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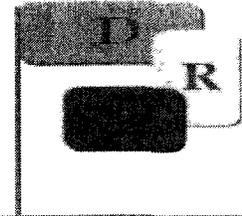
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PROJECT NO. 40000

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

RESPONSE TO REQUEST FOR COMMENTS OF DRF INDUSTRIES

DRF Industries respectfully submits this Response to the Request for Comments relative to the questions posed by Chairman Nelson and Commissioner Anderson for consideration at the Public Utility Commission of Texas' ("Commission") 2014 Resource Adequacy Workshop planned for January 29-30, 2014. DRF Industries looks forward to participating in the workshop.



Bringing Consumers, Community and Industry Together

Introduction:

As experienced utilities consultants and consumer educators on energy efficiency, DRF Industries is concerned that the proposed move to an ERCOT forward capacity market will have a negative impact on Texas electric consumers. Such a move might help to ensure market reliability, but its impact in the form of increased energy charges could be significant for residential and commercial consumers. Based on our energy industry experience, DRF Industries is very aware of the goal to provide reliable and cost-effective energy solutions; however we believe this goal cannot be achieved through the adoption of a Capacity Market alone, but only through a strategic combination of efforts. As a result, we request the Commission to comprehensively explore other options and fully utilize some of the underused programs that are already in place before deciding to introduce a capacity market.

Overview:

As the Commission continues its deliberations, DRF Industries hopes it will consider and explore the specific concerns and options identified below.

Concerns with Adoption of a Capacity Market:

Market Cap Increases

One concern is an increasing Market Cap. An increase in the **Market Cap**, has had no real effect on energy cost today, but will affect future energy costs. The Market Cap is up from \$3,000/interval to \$4,500/interval. If the price of natural gas increases, Resource Units are down, and heat rates increase or demand spikes, the LSE/REP will pay more for balancing energy, which will trickle-down to the consumers in the form of higher rates. That, added to any other price increase that might come from a capacity market would be an unacceptably large increase for electric consumers. In fact the **2011 State Of The Market Report for the ERCOT Wholesale Electricity Markets**¹ clearly shows how the market cap supports new resource/generation development.

Effects on the Financially Disadvantaged

Another concern is how the **elderly and financially disadvantaged** consumer (e.g., Low Income, Elderly, Disabled, and Small Businesses) would be impacted by an increase in energy costs. Current funding is decreasing in two major income utility assistance programs, which will mean increased energy

¹ http://www.potomaceconomics.com/uploads/ercot_reports/2012_ERCOT_SOM_REPORT.pdf

costs for those previously relying on these programs. An additional capacity charge will increase these energy costs even more with no assistance solution available.

Year	2012	2013	2014	2015	2016
TX LIDA (Texas Low Income Discount Administrator)²	10%	16.5%	82%	82%	-0-
LIHEAP (Low Income Home Energy Assistance Program funding)³	\$3.47 Billion	\$3.26 Billion	\$3.02 Billion	N/A	N/A

Comparisons to Capacity Markets

There is also a concern that **comparisons to other forward markets** may fail to accurately forecast outcomes due to variations in price structures and other relevant factors. To truly determine if a capacity market is fair for Texas, a comparison of the entire cost (**Energy/ Capacity Charges, ISO Fees, TDSP Fees, etc.**) is needed.

For example, let's compare the Texas market with PJM/Illinois Choice. The PJM capacity cost is included in the energy rate/charge where most consumers would not recognize it as capacity charge unless they are on a real time market rate. The rate is recalculated each year and there are two components to this charge, the *Capacity Obligation* and the *Capacity Charge* rate. Multiplied together, they make up the Capacity Charge item on the consumer's bill.

Even with a capacity charge already built into their rate, the comparison below shows that residential consumers in Illinois paid 10% less for energy than Texas Choice consumers and commercial consumers in Illinois paid 25% less for their energy in 2012 than Texas Choice consumers. Texas, without this charge already has a higher rate. If an additional charge is added for Texas, it means the rate would be even higher.

Market 2012	Avg. Price/kwh Paid ⁴	Class	Percentage of total Usage by Class	Median Household Income 2011	Poverty Rate by State ⁵
ERCOT/ Choice	.11747	Residential	37%	\$49,392	16.2%
PJM/Illinois	.10459	Residential	35%	\$53,234	11.5%
ERCOT/Choice	.08110	Commercial	40%		
PJM/Illinois	.05932	Commercial	59%		

² LIDA: PUCT Project #28073

³ US Dept. of Health and Human Serv. <http://www.liheap.ncat.org/Funding/funding.htm>

⁴ US Energy Information Administration: <http://www.eia.gov/>

⁵ US Department of Commerce/Census: <http://www.census.gov/hhes/www/income/data/statemedian/>

The fact that median household income in Texas is 7.7% lower than in Illinois and the poverty rate in Texas is 4.7% higher than in Illinois, should be factors to be taken into consideration when comparing a future capacity market for Texas to existing capacity markets.

