct marketing organizations, billing, back office, customer service and related information technology providers. NEM members also include inventors, patent holders, systems integrators, and developers of advanced metering, solar, fuel cell, lighting, and power line technologies.

² QER 1.2: An Integrated Study of the U.S. Electricity System, Stakeholder Briefing Memo, February 4, 2016, at page 1.

I. Focusing Utility Resources on Core Competency of Infrastructure Delivery System Reliability Will Facilitate Modernization of the Electric Grid

The QER 1.2 Stakeholder Briefing Memo outlined the, “patchwork of rate and regulatory mechanisms and structures that govern electricity markets and the associated investments in the maintenance, expansion and modernization of the system,” ranging from restructured markets at the wholesale and retail level, to traditional vertically integrated utility monopolies. In many of the restructured states, despite the recognition that commodity supply is not a natural monopoly function, the utilities still function as a commodity default service provider³ for consumers, in addition to performing their natural monopoly function of delivery infrastructure provider. The utilities performance of both of these roles causes a state of regulatory limbo wherein utilities participate (at a systematic advantage) in competitive markets for electricity supply alongside of competitive retail commodity suppliers, rather than focus their resources on energy delivery infrastructure. This does not encourage innovation in the energy marketplace, attainment of cost reductions or efficiencies, or the achievement of reliability goals that are reflective of a new energy reality. If utilities focus on their core competencies and are incented to work with innovative private partners (competitive retail suppliers), then better outcomes will be achieved and each group can leverage its expertise in developing the rapid rollout of the grid of the future and innovative products enabled by the grid of the future.

Allowing utilities to remain in the competitive commodity supplier role has resulted in regulatory uncertainty and market design flaws that have caused an inefficient allocation of public and private capital. Public capital and credit should be directed toward funding reliable delivery infrastructure and grid security. Private capital should fund competitive energy and related products, services,

³ Also referred to as the provider of last resort (POLR).

information and technologies. The competitive energy marketplace should underwrite the high costs, high risks and potential losses associated with buying and selling volatile commodities and innovative products. Energy consumers are increasingly demanding more choices. Private capital, not utility ratepayers, should bear the risk of creating and funding new competitive energy commodity and value-added services to meet evolving consumer demands.

Utilities should be encouraged to focus their resources on their core competency of delivery system reliability. If utilities do not have to divert their finite resources to competitive commodity-related functions as well as natural monopoly delivery infrastructure functions, and instead are incented to focus on reliably upgrading and maintaining electric delivery infrastructure this should facilitate the modernization of the Nation's electric grid. By transitioning the utilities out of the commodity merchant function and allowing the utilities to focus their resources on the core utility monopoly competency of upgrading and maintaining delivery infrastructure, it will also enhance retail market competition.⁴

⁴ So long as the utilities continue to provide POLR/default service, the market and consumers will continue to suffer from significant inequities, including:

- 1) Retaining a regulated monopoly in a competitive marketplace inherently distorts the competitive playing field and requires a significant amount of regulatory intervention and oversight to try to ensure a level competitive playing field;
- 2) A regulatorily-determined price will always be a poor proxy for a true market-based price as it suffers from timing lags, reconciliations, lack of transparency, and does not reflect the full costs of providing 24/7 no-notice commodity service;
- 3) Utilities have multiple unfair competitive advantages as incumbent monopoly commodity providers because they have instant market share without customer acquisition costs as well as guaranteed cost recovery without the risks faced by their competitive supplier counterparts in the market;
- 4) By its very nature, characterizing the utility price as the default service "Price to Compare" distorts the consumer perception of what constitutes value in the competitive marketplace, particularly when evaluating products of different time duration and/or with other value-added characteristics;

II. Providing Competitive Retail Suppliers Timely Access to Energy Usage Data Will Facilitate Consumer Engagement With Energy Purchasing and Usage Decisions

One of the significant benefits to be realized from the modernization of the electric grid is the increased availability of energy data that can provide a foundation to the development of innovative product offerings that increase consumer engagement with energy purchasing and usage decisions. As recognized in the Stakeholder Briefing Memo, advanced metering infrastructure is being deployed that can provide increasingly granular data that enables the development of innovative pricing and demand response programs. Timely access to more granular data from the utilities will allow competitive retail suppliers to design and provide more innovative products that are better responsive to consumer needs.⁵

A streamlined mechanism should exist by which competitive retail suppliers can obtain billing quality

5) Commodity supply and related services, information and technologies are inherently competitive functions. Allowing the utility to remain in the default service role, and provide other competitive products, can discourage competitive entities from doing so;

6) So long as the utility is in the POLR role there will be a group of consumers that will fail to shop, even when it is in their best economic interest to do so. Consumer apathy to shopping, apathy to educating themselves about energy choice, and apathy to choosing a competitive supplier are all by-products of this POLR structure.

