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FERC's Demand Response Plan Lauded, But Dynamic Pricing Fears Linger

Demand response industry sources are applauding FERC's recently released draft National Action Plan on Demand Response (DR) for providing effective guidelines on retail dynamic pricing as well as for laying out what they consider to be a comprehensive DR marketing strategy. Some consumer groups, however, are wary about FERC promoting retail programs such as dynamic pricing.

On Oct. 28 FERC released an early draft of its action plan to promote greater DR, a plan that was required under the Energy Independence and Security Act (EISA) of 2007. As required by EISA, it addresses three major objectives: 1) requirements for technical assistance to states, 2) requirements for a national DR communications program, and 3) regulatory and analytic support materials for states, customers and others. The report is in its early stages and includes a number of requests for additional comment on specific issues.

The draft was released a day after the Obama administration announced the winners of \$3.4 billion in smart grid grants, money that will support the installation of hundreds of thousands of smart meters and other advanced grid equipment.

An official with the Demand Response and Smart Grid (DRSG) Coalition says about the draft report, "It's not the usual government report identifying only facts and barriers." It is laudable because "It's not only a policy endeavor, but a marketing and communications effort as well," the source says.

The FERC draft report comes after the commission crafted a National Assessment of DR -- released in June -- and the plan will eventually be followed by a FERC/DOE proposal to implement it. Under EISA, the action plan must be finalized and sent to Congress by June 2010.

The draft provides general guidelines for rate design and dynamic pricing to encourage DR at the retail level. "Most retail customer tariffs in place today do not provide a signal to customers that would encourage them to use less energy during expensive peak times than during other times," the draft states. "The provision of guidelines for

developing dynamic rates, supplemented with model dynamic pricing tariffs, would support the development of dynamic rate offerings.”

The draft then lays out some considerations for designing the rate offerings. They should include a strong price signal that alerts consumers to the potential of saving money by shifting use to non-peak times. Furthermore, the draft states, the prices should reflect system costs and maintain revenue neutrality, ensuring that a utility does not over-or under-collect its costs.

The DRSG official says the dynamic pricing is important to modify the way retail customers consume electricity and adds that a FERC “template” for state regulations could advance that goal. “Everybody talks about it, but it’s got to be done,” the source says of dynamic pricing.

But a consumer source says EISA went too far when it prodded FERC into these areas. “Why should FERC be promoting retail programs?” the source asks. The idea that retail rates will be “set by [FERC-approved organized] markets as opposed to being set in a state hearing room is risky. [States] better think long and hard about whether they want that.”

An official with the DR provider Converge strongly supports the draft’s outline of new tools to evaluate the cost effectiveness of DR resources. Currently, the official argues, the majority of state regulators use cost-benefit analyses that don’t properly reflect the myriad of values of DR, which he says include distribution load management, congestion management, spinning reserves and others. “The value is substantially greater than as reflected under current cost benefit analyses,” the official says.

The draft identifies a number of tools that could be developed by stakeholder organizations to enhance DR, including “demand response estimation and prediction tools, cost effectiveness tools, [and] measurement and verification tools.”

A major portion of the draft addresses methods to increase public awareness of DR, including the formation of a major coalition and a nationwide communications strategy.

The draft envisions a DR coalition, overseen by FERC, similar to the coalition that released the National Action Plan for Energy Efficiency, which included dozens of utilities, state regulators and others. Another model coalition identified in the draft is the group of automakers, insurance companies, law enforcement associations and others who launched the “Air Bag & Seat Belt Safety Campaign” to minimize child deaths resulting from air bags and to increase seat belt use.

Beyond the coalition, the draft proposes a national campaign strategy, tailored to individual markets (where rules might differ from state to state), to build support for DR.

The Comverge official says he was surprised at how well developed the communications plan is, adding that “we’re struggling with getting the lay person to understand DR.”

The DRSG official says if there is a greater consumer understanding of DR and smart grid generally, there will be “less controversy at the local level when trying to get [smart grid and DR-related] investments approved” by state commissions. The same applies to implementing time-based pricing, the source says.