

Luminaries tell NEM event why DR is here to stay

DR heralded as Supreme Court prepares next step

With the economic-regulation world focused on the Supreme Court's expected certiorari decision on *EPSA v FERC* this morning, speakers at the National Energy Marketers Assn's (NEM) conference Friday said DR could survive and grow in the retail markets. While most of the speakers would like to see FERC hang onto its authority, they argued the resource could shift to retail.

Just a few weeks ago, DR helped PJM out of a bad situation around Erie, Pa, when several major pieces of infrastructure went down and the grid operator had to get a voluntary response from the demand-side to keep the grid balanced for about 18 hours, the RTO's Executive VP Andrew Ott told the conference. "Maybe in three or four days we're going to find out if I am allowed to pay them, or not," Ott said to the room full of retailers and state regulators.

"But if we can't pay them, then we have to find somebody who can. It might be all of you."

If PJM cannot communicate directly with DR customers, it will have to reach out to their load servers and retail regulators when it needs some emergency DR, he added.

The industry will have to come together and work out a system so that DR can continue to help out the grid in emergency situations if the court goes against PJM's wishes and rejects certiorari, Ott said.

QUOTABLE: I agree demand response is here to stay. In fact, it's going to grow, I think, as more technology gets deployed. What we may have to deal with is how are we going to pay it. – *PJM Executive VP Andrew Ott in remarks at the annual National Energy Marketers Assn meeting Friday*

States have started to step up their own programs, looking at making the distribution system as dynamic as ISO/RTOs have

made the wholesale system. Former New York PSC Chairman Garry Brown (who stepped down as a commissioner earlier this year) reminded the attendees his state has been getting a lot of press along those lines but is far from alone in that effort.

"What New York has done was manage to take what everybody else is doing and give it the best name: Reforming the Energy Vision, the REV," Brown said. "It's gotten tremendously good publicity just because it sounds so cool, but there's some really exciting things happening there."

New York State was home to the birth of the electric grid as the world knows it, when the World's Fair in Buffalo was lit up by power produced at Niagara Falls 12 miles away, Brown noted. The REV and other processes in states around the country, would start to change the way the grid works by reversing the "wheel and spokes" system with one where consumers are more active in their demand and produce more energy behind the meter – and then feed that back into the grid.

Other states that moved forward along similar lines included Hawaii, where DG is much more widespread due to the high cost of importing energy to the isolated islands. That makes power for residential customers 175% of the mainland average, according to the EIA, and the price differential for C&I is worse.

Hawaii had to be reactive to the changes in its system as the utilities started to lose money and the system became less reliable, Brown said. New York and others are trying to be proactive before their local grids get that far along.

Other states do not have to act yet since their system is working fine and they will not suffer from that inaction, Brown said.

Getting all of those "distributed energy resources" to be cost effectively and reliably rolled-out will take some coordination, which the REV process would take care of with utilities as "distribution systems platforms," he added.

That might sound like a sea change, but to Ott, it is just a matter of getting the right signal – whether you base it on price or reliability – to the distributed energy resources so they all work

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together nicely, Ott said. Unlike a big, multi-state organization such as PJM, the issues of cost shifting will not be as great.

Kane compares DC

But that idea is not a universal truth, District of Columbia PSC Chair Betty Ann Kane said in response to Ott. The Washington, DC, commission is starting to look at Grid 2.0 issues (its analogous proceeding to REV), having just opened that docket.

DC's only distribution utility is Pepco, which also does significant business in the Maryland suburbs, so its distribution system is highly linked across that border, said Kane. Washington also relies on some distribution infrastructure across the river in Virginia, which is served by Dominion Resources and others, she added.

But in most cases, utility distribution grids are not widely interconnected. That is the dividing line between federal and state jurisdiction with the latter handling the retail distribution system that does not have interstate commerce.

Bowring wants retail DR

PJM's Independent Market Monitor Joseph Bowring opposes FERC Order 745 and long advocated for DR to be treated equally to generation in the capacity markets. Ideally, DR would be a retail transaction with customers getting the price signal from the wholesale grid and responding to that on their own, he said at the event.

QUOTABLE: Our goal is to make the EPSA decision irrelevant. We shouldn't have to have some formal DR program in the wholesale power markets. I think we've demonstrated that it doesn't work very well. – Joseph Bowring, president of PJM independent market monitor *Monitoring Analytics*

DR is not nodal as power plants are. RTOs do not know where DR is on the grid and PJM reportedly took special actions to get the DR that was needed in Erie to show up there and not just in random, unhelpful places on the grid.

Grid needs to evolve

Bowring is far from the only energy economist that wants to see that kind of the future grid and he argued the wholesale markets would continue to be hindered until the demand side is much more engaged than it is now. The costs and barriers to getting there have held back much of the progress though.

NEM President Craig Goodman agreed with Bowring on the basic economics, but argued wholesale DR is a good substitute until the industry can get to that future.

The barriers to that kind of fully engaged retail market that energy economists would prefer are more than just costs, Brown said, adding that the New York legislature banned time-of-use pricing for mass-market customers in the '90s, when the PSC was considering it. Large C&I customers in New York do default to hourly rates, but most decide to get out of that with longer-term, more hedged deals from retailers, he added.

Bowring would not make such engagement mandatory, either, he said. They should have the option to sign much longer-term deals, but some customers will want to respond to the wholesale price and they should be able to, he argued.