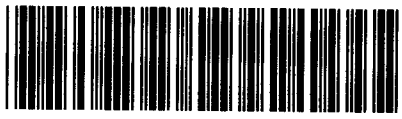

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PROJECT NO. 41061

RULEMAKING REGARDING DEMAND RESPONSE IN THE ELECTRIC RELIABILITY COUNCIL (ERCOT) TEXAS MARKET	§ § § § §	**BEFORE THE** 2014 FEB 18 PM 1:38 **PUBLIC UTILITY COMMISSION OF TEXAS**

CMC STEEL TEXAS COMMENTS

TO THE HONORABLE COMMISSIONERS:

CMC Steel Texas ("CMC") appreciates the opportunity to address the questions related to Demand Response ("DR") in Electric Reliability Council of Texas ("ERCOT") as posed by the Commission in this rulemaking.

I. INTRODUCTION

CMC is one of the largest participants in the current Emergency Response Service ("ERS") and was also a participant in the former Emergency Interruptible Load Service ("EILS") program. Last year, the Commission changed the EILS rule to provide ERCOT with greater flexibility in structuring and administering the ERS program in the hopes that it would be expanded to increase the benefit to the ERCOT market. CMC continues to fully support efforts to increase DR as an essential means of addressing the resource adequacy issues that ERCOT will soon be facing and for the importance it plays in a properly functioning competitive market. It is vital that the Commission continue its support for DR and to remain involved in order to ensure that those stakeholders who oppose DR do not derail it as an essential tool in ERCOT's ongoing efforts to maintain reliability.

II. INCREASING DR IN ERCOT

What additional products and programs could ERCOT develop to facilitate DR? How should the programs be designed?

CMC urges the Commission to continue to provide ERCOT staff with the directive and the flexibility to implement changes to existing, and create new, DR programs. ERCOT Staff

has vigorously pursued innovative ERS programs, which have been met with sufficient opposition to cause unnecessary delay to full implementation. One example of this is the 30-minute ERS service which ERCOT conducted as a Pilot for two Contract Periods (July to September 2012 and October 2012 to January 2013). ERCOT Staff reported that the 30-minute ERS service "would provide significant operational value to the ERCOT System." This ERS service would allow participation by Loads who would otherwise be unable to participate due to technical requirements. ERCOT stated that the 30-minute ERS service would enable it "to avoid falling into a deeper shortage" by deploying this new service as early as EEA Level 1. Notwithstanding this strong recommendation from ERCOT staff, the ERCOT Board rejected the Staff's request to submit an NPRR to implement this service as a Board Priority, opting instead to extend the Pilot for additional contract periods.

Another example of the uphill climb faced by ERCOT Staff in attempting to expand DR programs is reflected in the ERCOT actions taken on Nodal Protocol Revision Request (NPRR) 505, which would establish rules for participation in ERS by Loads with demand response capability that is highly sensitive to weather conditions. The ERS Weather-Sensitive Load resource NPRR 505 was tabled by the ERCOT Protocol Revision Subcommittee (PRS) at its January 2013 meeting. ERCOT Staff filed an appeal of that decision, which resulted in the reversal of the tabling by the ERCOT Technical Advisory Committee (TAC) on February 7, 2013. It is unclear exactly how or when ERCOT Staff will be able to implement this new resource – whether as a Pilot, or through the Protocols – but it is certain that the stakeholder process has slowed this effort to increase DR in ERCOT.

In opposing the Appeal of the tabling of NPRR 505, PRS' advocate, Mr. Eric Goff, argued that ERS Weather Sensitive Load is *bad policy* because ERCOT should not be in the business of product innovation. This same argument also pejoratively characterizes ERS products as a *last-ditch reliability* program. CMC believes this characterization succinctly states the antagonism of many stakeholders to increasing DR within ERCOT, which CMC urges the Commission to refute.

CMC offers for the Commission's consideration a possible new ERCOT DR program, which we are referring to as Price Response Service. The staggered increases in the system wide offer caps (SWOC) adopted by the Commission last year, combined with measures already taken and others to be taken to insure scarcity prices during scarcity conditions, will likely produce a

significant increase in voluntary price responsive. Substantial growth in DR can also be expected through new REP-administered retail product offerings.

