**DRAFT**

**Docket 39674: Energy Efficiency Rule**

**Load Management Program: Discussion of Issues and Options for Change**

**Thursday, October 20, 2011**

The PUCT Straw Man Proposal for changes to the Energy Efficiency Rule included the following suggested additional language:

*Utilities in ERCOT shall terminate their load management programs within six months after ERCOT permits load resources to participate in energy markets via economic dispatch*.

Utilities, aggregators, consumers, REPs and other stakeholders discussed the proposed change and the possible role of load management as part of the utility EE programs. This document attempts to capture the key areas of agreement or non-agreement by participating stakeholders.

Utilities noted programs are today operated as reliability rather than price-based load management. Permitting load participation in the energy market (price-based demand response) will not necessarily replace such utility programs (capacity-based). Some customers are much less likely to participate in ERCOT wholesale programs than in the utility load management programs, which are generally less complex, so utility programs draw largely different, additional load into the market.

Aggregators pointed out utility load management can coexist and be complementary to ERCOT programs. And, new program designs can more easily be piloted under the utility programs than under ERCOT protocols.

There was widespread agreement (although not unanimity) that the current utility load management programs provide some benefits, and the commission should not initiate a process that could end such programs automatically at this time. The utilities pointed out that they have been transitioning the programs toward designs to provide additional local TDU benefits—in addition to providing additional capacity to address ERCOT emergency conditions. Responding to local TDU peak demands should complement ERCOT system needs, one of the concerned raised by REPs.

Furthermore, load management programs are a low-cost means to help utilities meet their EE goals or earn the legislatively allowed bonus. Utilities noted that it would be very difficult for them to reach the new, higher goals adopted by the PUC and legislature this year, given the Commission-imposed cost (spending) cap, were load management removed as an available tool. Given the concern about forecast market capacity in ERCOT for next year, most stakeholders agreed it would actually make sense to increase the scale of the utility load management programs.

Consumers generally were concerned about expenditures on the programs as they are currently operated, however, and would rather see the funds spent on conservation measures with longer measure lives and greater energy savings. It was noted that increasing the minimum measure life of load management commitments would increase the value of the programs, and increase the amount of load that would have to come under management to meet annual goals or obtain incentives, while still being very cost effective relative to the next best kW reduction options.

There was discussion of the potential for double-dipping, but, it was agreed the current rule includes sufficient language to prevent a load resource from being paid for participation in LM and ERCOT DR program simultaneously.

There was discussion of whether ERCOT should dispatch all load resources directly, even were utilities to continue to bring new load under management, and do so based on market prices. TDUs are rightfully hesitant to venture into price-based dispatch, which should be more of a competitive market function. There was also concern giving over control of all load under management to ERCOT could prevent the realization of some local TDU benefits that LM offers (deferring TDU investments in distribution equipment, for example). It was noted that, since adoption of the nodal market, peak prices and shortage conditions are much better correlated anyway. For that reason, continued focus on local system reliability should also complement ERCOT market dynamics as well as reliability requirements.

There was recognition that the utilities are asked to operate the programs within a demanding set of parameters including a total kWh reduction goal, total kW reduction goal, the price cap, and limits on administrative and R&D costs. All the parties agreed that the commission should not withdraw the legislatively authorized incentive bonus for utilities exceeding the goal, although Texas Rose and OPUC suggested that limited term load management commitments shouldn’t count toward a bonus calculation, or would reduce their contribution toward meeting the established annual goals.

Texas Rose and OPUC see merit in the transition of Load Management and Demand Response to priced-based programs integrated into the ERCOT market. They felt the rule should include language to develop a plan to accomplish the transition and a time table with regular progress reporting to the PUC and the public. They see Load Management and Demand Response as short-term fixes to generation and transmission supply problems, whereas utilities, aggregators and others see load management programs as the permanent development of load response capacity in the market, also having consumer and environmental benefits over actual power generation. Still, Texas Rose and OPUC believe programs that produce long-term savings achieve greater environmental benefit, and are concerned that investments in load management not overwhelm investments in energy efficiency.

Stakeholders discussed several options for responding to the PUCT’s proposed language, and possible underlying concerns. Although the following does not represent everything suggested, it is meant to capture the options that seemed to have more than one proponent.

Option 1: Do nothing. Drop the language proposed by the straw man entirely in favor of the existing language.

Option 2: Better Integrate the retail level utility load management programs with current and evolving ERCOT wholesale market programs and expand load under management. Utilities are already trying to determine how to improve the value of LM programs for local distribution systems support, which would complement ERCOT wholesale programs. It was also suggested that utility LM programs could be called at the time of local system peaks. Similar measures are being taken by ERCOT and non-ERCOT utilities today. These programs could be expanded to encompass additional load, including residential load, while adding value to ERCOT and reducing local TDU costs.

Option 3: Require the Load Factor calculation used to establish the kWh reduction goal to be applied to total load reduction (kW reduction), including kW reductions above the utility’s goal. (Consumer groups favored doing more efficiency generally, by either increasing the load factor calculation constant above the current 20%, or applying it to the total kW reduction achieved each year.)

Option 4: Convert Load Management to a Market Transformation Program. Utilities could give incentive payments to REPs and ESCOs (DR aggregators), for each customer that signs onto a demand response program for a minimum period of time—either the utility’s, a REP internal portfolio program, or an ERCOT program. This would help overcome the initial cost barrier for installing the equipment a residential or commercial customer needs to participate in demand response programs, and it would assure that customers receive a permanent value in the form of on-site controls. The utilities could get credit for having transformed the market if market participation of load continued to grow after each program.

Option 5: Limit the total amount of Load Management acquired, or prohibit load management from counting toward calculation of the utility incentive. This could be accomplished in several ways. The simplest way would be to cap the amount of Load Management and Demand Response at some percentage of the total demand goal as in past versions of the energy efficiency rules where load management was capped at 15%. Another way to limit the amount of Load Management and Demand Response would be to increase the capacity factor and/or broaden the application of the capacity factor to all savings. Today the capacity factor is applied only to those saving achieved to reach the savings goal. All savings can be applied to the performance bonus calculation. Thus, the consumers argue the capacity factor should apply to all program savings including those used to calculate the bonus after the goal is reached. Another option is to continue using the capacity factor as it is currently applied in the rule and prohibit Load Management and Demand Response savings from counting toward calculation of the performance bonus.