



Demand Resource Participation in Energy Market

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Discussion Topics

- Treatment PRD (Price Responsive Demand) in wholesale markets
- Impact of FERC NOPR on Economic Demand Response Participation on Consumers
 - Original (March 18, 2010) FERC NOPR on compensation for demand resources in wholesale energy markets
 - Supplemental FERC NOPR – August 2, 2010
 - Net Benefits test?
 - Allocation of DR costs



Original FERC NOPR

- NOPR issued by FERC on March 18, 2010
 - FERC has determined that full LMP is the appropriate compensation for energy market demand response
 - FERC proposes to apply this compensation to all competitive wholesale markets (ISO / RTO)
 - FERC cites proven benefits of DR:
 - Lower wholesale electricity prices
 - Mitigates generator market power
 - Support system reliability and resource adequacy
- Consumer Impact – positive for reasons FERC cites



Why the Changes?

- Despite past efforts, DR very small part of the wholesale market
- “Existing inadequate compensation structures have hindered the development and use” of DR
 - Development of DR resources requires investment
 - Existing price signals are inadequate to stimulate such investment
- Evidence that DR providers react to increases or decreases in compensation
 - Site PJM MM report on economic DR drop by 37% from 2007 to 2008
- Key conclusion: Existing compensation fails to reflect the marginal value of demand response resources to ISO and RTO energy markets
- Consumer impact – existing compensation structure hinder development of DR → consumers have not received full potential benefits from DR



Supplemental FERC NOPR / Technical Conference

- Net Benefit Test – some comments question paying Full LMP in ALL hours, as the original NOPR proposed.
 - Suggestion: Pay full LMP only when benefits (e.g., lower LMP) outweigh the costs of paying demand resources (NECPUC Position)
- Cost Allocation – basically, how should the resulting DR costs be funded?
 - Some argue that, depending on how DR costs are allocated, there could be higher costs for some consumers (cost shifting between consumer groups, with some paying for DR benefits not received)
 - Some comments hold that payment of DR for energy and the allocation of those costs are inexorably linked and need to be decided together





Questions?

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