7) Retaining the utility as the default provider of energy supply services long term in a restructured environment will have a negative impact on the development of competitive markets. The structure and pricing of default service are critically important issues in determining whether consumers will receive the benefits of meaningful price competition. Retaining incumbent utilities in the default service role for all consumers and setting a price for default service that does not bear a close correlation to market-based pricing and that fails to fully capture the cost of providing no-notice last resort service, creates a significant barrier to competitive suppliers and perpetuates the same non-competitive energy services that restructuring is designed to replace.

⁵ Competitive retail suppliers have been challenged to provide more innovative products to consumers because they need as near to real-time, open, non-discriminatory access to advanced metering infrastructure and meter data. Under the current practice and market structure, competitive retail suppliers settle to a standard load profile that is developed using average utility usage data. This structure has prevented residential and small commercial consumers from realizing value in reducing demand inasmuch as it is not reflected in the average usage numbers currently used to settle with the ISO for any given consumer. In this vein, NEM recommends a low cost, interim measure for developing Retail Demand Response Load Profiles to facilitate customer engagement with competitively provided value-added services. Given the long timeframe associated with the potential roll-out of advanced metering infrastructure, making Retail DR load profiles available as a transitional measure would be a cost-effective means to jumpstart increased offerings of DR-related products by competitive retail suppliers.

See http://www.energymarketers.com/Documents/NEMA_Mass_Market,_Retail_DR_Policy.pdf

data for all of their customers (with customer authorization) from the utilities, without having to make multiple requests for data for each individual customer.⁶

As a guideline of the minimum level of data access that competitive retail suppliers need from utilities to animate the suite of products and services that can be developed from interval data, a dual process should be implemented. As a baseline, competitive retail suppliers should be provided with hourly, interval, billing quality data on a monthly basis via EDI. Non-billing quality data should be provided on a next day basis via FTP or email the next day. A progressive, phased approach to providing competitive retail suppliers with access to customer energy usage data should begin with access to hourly interval data, over time moving to shorter intervals (15 minutes), and ultimately, providing real time data access or as close to real time data access as is practicable.⁷

Utility resources should be focused on enabling the data access for competitive retail suppliers. Utilities should also be incented to work with the competitive supply community to communicate smart meter rollout timelines in an effective and accessible manner. Once this takes place, then competitive retail suppliers can put all of their private capital to work to create and offer innovative products to consumers. Moreover, it is inappropriate to institute the utility in the role of information gatekeeper in the guise of protecting customer privacy and confidentiality of information. The data

⁶ It is important in this regard to differentiate the history and purpose of Green Button as a *customer-facing* device intended to increase consumer engagement in energy usage management. Green Button was not designed to be a solution to provide competitive retail suppliers with access to energy usage data that is needed to animate a suite of time-of-use and other smart meter-enabled products and services. The Green Button data stream is not fully automated, it does not provide billing quality data and does not provide data in daily intervals. In other restructured states that considered it, those states determined not to use the Green Button protocol for the dissemination of energy usage data to competitive energy suppliers. Vendors other than competitive retail suppliers that provide services such as energy audits may be more apt to use Green Button Connect data, as they do not require the same level of granularity and timeliness of the data to develop or render their products and do not have the need of billing quality data.

⁷ The length of time involved in the transition will be dependent upon the level of advanced metering deployment achieved to date in a particular utility service territory and utility billing system functionality.

belongs to the consumer. Artificial, unnecessary barriers to sharing data between a consumer and its designated competitive retail supplier should be avoided.

III. Conclusion

NEM appreciates the opportunity to provide its recommendations on policies to facilitate the modernization of the Nation's electric grid.

Sincerely,

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