

DRAM

DEMAND RESPONSE *and* **ADVANCED METERING Coalition**

1615 M Street NW
Suite 900
Washington, DC
20036
www.dramcoalition.org
202.441.1420

Comments
Of
Demand Response and Advanced Metering Coalition
(DRAM)
To
U.S. Department of Energy
On
Energy Policy Act of 2005
Section 1252
Report to Congress on Demand Response

November 22, 2005

Comments of the Demand Response and Advanced Metering Coalition (DRAM) for DOE Report on Demand Response to Congress

The Demand Response and Advanced Metering Coalition (DRAM) is a diverse organization comprised of the nation's leading providers of demand response (DR) and its enabling technologies such as advanced metering. Its members include eMeter, DCSI, Landis + Gyr, Echelon, Hunt Power and MeterSmart, SmartSynch, Elster Electricity, Hunt Technologies, Silver Spring Networks, Invensys, Electric City Corp., Comverge and EnerNOC.

The DOE Report to Congress comes at a significant and opportune time. With the enactment of the Energy Policy Act of 2005 (EPACT), the Congress has signaled that it believes DR should be part of the Nation's energy mix and that the federal government, state governments, utilities and other parties should begin immediately to take steps to make this happen. DRAM believes, however, that there is more that the Congress and State policy makers can do to increase demand response activity, including things that can have a positive impact in the short run (2007), as EPACT specifically directs the Department to focus on in its report to Congress.

DRAM believes that Section 1252 of EPACT essentially provides a national framework for the planning, assessment and deployment of DR across the U.S. While much discretion is left to States as to how to implement certain parts of 1252, DRAM believes the message from 1252 is clear – it is time for the nation and its various jurisdictions to collectively and simultaneously move on demand response. Over the next two years, that should happen as States implement EPACT and decide how best to deploy DR technologies and implement demand response pricing and programs as well as fully integrate them into retail and wholesale markets.

What is missing in EPACT and at the State policy level, however, and the issue which will be the focus of DRAM's comments and suggestions to the Department, is how to ensure the demand response resources that are available receive what is needed for them to be developed and delivered.

The important ingredients needed to bring demand response forward can vary by type of demand response and also by type of market. A large amount of demand response can be quickly developed in some cases and in some geographic areas by simply putting in place a delivery structure that includes payments for DR as a capacity resource. In other cases, it is a case of policy makers providing an incentive for technology deployment, in a manner similar to what has been done to accelerate the introduction of many other types of energy options. One example is energy efficiency and renewable energy. They have achieved their success to date in large part due to government policies that have provided incentives in these areas.

No energy area receives less government support than demand response. There is essentially no government support for the deployment of demand response technology and the implementation and delivery of demand response resources. There are

essentially no incentives for demand response actors nor is there sufficient support for policy makers to do what they need to do, including new state policies, to allow DR resources to be implemented. EPACT included no incentives for demand response even as it included incentives for every other energy area. The Energy and Water Appropriations Bill recently approved by the Congress includes no amounts dedicated to demand response; there is no budget item at the federal level, and in most states, for demand response.

One of the challenges with DR is the fact that when it is deployed, a multitude of benefits can be unleashed (which DRAM expects will be covered by other commenting parties in their submittals). These benefits, however, accrue to many different parties in many different places. The result is that the business case for any given party may not contain all of the benefits and thus the motivation for implementation may be diminished or non-existent – i.e. a “tragedy of the commons” situation. Thus a need exists for government policies that will ensure that the benefits, including those to society as a whole, are seized upon.

As with every other energy area to date, Federal and State Policy makers should look at how to use policy in ways that will accelerate the deployment of DR, including how they can ensure that the contractual certainty of capacity payments is provided as well as incentives that allow both DR providers and utilities the ability to move more quickly to put DR in place

DRAM suggests the following options for State and Federal Policy makers (non-prioritized order):

1. DR Portfolio Standards. Minimum threshold portfolio standards for DR resources as a percentage of total peak load could be developed. We believe that the standard could be relatively low (e.g. 2 to 4%) and still have tremendous beneficial effect – and be done in a manner that benefits and does not adversely impact utilities and in fact benefits them. This option would also stimulate and focus policy makers and stakeholders to work together to adopt policies which are supportive of DR and eliminate policies which are hurdles to DR. As addressed above, significant DR resources are available now to cost effectively help relieve constrained electric supply markets. Adopting this option will catalyze DR development so that it will be able to achieve its fullest potential in each geographic market.

Impact on Wholesale vs. Retail and Timeframe: DR portfolio standards adopted in 2006 will lead to new DR resources being brought on line in 2007 and would impact both retail and wholesale markets.

