

CSP Demand Response Program Incentives Position Paper – 8/10/05

The Federal Energy Regulation Commission (FERC) has enacted laws and regulations to open the electric market to more competition over the last 25 years. FERC has explicitly encouraged the development of economic demand response programs in the name of increasingly competitive wholesale electricity markets. PJM, a Regional Transmission Organization (RTO), extended the scope of its energy markets in 2002 by developing a pilot program for demand resources. At the June 17th PJM Members Committee meeting, the Members endorsed a proposal that stakeholders commit to address the DR programs to ensure their integration into existing energy and ancillary service markets. PJM is considering a proposal to either extend the DR incentives for economic demand response programs beyond 2007 and couple the incentives to program goals and objectives or eliminate all incentives after 2007 which could reduce the DR programs future effectiveness to insure balanced and efficient markets. Curtailment Service Providers (CSPs) are asking PJM to continue encouraging Demand Response with incentives that are increased or decreased as program goals are met and as are justified by the effort.

Demand Response

DR customers are many and varied. Generally, however industrial and commercial customers with low cost access to the wholesale markets and advanced metering can move portions of their energy consumption from high cost Locational Marginal Pricing (LMP) hours to low cost LMP hours. As technologies and infrastructure improve for DR resources to participate in energy markets, peak energy prices and grid congestion are reduced, and grid reliability is enhanced. Since so many loads are able to shift energy in response to prices, DR is capable of contributing fundamental efficiency improvements in delivering power to customers. The result is lower costs to ratepayers, increased reliability, and more rational use of generation resources since the DR program is built to meet loads at higher capacity factors (as DR program effectiveness increases at higher capacity factors).

Summary of DR Programs in the Northeast

The attached matrix was compiled from the point of view that the CSP proposal is balanced and in line with what other ISOs are doing. There has been much DR activity in the Northeast:

- NY ISO - \$15M incentives paid from 2001-2004
- \$75 Million in capacity payments from 2001-2005
- ISO-NE \$128M over 4 years for C&LM DR
- PJM payments in 2004 were \$1.5M

Demand Response note: MADRI can be helpful concerning a proposal before PJM to make the Demand Response Program permanent and to assure that incentives are maintained for Demand Response participation after 2007.

Incentives

The PJM pilot program offers incentives to DR resources when prices are high (above \$75/MWh). The current DR incentives encourage new technologies, infrastructure development, and compensate for the disadvantages DR resources must overcome in competing with traditional generation resources in the PJM market design. The economic return as expressed by PJM in its 2004 Market Monitoring Report as a benefit-cost ratio for rate payers on that investment is measured to be more than 10 to 1. The benefits of the Economic Program when measured as the impact on overall market prices are much larger than the costs. Eliminating incentives for demand response programs after 2007 would cripple the economics of these programs, and eliminate the rough compensation for value from these programs that go otherwise unrecognized in the electricity market.

The CSP proposal recognizes that incentives that do not produce market efficiencies should be avoided. The proposal suggests that PJM incorporate 3rd party analyses to evaluate the incentive payments and benefits from reduced energy prices and reliability impacts. The proposal also suggests that 3rd parties recommend metrics so that incentives can be increased or decreased as DR program goals are met and justified by the benefits received to ratepayers from the impact of the incentives.

CSP Proposal to PJM

The CSP Coalition currently has a proposal under consideration at PJM various committees; Market Implementation, Energy Market and Members Committees:

- Make the DR Day Ahead (DA) and Real Time (RT) Economic programs permanent
- Remove current pilot language from the Tariff Amendment and incorporate permanent program language into the main body of the PJM Open Access Transmission Tariff and Operating Agreement.
- In addition to the current method of calculating Customer Base Line (CBL), create a "Firm Power Contract" alternative for measuring use before and after curtailment
- For incentives:
 - o Extend the current incentive in the DA Economic program (when LMP > \$75) through 2010
 - o Extend the current incentive in the RT Economic program (when LMP > \$75) through 2010
 - o Maintain the current incentive pool of \$17.5 M/year through 2007
 - o Beginning in 2008, adjust the size of the incentive pool to reflect changes in the PJM footprint
 - o Incorporate into the PJM stakeholder process an independent 3rd party analyses of DR programs to establish future incentives based on recommended market metrics that evaluate overall market performance and efficiency
 - o File PJM stakeholder recommendations by December 31, 2006

The CSP Coalition looks forward to the discussion of this issue and our proposal in a MADRI working group meeting. On behalf of the CSP Coalition, please contact (ekimmel@comcast.net), if you have any questions or need additional information. Thanks for considering and supporting the CSP Proposal!