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ELECTRIC RELIABILITY COUNCIL §
OF TEXAS (ERCOT) MARKET §

BEFORE THE
PUBLIC UTILITY COMMISSION
OF TEXAS

**TXU ENERGY RETAIL COMPANY LLC'S RESPONSE
TO REQUEST FOR COMMENTS FOR MARCH 14, 2013 WORKSHOP**

TXU Energy Retail Company LLC (TXU Energy) appreciates the opportunity to comment on the questions posed by the Public Utility Commission of Texas (Commission), as published in the *Texas Register* on January 25, 2013, regarding the potential impact of Demand Response (DR) and its further integration into the Electric Reliability Council of Texas (ERCOT) market.

I. INTRODUCTION

TXU Energy supports the development and integration of DR in the ERCOT market. TXU Energy believes the development of DR would best be facilitated by enabling load to compete as a resource and be compensated in a manner that ensures that the market sends the right pricing signals during scarcity conditions. Any new or existing market products in which load may participate as a resource should ensure that scarcity pricing is either improved or unaffected to support resource adequacy in the ERCOT market. TXU Energy believes that increased participation in DR will provide a meaningful way for both Retail Electric Providers (REPs) and customers to actively participate in being part of the solution to the State's resource adequacy challenges. While TXU Energy understands that increased DR participation, in and of itself, is not the solution to resource adequacy, the Company believes that facilitating DR in ERCOT is a worthwhile step in the right direction.

II. RESPONSES TO QUESTIONS

A. Section One: *Increasing DR in ERCOT.*

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

TXU Energy maintains that ERCOT need not develop special DR-specific or DR-only products to facilitate DR. Instead, ERCOT should focus on market-based solutions centered on certain guiding principles, which principles would naturally lead to the facilitation of DR. At a minimum, those principles should include nondiscrimination, competitive solutions, and proper price signals. Instead of having disparate DR-specific products, the market (which today consists of ancillary services and energy markets) should be refined to allow load to participate in the selection of resources to serve demand in a manner that meets these principles. If existing or future markets are open to load resources, such resources should be permitted to engage in market opportunities and compete as a resource with generators on a reasonably level playing field. If load resources were provided a “market way” to participate, they could focus their efforts on one central forum for participation, instead of on different mechanisms that each have their own rules and requirements (e.g., Emergency Responsive Service (ERS) and Transmission and Distribution Service Provider (TDSP) programs that manage load during peak hours). This focused effort will likely yield more positive and robust results for DR in the competitive market.

First, TXU Energy believes a resource is a resource. Load should have an opportunity to compete as a resource and be compensated accordingly. As aptly noted by the Brattle Report:

A good market structure provides multiple revenue opportunities, allows DR to compete on a level playing field with generators to provide the same services, and allows each resource to find its highest-value combination of uses.¹

These objectives would be maximized by allowing load to participate in ERCOT’s real time-energy market by submitting offers to be deployed through Security Constrained Economic Dispatch (SCED). Maximizing the economic dispatch of DR through SCED is the best way to further develop price-setting demand response—which is critically needed for reliability and market efficiency. One of the current obstacles to more REP involvement in DR is the uncertainty involving the price that a load resource will receive by reducing demand. By allowing load to participate in SCED, load will have more certainty that, if selected through SCED, it will receive a certain price.

TXU Energy agrees with the Brattle Report that the best load candidates for inclusion in SCED are large commercial and industrial customers that are already controllable with

¹ The Brattle Group, *ERCOT Investment Incentives and Resource Adequacy* at 95 (Jun. 1, 2012) (hereafter “Brattle Report”).

telemetry.² Nonetheless, TXU Energy believes it is worthwhile to explore possible ways to include other aggregated load resources in SCED. While loads in SCED would take some time to implement and not be without challenge, with creation of appropriate qualification criteria and verification of performance being two of the most pressing, enabling load to help contribute to efficient energy price formation is a necessary goal for improving resource adequacy. Section II.A.4 of these comments discusses loads in SCED in more detail, with an example of how 15-minute AMS data could be used to verify performance for aggregated small commercial and residential loads participating in SCED.

Another significant obstacle for increased DR participation is the uncertainty regarding what penalties could apply for imperfect performance. For example, Qualified Scheduling Entities have faced significant administrative penalties in the past for imperfect performance relating to the deployment of loads acting as a resource (LaaR).³ These considerable penalties serve as strong barriers for loads to be willing to participate in the competitive energy and ancillary services markets. Consequently, TXU Energy would submit that the penalties for non- or imperfect performance could be better tailored to disincent such behavior but also encourage load participation in DR. Accordingly, TXU Energy would offer that, for some DR participation, financial and behavioral penalties, instead of administrative penalties, should apply against loads that fail to perform as required. Financial penalties would consist of a load resource not being compensated for their lack of or imperfect performance. Behavioral penalties would mean that the load resource could be barred from participation for a reasonable period of time related to the severity of their failure to meet their performance obligation. TXU Energy acknowledges that this relaxed standard should not apply to all types of DR in the market (e.g., load providing reliability services like responsive reserves). However, TXU Energy submits that, for some DR participation in the market, this proposed penalty structure would remove barriers for load participation, which, in turn, would enable the market to benefit from increased, price-setting DR.