2. Tax Incentives. Congress and the states should look at using tax policy to accelerate the deployment of DR. Such tax policy would reduce the costs of DR technology and programs. This can include tax incentives (credits, bonus depreciation, etc) for early adoption of DR technology and/or deployment of DR. Another alternative would be to reward delivery of DR. If one views the “production” of DR as being similar to the

policy-preferred production of renewable energy, then it follows that it would make sense to put in place a “reduction” tax credit or RTC that would be analogous to the Production Tax Credit afforded renewables and provide the incentive of additional funding to utilities, DR providers and other sponsors of or investors in demand response.

***Impact on Wholesale vs. Retail and Timeframe:** Such tax incentives could have an immediate benefit, including in 2007, if implemented in the near term. Such tax incentives could be designed to accelerate both wholesale and retail level demand response.*

3. Full Funding of DOE Demand Response Organization. Congress should authorize the establishment of an organizational unit within the Department that is solely dedicated to Demand Response and which is placed on a par with energy efficiency and renewable energy. The Congress should further appropriate sums for such an organization that allow it to provide funding for research, information development and dissemination, technical assistance, and other means of support to states, utilities and other DR actors.

***Impact on Wholesale vs. Retail and Timeframe:** Crucial in the short term is DOE’s ability to assist states as they seek to implement their DR responsibilities under EPACT. Funding of this type can directly impact the amount of DR that is deployed in 2007. The impact could be at the retail and/or wholesale level.*

4. Eligibility for Demand Response in Public Benefit Funds. Public benefit funds exist in many jurisdictions whereby electricity customers are assessed a “wires” charge to generate funds for use in increasing/accelerating renewable energy and/or energy efficiency activity in the jurisdiction. Yet in most cases, these funds are not being used for demand response activities. In some cases, these funds are prohibited from being applied to DR. Policy should be enacted where necessary to include demand response activities as an eligible application of said funds, with a percentage of such funds dedicated to demand response.

***Impact on Wholesale vs. Retail and Timeframe:** Use of such funds for demand response, particularly in the funding of DR technology, can have an immediate impact, including by 2007. The impact could be at the wholesale and/or retail level.*

5. Incentives to Utilities to Undertake Demand Response. With many states not having restructured their electricity market, delivery of demand response will most likely and most appropriately be accomplished via utilities directly and indirectly (by contracting with DR providers) providing DR to their customers. Even in restructured states, however, utilities do have and are likely to continue to have a role in the delivery of demand response. They are the most logical and economical place for the deployment of advanced metering and other DR technologies. They are also still the provider for the lion’s share of mass market customers.

Utilities in most cases have a number of barriers (e.g. reduced throughput, rate/price caps, lack of regulatory certainty, etc.) and few if any incentives to invest in DR. State policy

makers should move quickly to remove these barriers, even if only with respect to DR investments such as advanced metering. Incentives should also be put in place such as performance based rates or ROE incentives linked to DR target achievement. These incentives should be structured to allow the utilities to undertake long term contracting for DR resources.

***Impact on Wholesale vs. Retail and Timeframe:** It is possible that States could undertake barrier removal and incentive placement in 2006 such that impacts can be realized in 2007. While much of the discussion above pertains to the regulated retail level, including the still regulated role of a distribution company in a restructured state, there is also a role for the Federal Energy Regulatory Commission – FERC should incentives to regional system operators and/or enable them to provide incentives or funding support for DR in their region.*

6. State Policies for Demand Response during Market Transition. In States where the restructuring of the electricity market is still underway, policy makers should ensure that energy resource procurement structures and mechanisms are put in place that provide symmetrical treatment of both conventional supply and DR. This should include some type of capacity payment and a long contract term that provides the certainty that developers of either type of resource require. In the case of DR, states should also take action to create opportunities for DR procurement aimed at the large blocks of customers who have not yet entered the competitive market. With utilities in the position of procuring peaking resources for such customers, the opportunity exists to introduce DR – both as the peaking resources but also as a new option that will help move customers to transition to the marketplace.

***Impact on Wholesale vs. Retail.** Cost effective DR resources are available in both wholesale and retail markets that can be developed to be in place by 2007 if procurement structures are put in place in the near term.*

7. Commit to DR leadership for all Federal and State government facilities.

Government facilities represent a large and significant opportunity to demonstrate the potential of DR. EPACT included a provision whereby all federal facilities are to have advanced metering by 2012. The Federal government should build on this by conducting full DR audits and implementation of DR programs at all Federal facilities. State governments should pursue the same approach.

***Impact on Wholesale vs. Retail.** Government facilities are candidates for participation in both retail and wholesale DR programs and can be directed to be a resource in the 2007 timeframe*