Alternatives to a Capacity Market:

DRF Industries believes there are alternatives to a capacity market that should be explored.

Demand Response Programs

On such alternative involves reducing demand. The ERCOT Market can work to decrease demand through the use of effective **Demand Response Programs** (Monitoring/Control) targeting all classes of customer.

As detailed in the chart below, demand response programs currently exist for market participants such as: TDSPs, REPs, and ERCOT, but they are not adequate, even if they have been deployed.

The TDSPs have done a good job of implementing demand response/energy efficiency programs (Electric Utilities Marketing Manager of Texas Report). However, the REP is closest to the consumer, as a market participant, and would have the greatest impact, yet very few REPs have programs in place to offer demand response solutions. ERCOT has demand response programs, but they have not proven to be effective with commercial and residential customers.

Class of Customer	Market Participant TDSP Offer	Market Participant REP Need	ERCOT Offer Though QSEs
Industry	Demand Response/ Energy Efficiency	Real Time Rates (RT)	Voluntary Load Response
Commercial	Demand Response/ Energy Efficiency	Real Time Rates (RT)	Voluntary Load Response
Residential	Demand Response/ Energy Efficiency	N/A	Voluntary Load Response

DRF Industries feels that Demand Response Programs designed to reach all classes of customers, and clearly offer incentives that consumers can realize will help to offset any additional charges if some form of capacity market is implemented.

Advanced Meter System Training

Another option that should be explored as part of the solution is a targeted focus on providing education on the Advanced Meter System (AMS) for all levels of user.

The AMS was put in place to give the consumer the ability to monitor and control their usage. However, because of the lack of education, this has not been made to be as effective as it could be.

The AMS has been installed across the ERCOT choice market with the following goals:

- Allow consumers to access their data profile to better select rates (PUC *Power to Choose Website*, etc.).
- Allow consumers to activate EMUs to have real time monitoring and control.
- Allow real time monitoring and control to participate in Demand Response Programs offered by ERCOT, and REPs.
- Access to competitive RT and TOU rates, which supports demand response programs

Armed with the knowledge and education of the benefits and usage for these devices would allow the user to utilize energy more efficiently, thus reducing usage and cost.

Ensuring effective education is also a solution whose impact could be sufficient to avoid the need for additional capacity. DRF Industries, LLC provides as one of its' services, education and training in the area of ERCOT Market, Smart Meters, and Smart Technology to low income, elderly and disabled consumers who receive utility assistance from partnering community based organizations (CBOs). As part of this service, pre and post surveys are administered to determine knowledge level of the market, behavior towards smart technology, and ability to conduct individual bill audits. We equip participants with tools such as: access and knowledge to use *Smart Meter Texas* and *Power to Choose* websites, as well as benefits of EMUs and other energy management solutions that could be offered. We have discovered that, after training, many of the participants took more control of their energy usage and were able to reduce their energy costs, by as much as 50% in some cases. Our belief is that energy education allows the consumer to control their usage, thereby reducing demand, increasing efficiency, reducing consumer's energy costs, and reducing the need for additional capacity.

Low Income In-Home Monitoring Program

DRF also proposes that the **Low Income In-Home Monitoring Program (Project #36234)** should begin deployment as an energy efficiency solution. Based on our surveys and education outcomes, we believe this program will benefit low income, elderly, and disabled consumers across the ERCOT choice market.

The consumer is able to use this program to budget their usage, participate in, and benefit from demand response programs, resulting in lowered demand from more energy users and ultimately, a more reliable energy grid. DRF would be pleased to participate in any workshops related to project #40000 and #36234 and offer our expertise.

Conclusion:

DRF Industries is sure that implementation and further development of the solutions identified herein, especially consumer education and engagement, will avoid or help minimize the need to move to a capacity market. Contrary to the rest of the nation, residential electric use has increased in Texas whereas nationally, current energy use is down to 2001 levels. Further, the recent increase in the ERCOT Market Cap has yet to demonstrate its contribution to electric reliability and price stability. If the Commission still decides to move to a Capacity Market, DRF Industries would recommend a phased in capacity charge that is only in effect when it's needed, during high demand.

DRF Industries appreciates the opportunity to submit our comments and is eager to work with the Commission and other stakeholders in their efforts to improve Texas' energy system.

Respectfully,



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