² *Id.* at 92.

³ See, e.g., *Agreed Notice of Violation and Settlement Agreement Relating to Tenaska Power Service Co.'s Violation of PURA § 39.151(j) and P.U.C. Subst. R. 25.503(f)(2), Relating to Failure to Adhere to ERCOT Protocol § 6.5.4(2) Concerning Load Acting as Resource Service Requirements*, Docket No. 36993 (assessing a \$325,000 administrative penalty against Tenaska Power Services Co. for taking two minutes and 30 seconds longer than permitted to deploy its scheduled third-party LaaRs).

Second, TXU Energy maintains the Commission should remain committed to competitive solutions when evaluating ways to facilitate DR. To date, REP-offered DR programs have provided benefits to retail electric customers through greater control in managing their electricity usage and lowering their electricity costs. These programs developed under competitive pressures for REPs to be innovative and to provide customers with services and products that meet their needs. Even though TXU Energy and other REPs offer DR programs in the market today, there is much room for growth in this area.

With the market's higher system wide offer caps (SWOC), REPs will likely be incented to increase their participation in DR to help manage their costs. As explained by the Brattle Report, which was published before the Commission amended P.U.C. SUBST. R. 25.505 to progressively increase the SWOC over the next three summers,⁴ it was expected that:

...rais[ing] the price cap would incent REPs and customers to develop more DR to hedge their exposure and reduce the cost to serve. For example, with \$9,000 scarcity prices, the value of DR is three times as high as when scarcity prices reach only \$3,000. As reserve margins tighten and the expected frequency of price spikes increases, the value of peak reductions will further increase.⁵

Stated simply, higher SWOCs could result in REPs facing significantly higher costs of managing swings in load. At the same time, higher SWOCs could mean that a critical mass of a REP's customer base would have a value of lost load (VOLL) that is less than the SWOC. This combination indicates that the next frontier of opportunity for load participation in DR may be the small commercial and residential customer classes, which customers could be aggregated by REPs to participate in active DR. Moreover, increased SWOCs would mean that large commercial and industrial customers with bilateral forward contracts, who currently participate in voluntary or passive DR, may desire more efficient ways to sell power back into the real-time market when prices for energy exceed their VOLL.

While TXU Energy supports increasing and enhancing the opportunities for REPs and customers to participate in DR (under the principles outlined above), the Company would be

⁴ P.U.C. SUBST. R. 25.505(g)(6)(B) (providing that the high system wide offer cap shall be set: (i) beginning on June 1, 2013 at \$5,000 per MWh and \$5,000 per MW per hour; (ii) beginning on June 1, 2014 at \$7,000 per MWh and \$7,000 per MW per hour; and (iii) beginning on June 1, 2015 at \$9,000 per MWh and \$9,000 per MW per hour).

⁵ The Brattle Report at 94.

concerned with efforts to increase DR participation by mandating or subsidizing administratively-determined DR programs or equipment.⁶ Solutions for DR programs should be implemented in the marketplace, without subsidies, consistent with market-based principles. While it may be tempting to some to look towards a ratepayer-subsidized DR program (e.g., for controlling residential air conditioning or pool pumps) due to beliefs that such programs would be quicker and easier to implement, mandating or subsidizing DR would stifle innovation and undermine the further development of competitively-provided DR. Competition has enabled the Texas retail electric market to flourish. Compromising that competitive market, by mandating or subsidizing what should be a competitive energy service, would significantly disadvantage customers and be a bold departure from the basic tenets that the market should encourage competitive solutions. Additionally, enhancing loads' ability to participate in the ERCOT markets, such as through SCED, provides loads more flexibility to manage risks, as compared to participation in typical rate-payer subsidized programs.

Finally, TXU Energy offers that any product or program developed by ERCOT to facilitate DR should ensure that scarcity pricing is either improved or unaffected so as to ensure the market sends the right pricing signals for further investment in generation assets and DR resources. Compensation provided to DR providers should be non-discriminatory and market-based; and, when DR is deployed, it should competitively set prices. Existing programs that do not meet these criteria should be replaced with programs that do. For example, TXU Energy would support the redirection of loads participating in ERCOT's Emergency Responsive Service (ERS) and TDSP load management programs, which programs provide a capacity payment for a small subset of resource providers but carry no price-setting abilities at deployment, to market-based programs that provide a better opportunity for loads to compete in the ERCOT ancillary services and energy markets.

