

NPRR Comments

NPRR Number	555	NPRR Title	Load Resource Participation in Security-Constrained Economic Dispatch
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Market Segment	Not applicable

Comments

Johnson Controls, Inc. (JCI) respectfully files these comments on two items on the ERCOT Board's agenda for the September 17, 2013 Board meeting: NPRR 555 and ERCOT's review of the weather sensitive pilot program.

Johnson Controls is a Fortune 100 global diversified technology and industrial leader with over \$42 billion in annual revenue and is one of the nation's largest players in the commercial and industrial building automation systems market.

Curtailment Service Providers (CSPs), such as JCI, play a unique role in wholesale electric markets by aggregating retail customers to participate in demand response but have distinct business models from Retail Electric Providers since CSPs do not sell electricity. Johnson Controls actively participates as a CSP in every wholesale demand response market in the country and manages a large portfolio of demand response resources for its building automation clients.

JCI is filing these comments to bring to the Board's attention two concerns over the opportunity for CSPs and their customers to participate in all ERCOT demand response markets.

First, we are concerned with the barriers that have been placed on CSP participation in NPRR 555, which is ERCOT staff's proposal to allow loads to bid into ERCOT's real time energy market. As currently drafted, NPRR 555 will not allow "direct participation" by CSPs in ERCOT's real time market.¹

¹ See ERCOT Staff's July 10, 2013 presentation to the ERCOT Wholesale Market Subcommittee available at <http://ercot.com/calendar/2013/07/20130710-WMS>

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We are concerned that this limitation is not consistent with the Legislature's direction to ERCOT in Section 39.905(b)(7) of the Public Utility Regulatory Act (PURA) to foster broad participation in demand response for all market segments.²

In addition, the limitation on participation by third party providers is unwise from a policy perspective since such barriers undermine the fundamental goal of encouraging broad participation in the ERCOT wholesale market.³ Demand response providers, such as Johnson Controls, have been leaders in developing new demand response services both in ERCOT and across the country. Excluding third party providers from direct participation will likely result in slower development of new products and services.

While ERCOT staff has indicated a willingness to begin a process to improve the market design for load participation in the real time market, it has also indicated that CSP participation is not a priority. Accordingly, JCI requests that the ERCOT Board indicate to ERCOT staff that staff should develop a market design that allows direct participation by CSPs when the staff moves forward with revisions to the real time market.

Second, we are concerned about the ERCOT staff's recent focus on the real time market as the primary "solution" for demand response participation, particularly given the barriers placed in NPRR 555 on CSP participation. We believe instead that demand response customers should have multiple avenues for participation in ERCOT's demand response products.

Some recent ERCOT staff comments have raised concerns about the ability of customers to broadly participate in demand response programs, such as in ERCOT's Emergency Reliability Service (ERS).

Most commercial demand response customers in ERCOT currently participate in ERS.⁴ Yet, as the Board is aware, the ERS program remains significantly undersubscribed even six years after the PUCT's initial approval of the program. The program currently enrolls an average of just under 500 MW of the 1,000 MW approved by the PUCT.

² Section 39.905(b)(7) of PURA requires ERCOT to allow "load participation in all energy markets for residential, commercial and industrial sectors either directly or through aggregators of retail customers." (emphasis added). The statute would prohibit ERCOT from imposing a requirement that customers participate solely in demand response through their retail electric providers, as contemplated by NPRR 555.

³ ERCOT staff's assertion that CSPs could partner with the underlying REP for each CSP customer is completely impractical and creates significant barriers for CSP participation in ERCOT's demand response market. It would require CSPs to negotiate and manage many multiple REP agreements even assuming that REPs would be willing to partner. More fundamentally, ERCOT staff should not be dictating the business model by which market participants such as CSPs participate in the ERCOT market.

⁴ JCI's experience in other markets shows that there will be more customer participation in demand response through reliability programs like ERS rather than price responsive programs like ERCOT's proposal in NPRR 555. In PJM, for example, the amount of economic demand response participation is substantially lower than the amount of reliability-based demand response. Indeed, PJM's data shows that only 350-400 sites participated in economic demand response during the summer months for 2012 and PJM's total payments for economic demand response were less than \$4.0 million compared to overall payments to 12,610 demand response participants of \$350 million.

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Over the past several years, CSPs have worked closely with the ERCOT staff to address known issues in the ERS program that limit customer participation. One such improvement is the pilot program for weather sensitive loads. JCI believes that more customers, particularly customers with heavy air conditioning usage, would consider future participation in ERS if ERCOT were to adopt a permanent market design to accommodate weather sensitive loads, similar to the weather sensitive pilot project.

We are concerned, however, about recent comments by ERCOT staff at the September 5, 2013 Technical Advisory Committee regarding the weather sensitive pilot which indicate that the ERCOT staff may be de-emphasizing its support for broad participation in ERS.

Even though the weather sensitive pilot has not yet been completed, ERCOT staff recently stated its position that it would not support extension of the pilot and that it will not pursue adoption of NPRR 505 (which contains the same provisions as the pilot) even though ERCOT had previously sponsored that protocol revision.⁵ ERCOT staff has indicated that it could support a NPRR similar to NPRR 505 if submitted by market participants, assuming that its review of the pilot was favorable. When asked why it would not continue to sponsor NPRR 505, ERCOT staff has indicated that it believes that participation in the real time market, rather than ERS, should be the primary method for demand response participation (even though this presents a classic “Catch 22” for CSPs since NPRR 555 limits CSP participation in the real time market).

JCI believes that, rather than seeking to limit demand response participation, ERCOT staff should be seeking to provide customers with multiple avenues to participate in ERCOT’s demand response markets. JCI believes that improvements to ERS, such as permanent adoption of both the pending 30 minute program pilot and the weather sensitive pilot, are the keys to realizing the ERS program’s long-delayed goals. We are concerned that these improvements will not be adopted by the ERCOT stakeholders without strong sponsorship, endorsement and involvement by ERCOT staff.⁶

In re-adopting the ERS rule in 2012, the PUCT has made clear that “it regards a robust demand response program as an essential tool for ERCOT in fulfilling its responsibilities to ensure reliable operation” that its policy is “to expand and increase participation in the program” and that:

⁵ It is important to note that it was ERCOT staff who initially championed the development of the weather sensitive pilot and that ERCOT even issued a press release when the pilot was approved stating that the “pilot will provide new incentives for participants to reduce that weather-related consumption and support reliability for the entire grid.” See ERCOT’s March 25, 2013 press release. http://ercot.com/news/press_releases/show/26422.

⁶ For example, at the September 11, 2013 WMS meeting, the WMS stakeholders voted to refer the 30 minute pilot program to the QSE managers workings. It can be expected the ERCOT stakeholders will continue to engage in such delaying tactics.

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The commission will view unfavorably any action taken by ERCOT or by participants in the stakeholder process that would have the effect of limiting the development of or participation in the ERS program.⁷

Accordingly, JCI requests that the ERCOT Board indicate its support for all forms of load participation by all market participants in the ERCOT market, including the expansion and development of the ERS program, as required by the ERS rule. Such a statement of support will provide needed direction regarding the importance of demand response to the ERCOT market.

⁷ Project 39948, Order Adopting Repeal Of §25.507 And New §25.507 As Approved At The March 22, 2012 Open Meeting, Preamble at 19.