



# Enhancing Demand Response in Competitive Markets – The Federal Role

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# Overview

- ❖ Why is DR needed in competitive wholesale markets?
- ❖ DR at the nexus between wholesale and retail regulation
- ❖ Will DR happen without federal intervention?
- ❖ What is FERC doing to advance DR in wholesale markets?
- ❖ What more needs to be done?

# Why is DR needed in competitive wholesale markets?



- ❖ Markets don't work if they only address supply resources
  - Price signals only work if the customer has access to timely information about the value of energy over time and place, and the ability to act on that information
  - DR is a good check on supplier market power before using crude mitigation tools
- ❖ DR moderates price spikes and volatility
- ❖ DR leverages operational reliability, long-term resource adequacy, and capital assets
- ❖ Market rules that accommodate DR serve all players and resources

# DR at the nexus between wholesale and retail regulation



- ❖ Wholesale markets are where supply and demand interact to set market prices
- ❖ Reductions in demand ultimately come from the end user
  - Under rules and incentives set by the retail regulator
  - Under programs offered by load-serving entities or load curtailment entities, whose participation is often limited by retail regulators
- ❖ If barriers such as flat price signals or ineffective program designs exist in the retail market, short-term demand won't respond to wholesale spot prices
- ❖ Wholesale market designs must accommodate retail programs and offerings and allow monetization of load reductions
- ❖ So retail and wholesale regulation have to complement each other

# Will DR happen without federal intervention?



- ❖ Probably not in the U.S.
- ❖ Market forces alone haven't done much to advance widespread energy efficiency, advanced metering, distributed generation or renewables
- ❖ Absent federal intervention, decisions made across the states may yield conflicting rules, timelines, and requirements that stifle innovation, cost reduction and market expansion
- ❖ Wholesale markets are regional so rules and programs must have regional or federal scope



# What is FERC doing to advance DR in wholesale markets?

- ❖ Standard Market Design
  - Achieve region-wide market rules that are neutral and workable for supply and demand resources of all sizes, owners, technologies and fuels
  - Resource adequacy and system expansion planning requirements that include energy efficiency, DR and DG
  - Locational Marginal Prices to show the true value of energy over time and place
- ❖ Interconnection standard rules for DG
- ❖ New England Demand Response Initiative
- ❖ Education and “jaw-boning” about the importance of DR and DG



# What more needs to be done?

- ❖ Finish and implement Standard Market Design and interconnection rules
- ❖ Make sure Regional Transmission Organization market designs and rules integrate all intermittent resources (DR, DG, renewables)
- ❖ Nurture emerging regional programs to make widespread DR a working reality for retail users
- ❖ Prevent wholesale barriers to entry for promising DR technologies and applications
- ❖ Get long-term system expansion planning and resource adequacy requirements mechanisms in place that leverage the value of DR