

13th MADRI Working Group Meeting September 15, 2006

Attendees (from sign-in Sheet):

Carol Brotman White, FERC	Richard Sedano, RAP
John Wilhelm, PJM	Kristin Briet, Enernoc
Scott Gebhardt, PA DEP	Felecia Greer, PHI
Dan Hurley, MD PSC	Jim Lazar, RAP
Peggy Welsh, Energetics	Anthony Star, Community Energy Coop
Karen Parham, PHI	Roger Fujihara, DC PSC
Dan Delurey, DRAM/DRCC	Steve Sunderhauf, PHI
Doug Stinner, PPL Electric	Honorable Suedeem Kelly, FERC
Rick Morgan, DC PSC	Honorable Jon Wellinghoff, FERC
Joe Keregman, PJM	Dan Cleverdon, DC PSC
Brad Johnson, CAN Energy Ventures	Michael Vecchi, Cellnet
Ken Small, KSA	Pat Schaub, FERC

Introductory Remarks by FERC Commissioners

MADRI was honored to have FERC Commissioners Jon Wellinghoff and Suedeem Kelly in attendance. Commissioner Wellinghoff noted the recently released FERC staff report on Demand Response and urged everyone to review it. He said that FERC does not have independent coincident authority for demand response and will not step on the states' toes. However, he noted that FERC could be helpful on demand response, especially in organized markets. Finally, he is personally committed to focusing on demand response impacts in every FERC rulemaking as part of his tenure at FERC.

Commissioner Kelly also recognized the concern that FERC not step on the states' toes with regard to implementation of demand response programs. She indicated that FERC's intention is to break down barriers to the deployment of demand response. She indicated that the FERC staff is reviewing the demand response during the recent high heat periods and will contrast and compare the numbers for lessons learned. She said that NERC is issuing its forecast report in October and it will be gloomy, saying that load will not be met in the near future unless effective demand response and energy efficiency are implemented.

Status of MADRI, Action Plan Elements, State Workshops

Mr. Richard Sedano urged the group to review the Policy Statement, which was released in June that outlines MADRI's plan to move states to act to implement demand response programs.

With regard to the MADRI Action Plan, several actions are in the works:

- 1.) Development of Regional and State goals on distributed energy resources;

- 2.) Calculation of the benefits of demand response must be completed and must factor in the entire value chain;
- 3.) Workshops will be held in all five regions and will include discussion of smart thermostats, CHP, time sensitive rates, decoupling, distribution, advanced metering, incentives and mandates.
- 4.) MADRI has been funded and will continue in 2007.

Mr. Sedano reported to the group that the Organization of MISO States and MISO are discussing organizing a regional process on demand response program implementation. Four western states are also considering the same.

Finally, Mr. Sedano reported that at the recent State Regulatory Meeting, the discussion focused on how demand response progress is measured against a 3% national DER goal. It was agreed at the meeting that it makes sense to have a national goal, but there was no agreement on what the goal number should be. A discussion of the issue was undertaken later in the day on the issue of a national target.

Presentation on Real Time Pricing Pilot in Chicago

Mr. Anthony Star, Community Energy Cooperative, gave a presentation on the real time pricing pilot in the Chicago area. The pilot began in 2003 for residential customers and includes approximately 1500 customers. See their website: www.energycooperative.org.

Mr. Star discussed the potential value of real time pricing for individual customers. He noted that through this program, residential customers have access to low cost market based prices and through real time pricing, have choice and control.

In his discussion of real time pricing versus critical peak pricing, Mr. Star said that both program are similar, both require new meters. However, critical peak pricing is simpler for consumers but cannot connect retail prices to wholesale markets.

In the Chicago pilot, customers pay hourly, market-based prices. They have interval meters read by traditional meter readers. The Cooperative provides education and high price notifications, but ComEd remains the supplier. The Cooperatives' benefit to customers in this pilot is providing the following:

- Information about hourly energy prices
- Day ahead high price notifications
- Access to web-based tools
- Online and printed summaries of energy use
- Specific tools and tips on how to respond to high price days
- A hedged price cap of 50 cents against price spikes.

Conclusions so far on the success of the pilot, according to Mr. Star, are that real time pricing programs for residential customers can be successfully implemented with inexpensive technology. In fact, based on the success of this pilot, the Illinois state legislature recently passed a bill mandating that real time pricing options be available to

70,000 residential customers by January 2007. The Illinois utilities are filing new rates to comply with the new law by the end of the year.

