

John A. Anderson
Executive Director

April 18, 2001

The Honorable Curt Hebert, Jr.
The Honorable William L. Massey
The Honorable Linda K. Breathitt
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: Need for Further FERC Action on Demand Reduction

Dear Mr. Chairman and Fellow Commissioners:

The Electricity Consumers Resource Council (ELCON) urges the Commission to act promptly to establish markets for price-responsive customer load curtailment to strengthen short-term reliability and to control prices in struggling wholesale markets.

ELCON commends FERC for initiating demand reduction efforts in recent proceedings involving Western markets¹ and its approval of emergency load curtailment programs such as the PJM pilot program on customer load response.² We are encouraged that the New York Public Service Commission has approved a load curtailment incentive program to be administered through the New York ISO (March 28, 2001). There are several proceedings involving emergency load response pending at this time. We commend these initiatives.

However, ELCON believes that much more needs to be done—nationally—to allow and encourage retail customers with price-responsive loads to bid this valuable resource into wholesale spot markets. ELCON will describe below its customer load response (“CLR”) proposal.³

1. Background

The failure to include mechanisms for demand response is now recognized to be a significant and unfortunate oversight on the part of initial market designers and policy makers. A market

¹ Removing Obstacles to Increased Electric Generation and Natural Gas Supply in the Western United States, 94 FERC ¶ 61,272 (2001).

² PJM Interconnection, 92 FERC ¶ 61,059 (2000).

³ Customer Load Response is a term adopted by ELCON to more accurately describe a service in which end-use customers may bid their loads into short-term markets, and to distinguish such service from demand-side management (“DSM”) programs to which it bears little resemblance. In some states, CLR-type services are called “load shedding,” “negawatts,” “demand response,” “load management,” “load curtailment,” or “demand relief” programs.



cannot function without integration of demand and supply. The electricity markets emerging throughout the country are failing from the lack of mechanisms to allow voluntary demand response from retail customers.

Many retail customers are capable of being active participants in the electricity markets and in the real-time power system operation and control. Demand response from large or small retail customers could play a significant role in mitigating price spikes in real-time markets and preserving short-term reliability. The current development of RTOs throughout the country provides the perfect vehicle for enabling retail customers to participate in electricity markets because RTOs can develop and enforce fair and nondiscriminatory procedures that require equal participation by customers in such markets. But programs to date focus only on the need to provide demand-response resources in a pending reliability emergency. In more established markets, voluntary, price-responsive load should be allowed to enter the market at any time, reflecting the opportunity costs of the customer.

The Commission's Western Markets Order is primarily directed at mitigating power outages or "blackouts" during the coming summer peaking season in the West. But this problem is not limited to the West. The Northeast and other regions in the Eastern Interconnection are also at risk because every sub-region within the Interconnection is electrically "interconnected" with every other sub-region or market. In the Eastern Interconnection, part of the problem results from NERC's crude Transmission Loading Relief (TLR) procedures. Other problems in the East result from the balkanization of markets following state restructuring efforts, and the establishment of small ISOs in the Northeast. Thus, a problem in one region can cascade to others, regardless of the nominal generating capacity locally available.⁴

To improve reliability, FERC Staff's Reports on the Western Market⁵ and on the Midwest Market⁶ recommended adopting demand response measures. The Commission's November 21, 2000 Order in the NY ISO proceeding also recognizes the importance of demand response.⁷

Demand response can mitigate reliability problems and mitigate cost impacts of the strategic behavior of generators. We propose consideration of a new RTO "Function 9"—Customer Load Response—whereby RTOs would allow large commercial and industrial consumers (or other customers through aggregators) to resell their load into short-term wholesale markets and receive a market price for this resource. The "voluntary" nature of the Commission's regulations establishing RTOs should make this market adjustment acceptable to the entire industry.

2. Recommended FERC Action

In response to the Commission's March 14, 2001 Order, Industrial Consumers urged FERC to convene a technical conference so that stakeholders can explore implementation of CLR as a

⁴See, for example, "Power Alert, New York's Energy Crossroads," A Report by the New York Independent System Operator, March 2001. The report can be downloaded from the New York ISO's website.

⁵November 1, 2000 Staff Report at 5-10, 5-11.

⁶Sept. 22, 1998 Staff Report on Causes of Wholesale Price Abnormalities in the Midwest during June 1998, at 4-6.

⁷98 FERC ¶ 61,189 (Nov. 21, 2000).



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ninth RTO function. Through a combination of voluntary RTO initiatives and modest revision to open access tariff requirements, markets for CLR services can readily be established.

The technical conference should explore necessary certification procedures for participating suppliers of CLR services and procedures for the measurement and verification of “delivery” of CLR services. Among other outcomes of this process, we envision that FERC would:

- Require RTOs to provide a ninth minimum function, Function 9: Customer Load Response, which will specifically direct RTOs to remove all barriers to fully integrating price-responsive load into system operations and all RTO administered markets, including those for day-ahead energy, hour-ahead energy, balancing, and congestion management.
- Require all market operators to establish rules that allow price-responsive load to be offered into the markets on terms equal or comparable to those of generators.
- Revise the *pro forma* open access transmission tariff to explicitly integrate participation from price-responsive load. Require RTOs and all transmission providers to adopt new language in their *pro forma* open access tariffs that explicitly incorporates CLR in the provisions for ancillary services.
- Take advantage of the fact that most RTOs are still in their formative stage of development and this market adjustment can be more readily accommodated sooner rather than later.

ELCON strongly believes that it is imperative that price-responsive customer load be allowed to enter wholesale spot markets to restrain pricing volatility. This is what competitive markets were intended to do in the first place. We urge this Commission to consider our recommendations.

Sincerely,

John A . Anderson