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PROJECT NO. 40000

COMMISSION PROCEEDING TO ENSURE RESOURCE ADEQUACY IN TEXAS	**§ § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

COMMENTS OF THE TEXAS DEMAND RESPONSE COALITION CONCERNING THE DEVELOPMENT OF AN OPERATING RESERVES DEMAND CURVE

I. Introduction and Summary

The Commissioners had a brief discussion at the open meeting on October 3, 2013, in which they invited parties to file comments on the treatment of demand resources participating in the ERCOT Emergency Response Service (ERS) in the implementation of an Operating Reserves Demand Curve (ORDC). The Commission staff subsequently filed a memorandum providing public notice of this opportunity to comment. The Texas Demand Response Coalition[1] is pleased to provide its comments on this issue.

Our view with regard to these questions is that implementation of the ORDC should "do no harm" in terms of the existing ERS programs and other demand response programs existing or in development at ERCOT. Decisions that risk reducing the amount of ERS available to ERCOT in emergencies, as well as other demand response resources, also risk reducing resource adequacy, counter to the stated intent of this proceeding. The implementation of an ORDC is one of several current initiatives that

[1] The following companies in the Demand Response Coalition, which consists of the leading national demand response service providers and technology companies and represents most of the U.S. demand response industry, are sponsoring these comments: Comverge, Consert, EnerNOC, Inc., Johnson Controls, and Earth Networks.

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may affect demand response in ERCOT, and it is not clear whether the evolving ERCOT market design will support the development of demand response resources, which are critical to its success.[2] Further, at present, stakeholder discussions continue on a variety of issues around the ORDC, not just pertaining to ERS, and it will be critical to ensure that all of the moving parts ultimately fit together into a coherent policy that improves scarcity pricing, which is the objective of the ORDC.

The issue of the treatment of ERS resources was presented to the Commission in comments filed by CPS Energy, which characterized the issue as whether ERS resources should be included in the calculation of the amount of reserves on the system. Based on the present deliberations that are taking place in the Resource Adequacy Task Force, the Demand Response Coalition believes that this question is, in reality, two separate questions:

- How should the deployment of ERS resources affect the calculation of price adders under the ORDC mechanism?
- Should ERS resources that have not been deployed be counted as operating reserves, for the purpose of ORDC payment calculations?

The Demand Response Coalition believes that ERS resources may, for sound policy reasons, be included in ORDC for some of these purposes and excluded for others. The deployment of ERS resources should be treated as an event that reduces the reserves available to the market, and the ORDC rules should recognize that such deployments occur in emergency situations, in which the value of other resources that are participating in the real-time market is high. Additionally, not counting undeployed

[2] The Brattle Report makes clear that participation of demand side resources is critical to maintaining resource adequacy. *See* p. 88.

ERS resources as operating reserves for the purpose of ORDC calculations would be consistent with the policy objectives of the ORDC. These issues are discussed briefly below.

II. Effect of Deploying ERS Resources

The ORDC rules should recognize that deployment of ERS resources is an event that occurs during an emergency situation and that, while the ERS load reduction helps restore normal system conditions, it would not, by itself, eliminate the likelihood that firm customer load will be interrupted. The ERS service is designed so that resources are deployed when ERCOT enters an Energy Emergency Alert, which is called because the level of available reserves has declined to a level that threatens the ability of the system to continue serving all customers. Typically, ERCOT would continue to rely on the ERS resources until the system has been stabilized and reserves have been restored. Thus, if ORDC creates high price adders as reserves decline, the deployment of ERS resources should not reduce the level of the price adders.

One of the important market design policies reflected in recent Commission decisions relating to resource adequacy is that measures taken by ERCOT to ensure reliability should not undermine scarcity pricing. Some market participants have expressed concern that such deployments could depress energy prices and, presumably, ORDC price adders. One of the objectives of implementing ORDC is to mimic a gradually rising supply curve for resources in the real time market when resources are scarce. It is our view that the rules for the ORDC mechanism on occasions when ERS is deployed should reflect this objective. The market rules should

recognize that when ERS is deployed the system is in a perilous situation, and that the price increases generated by ORDC should remain in effect until the system is returned to more normal operating conditions.

III. Treatment of ERS Resource Capacity as Operating Reserves

The Demand Response Coalition notes that the inclusion of ERS resources in operating reserves in calculating ORDC payments could have results that are materially different from the Commission's expectations in prescribing the key parameters for ORDC. One of the objectives of the ORDC mechanism is to approximate a real-time co-optimization of energy and ancillary services, but the overall level of ORDC revenues earned by resources in the energy and ancillary services markets also was an objective. As CPS Energy notes in the comments it filed on October 1, 2013, if ERS resources are included in the ORDC mechanism, the increase in the level of operating reserves would reduce the ORDC price adders, as compared to similar operating conditions in which ERS is not counted as an operating reserve. The Coalition agrees with CPS Energy's statement that including ERS resources in ORDC for the purpose of calculating the adders would increase the level of reserves and reduce the ORDC adders. The estimates of the impact of ORDC that are broadly available are the ERCOT back-casts simulating the operation of the market under ORDC. The Coalition expects that a back-cast with ERS included as operating reserves would have yielded a materially different level of revenue.

At a recent RATF meeting, the issue also was raised about whether ERS resources should receive ORDC payments. We note that, given the current market

structure and our present understanding of how the ORDC may be implemented, it does not make sense at this time for ERS resources to be included in the payments and charges that will be a part of the real-time market under ORDC. ERS resources do not participate in the real time energy and ancillary services markets in which the ORDC payments will be made and credits assessed. To include ERS resources in the ORDC would require rule, protocol, and system changes that would prevent implementation by summer of 2014.

IV. Conclusion

The Coalition appreciates the opportunity to provide comments on these issues. The Commission should recognize that ERS resources are deployed during energy emergencies, and that the level of adders generated by ORDC should not be reduced by a deployment of ERS. The issue of how to treat ERS is only one of many issues that may affect customers, including those that provide demand side resources, and the Commission will need to ensure that the overall ORDC design results in an outcome consistent with its purpose — to improve scarcity pricing — without harming existing demand side resources or the continued growth of demand response.

Respectfully submitted,

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