Presentation on Perspectives on Implementing Dynamic Pricing

Mr. Jim Lazar with the Regulatory Assistance Project, made a presentation on dynamic pricing programs in the Northwest. The first program he outlined was the PG&E Dispatchable Standby Generation Program. This program uses existing standby generators at hospitals and other critical entities. PGE handles all maintenance of the generators. Environmental improvements are one of the results of this program. All of the standby units are diesel fueled. PG&E uses higher quality fuel than would otherwise be used and installs catalysts and sound isolation technologies. PG&E is exploring dual-fuel options to enhance environmental performance.

Mr. Lazar then outlined the PG&E Demand Buyback Program. This program applies to customers via a fixed rate and in return the customer must be able to shed 250MW of load when asked. If an event is declared, the customer receives a market-based credit for all load that is shed. Partial credit is paid if the event is called and is then cancelled (with a day ahead notice.) If the customer does not respond in three consecutive events, the customer is dropped from the program.

Mr. Lazar discussed The City of Burbank California Dynamic Pricing Program. The largest customers in Burbank are three entities: Warner Brothers Studios, NBC and the hospital. Each of those entities negotiated special rates, similar to the SCE/PGE time of use rates. Unfortunately, Burbank has seen no load shift from these customers in five years.

MADRI Focus Area Status Reports

Mr. Brad Johnson reported that the MADRI Metering Working Group is focusing its efforts in the near term on interoperability and will report on their efforts soon.

Mr. Sedano reported that the NARUC Workshop on Decoupling was successful. 100 people attended. All presentations from that workshop can be found on the NARUC website at www.naruc.org.

Mr. Sedano then engaged the group to discuss how MADRI can help implement time of use programs in the states. It was agreed that one lesson learned is that the programs cannot be revenue neutral.

Report on FERC Staff Report on Demand Response

Ms. Carol Brotman White of the FERC staff made a presentation on the recently released report required by Section 1252(e)(3) of the Energy Policy Act of 2005. The FERC Staff Report assesses demand response and advanced metering and is based on the results of a

voluntary survey sent to approximately 3,400 entities. The demand response results are categorized in the report by NERC regions and the advanced metering results are categorized by states. The survey was sent to both public and private entities, regulated and unregulated entities. The response rate was an amazing 55%.

The survey results showed that the national penetration rate for advanced metering is 6%. Demand response programs in the Report included both incentive-based programs and time-based rates. The results show that demand response is important in both wholesale and retail markets and that 37,500 MW of demand response potential is included in existing programs. The Report indicates that demand response capability represents between 3% and 7% of peak demand in most regions.

Congress directed FERC to identify “steps taken to ensure that, in regional transmission planning and operations, demand resources are provided equitable treatment.” The staff provided the following steps:

- Assure that planning and operational requirements are specified in terms of functional needs.
- Accommodate the inherent characteristics of demand response resources.
- Allow appropriately designed demand response resources to provide all ancillary services;
- Allow for the consideration of demand response alternatives to all transmission enhancement proposals.
- When appropriate, treat demand response as a permanent solution.
- Develop better demand response forecasting tools for system operators.

Finally, the Staff Report included recommendations to the Commission as follows:

- Explore how to better accommodate demand response in wholesale markets;
- Explore how to coordinate with utilities, state commissions and other interested parties on demand response in wholesale and retail markets;
- Consider specific proposals for compatible regulatory approaches, including how to eliminate regulatory barriers to improved participation in demand response, peak reduction, and critical peak pricing programs.

Presentation on Regional DER Goals

Mr. Sedano and Mr. Dan Cleverdon discussed regional distributed energy resources regulatory goals. Mr. Sedano suggested that one of the benefits of the MADRI process is to counsel the states on DER goals. DER has a large public good component, something that is very important to states. However, he noted that historically there has been low investment in public good programs such as DER due to the free rider problem. Mr. Cleverdon said that he supports DER mandates and suggested that MADRI support mandates or “strongly encourage” such. A group discussion followed on how to achieve a community or region-wide DER standard. Some points raised during the discussion include:

- Need firmness;

- Make demand response a qualifying standard in RPS, such as is done in PJM;
- MADRI needs to develop an economic program;
- Demand response must be added on in any RPS, not replace renewables;
- Time to implement demand response is when price caps go off in various states in 2009 and 2010 to hedge against price shocks;
- There is value of having a community or region-wide goal by MADRI, even if parts are hard to measure;
- The Brattle Group is doing research and analysis on the question of a region-wide standard and is looking at plus or minus 3%; and
- A region-wide standard should start somewhere around 3%, then after two years do a true-up.

Next Steps

The group agreed that the following next steps are in order for MADRI:

- 1.) Consider developing a concept document on community/region-wide DER goal with a specific number as a target.
- 2.) Complete the five briefings currently scheduled with state commissions on the business models and regulatory update on demand response.