Contact: Colin Meehan
Clean Energy Analyst
Office: 512-691-3416
cmeehan@edf.org

Current ERCOT Protocols Prevent Consumer Participation in Electric Market

While the stated purpose of this charge is to examine all ERCOT protocols related to generation technology, and the impact of those protocols on grid reliability and electric rates, we feel that it is important to expand this important work to demand sided resources as well. The recent report from Brattle Group highlights in stark terms the importance of demand side resources, or Demand Response (DR) in maintaining grid reliability:

> *"Our finding that the energy-only market will not dependably support ERCOT's current reliability target until sufficient demand response penetration is achieved suggests that either the market design needs to be adjusted or the reliability objectives have to be revised."*[1]

What is Demand Response?

End-use customers reducing their use of electricity in response to payments or other price signals from a competitive wholesale market.

Demand Response Pays Customers

As the PUC and ERCOT consider protocol revisions that will raise system costs up to $14 billion,[2] DR can reduce and even compensate electric customers for services they provide to the grid. In the case of all other Independent Service Operators (ISOs), rules are being developed to compensate customers in much the same way that electric generators are compensated. This has had the impact in ISO regions such as PJM of substantially reducing the bills of customers who voluntarily participate. To date, PJM has paid over $174 million to participating customers for over 10,000 MW of customer provided demand side resources, over $20 million of the payments went to residential customers.[3]

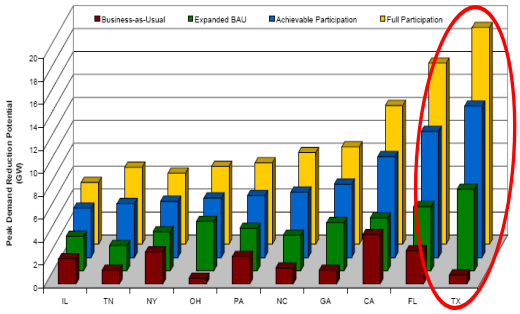

Figure 16: Top Ten States by Achievable Potential in 2019 (GW)

Texas Lags the Nation Despite Ample Potential

Texas is currently among the lowest states in terms of Load Management, despite having the highest potential by far according to FERC and the Brattle Group.[4] As ERCOT works to address resource adequacy issues, and this committee considers whether some protocols provide operational or competitive advantages to any specific generation, we believe it is important to note that ERCOT protocols generally provide operational and competitive advantages to generation resources over most demand side resources.

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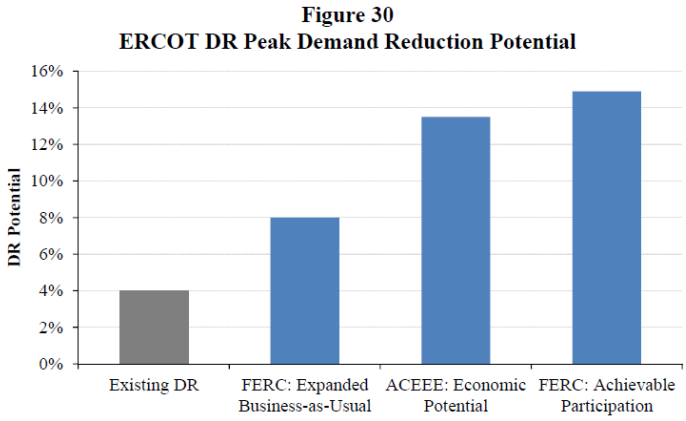
[1] "ERCOT Investment Incentives and Resource Adequacy," The Brattle Group
[2] Initial Comments of Texas Industrial Electric Customers, PUC Project #40268
[3] http://pjm.com/~/media/markets-ops/dsr/2012-dsr-activity-report-20120612.ashx
[4] http://www.ferc.gov/legal/staff-reports/06-09-demand-response.pdf

Peak Reduction Potential from Demand Side Resources will Improve Reliability

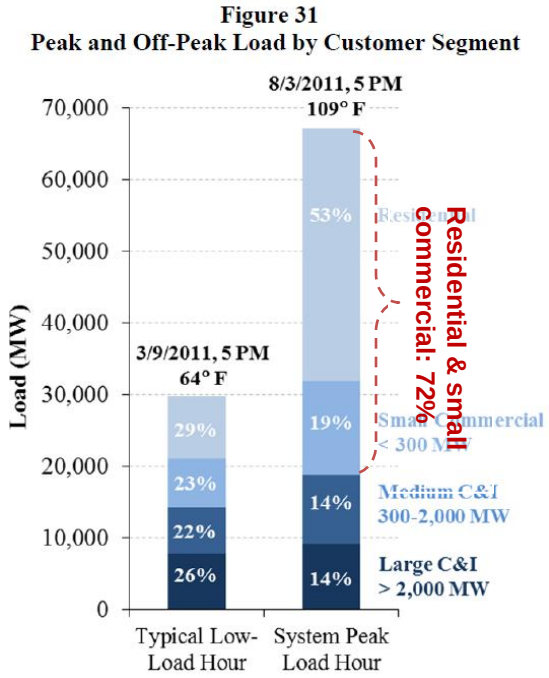


According to the recent Brattle report, competitive DR resources can reduce our peak demand needs by 15%, greatly improving our system reliability and playing a critical role in addressing future resource adequacy concerns. To do so, EDF recommends adopting the following changes to ERCOT's market structure, including protocol revisions as proposed by Brattle:

1. Enabling DR to directly participate in energy markets so it can set prices directly;
2. Enabling all emergency DR to set prices at their individual strike prices during reserve shortage conditions, as in PJM;
3. ERCOT adopting provisions that allow demand resources to submit other operational data in lieu of telemetered data in order to substantially expand participation; and
4. If supply offers clear, they should be paid a market price, such as the economically efficient price as determined by ERCOT's Demand Side Working Group.

More Focus Must be Given to Residential Customers and Small Businesses

As discussed in Brattle's ERCOT report, large commercial and industrial customers "are already quite engaged" in various DR programs, however those customers only represent 14% of the total DR potential in ERCOT. In contrast, during the summer of 2011 residential and small commercial customers accounted for 72% of peak load and "currently provide little DR, especially in the retail-choice areas of the ERCOT region."[5]



As this committee, ERCOT, and the PUC work to address resource adequacy and inequities within current protocols, EDF recommends paying special attention to expanding DR options for residential customers and small business. The four market structure changes recommended above are critical to those efforts, but more work will be needed to ensure that as other changes begin to impact retail rates customers have recourse through DR programs that compensate customers based on a fair market price.

[5] "ERCOT Investment Incentives and Resource Adequacy," The Brattle Group