CMC through its consultants has worked in a very informal and conceptually high-level way with EDF Trading North America, LLC on Price Response Service. It would provide ERCOT substantially increased information about the size and scope of DR that is voluntarily responsive to Real Time prices. Access to this confidential information will significantly increase ERCOT's understanding of the "consuming" side of the market equation. A greater understanding of load participation in the competitive market could be highly beneficial to ERCOT and the Commission in terms of both short-term and long-term planning.

Conceptually, the load (through the appropriate market participant) would provide ERCOT a confidential price threshold at which it would intend to interrupt a specified amount of electric power. In exchange for the information regarding the price threshold and quantity of loads intended to be interrupted, ERCOT would provide some degree of guarantee to its forward price forecast for those intervals in ERCOT's forecast that exceeded the load's specified price threshold. Access to this information will allow ERCOT to posthumously analyze consumers discipline in being price responsive and would provide empirical data useful in modeling consumer actions into short-term and long-term load forecasts. Currently, voluntary price responsive load is not burdened by any performance criteria, and the concept of Price Response Service would similarly not create or impose any operational performance criteria for the Loads that participate in this program. This proposal is highly conceptual and a great deal of detail development would obviously be necessary before CMC or anyone else could effectively evaluate whether to endorse its implementation, but the concept is worth examining further.

To the extent the Commission directs ERCOT to implement new DR programs, sound design requires that non-essential restrictions on participation and unnecessary performance criteria be omitted. Further, the obligations and benefits of participation must be clear and easy to understand. While a great deal of industrial DR currently participates in Responsive Reserve Service, ERS, and voluntary price response, there is additional DR that can be garnered from Industrial loads if these design principles are faithfully adhered to. However, the lion's share of untapped DR within ERCOT is comprised of Residential and Small Commercial loads. In order to make significant headway in tapping into those reservoirs of potential DR, program design simplicity is even more critical.

III. INCORPORATING DR IN WHOLESALE MARKETS

Forecasting

How are existing ERCOT, LSE, and utility DR programs forecasted in forward demand and resource adequacy projections? How could DR programs be better reflected?

CMC believes that the real problem in terms of incorporating DR into forward demand and resource adequacy projections is a lack of understanding and empirical data of load behavior in the ERCOT competitive market. It is for this reason that we recommend that the Commission explore the possible merits of creating a "Price Response Service," as described earlier in these comments. The information provided to ERCOT would, over time and in aggregate across the grid, allow ERCOT to have a better understanding of consumer behavior in the competitive electric market. This better understanding may eventually lead to empirical modeling of load behavior in demand and resource adequacy projections.

Pricing

What mechanisms could ensure that DR deployments appropriately contribute to price formation rather than price reversal?

CMC agrees that ERS deployment should not result in price reversal provided true scarcity conditions continue to exist during the deployment. ERS is deployed only in Energy Emergency Alert (EEA) events, which occur due to scarcity of generation in Real Time. Deployment of ERS does not resolve the scarcity, but rather provides a tourniquet to prevent firm load shedding. CMC is in the business of producing steel and when it is called upon to provide ERS, it is deprived of the opportunity to generate profit through its production. CMC's participation in ERS is driven by its keen interest in ensuring the continued availability of reliable and amble supplies of energy at the lowest reasonable cost within ERCOT. The scarcity of generation during EEA events causes CMC to lose production, and so while ERS deployment is a suitable tool for ERCOT to use in ensuring reliability of the grid, it should not result in a price reversal because the scarcity situation which causes prices to rise continues to exist during the ERS deployment

There is a significant distinction between DR controlled and dispatched by ERCOT and voluntary price response that must not be overlooked in this discussion. Voluntary price response is driven by economics, rather than an emergency control action, and does affect the market price as it should in any market where demand rejects the prices requested by the supply. That is a reality of the competitive market design, and no action should be taken to alter the impact of voluntary price response on energy prices as this is part of a well functioning market. It would, however, be useful for ERCOT to develop tools to track and predict voluntary price response for use in daily operations and forecast.

Respectfully submitted,

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