- 2. Should economic incentives be developed to stimulate large DR programs and if so, should the incentives be market based or load-ratio share based obligations?**

⁶ See, e.g., *Commission Proceeding to Ensure Resource Adequacy in Texas*, Project No. 40000, The Brattle Group, Resource Adequacy in ERCOT: 'Composite' Policy Options for the October 25, 2012 Workshop at 8-12 (Oct. 19, 2012).

Consistent with the discussion in Section II.A.1 of these comments, economic incentives should not be developed to stimulate large DR programs. Participation of load in DR should be on a non-discriminatory basis, which would encompass both discrimination against load and special economic benefit to load. Additionally, economic incentives should not come in the form of a ratepayer-subsidized or mandated DR program conducted by utilities.

3. What regulations are needed to ensure residential and small commercial customers are adequately protected when participating in aggregated DR programs?

TXU Energy supports efforts to ensure disclosures that adequately inform customers of the benefits and expectations that accompany the customer's acceptance of a special rate plan, device, or other item associated with an aggregated DR program. As an initial matter, TXU Energy offers that the Commission could adopt rules that are specific to disclosures that would be required in connection with a residential or small commercial customer's participation in DR aggregation programs. It would be important for the Commission to make clear that such customer protection rules apply to any entity that solicits or serves a residential or small commercial end-use retail customer in the area of DR, which would include not only REPs but third-party DR providers.

Potential Commission rules relating to required disclosures for DR aggregation programs could require either the REP or DR provider to make certain minimum disclosures, such as: how often the customer can expect to be called upon to reduce usage; how long each event is expected to last (e.g., 15 minutes out of every hour during peak period when electricity demand is highest); how often the customer's usage may be curtailed for testing purposes; and whether the customer can opt out of the REP or DR provider's call to reduce demand. Additionally, the REP or DR provider could be required to provide a point of contact for customers to contact in case they have any questions.

4. How can advanced metering systems and related technology support DR in residential and small commercial customer classes?

TXU Energy believes the ERCOT market is very fortunate to have such an extensive advanced metering system (AMS) in place. AMS and related technologies allow customers to

better monitor their electricity usage, which enables them to be more active participants in controlling their usage and reducing their bills. REPs are offering innovative products in the competitive market that leverage the 15-minute interval data made available from these technologies.

For example, TXU Energy provides customers access to their AMS interval data on its MyEnergy DashboardSM, an online tool which helps customers examine how and when they use electricity. TXU Energy has found that this information helps customers reduce energy consumption and, ultimately, their electric bill. In addition, advanced meters have enabled TXU Energy to offer its FlexPowerSM electricity plan, which allows customers to prepay for their electricity. Research indicates that customers can save from 10 to 15% in electricity usage by participating on a prepaid product such as this plan because they will be more aware of their electricity consumption.⁷ TXU Energy also offers its Free Nights electricity plans, which customers have used to decrease their bills by better managing their electricity consumption during certain time periods. Other retailers have programs designed to reward customers with a lower bill for reducing or moving load to off-peak hours.⁸ While not all these programs could be considered DR, they do all involve leveraging AMS to enable customers to be more aware and purposeful about when they use electricity.

TXU Energy is working with other market participants to further enhance the ability of the AMS systems to support residential and small commercial DR programs. TXU Energy is a Governing Participant with the Center for the Commercialization of Electric Technologies (CCET), a Texas non-profit corporation. One of CCET's projects is a "Smart Meter Texas (SMT) Portal Initiative", a several-year collaboration that aims to properly integrate AMS meters into the ERCOT market, provide customer tools for viewing 15-minute meter data, and provision devices for load control. The SMT Portal Initiative is also working towards enabling direct load control through the communications capabilities of the SMT. TXU Energy believes the progress made by the SMT Portal Initiative is encouraging and will help to facilitate the growth of REP-based residential and small commercial DR programs.

⁷ KEMA First to Market Report, *available at kema.com* (Feb. 2010).

⁸ For example, the Reliant e-Sense[®] Degrees of Difference Program allows participating customers to receive a bill credit up to \$0.30/kWh for conserving electricity during periods when high electricity demand is anticipated.

AMS and related technologies could be even further leveraged to enable aggregated residential and small commercial loads to participate in SCED by serving as a means by which performance can be verified for such entities. ERCOT runs SCED every 5 minutes to select the most economical dispatch of resources, based on offers made by those resources and actual shift factors. Fifteen-minute interval data from AMS meters could be used instead of real-time telemetry to verify DR performance, which would maximize the utility of the AMS infrastructure and avoid the cost of creating expensive new data collection systems to enable aggregated residential and small commercial load to participate in SCED. With that said, TXU Energy acknowledges that 15-minute interval data may not precisely match up with the deployment timeframes for the services being provided by these aggregated loads (e.g., a load's timeframe for performance could span from the middle of one 15 minute-interval to another). Nonetheless, in balancing the potential complications posed by these types of scenarios with the benefits that could be achieved by allowing aggregated residential and small commercial loads to participate in SCED, TXU Energy submits that the use of 15-minute interval data to verify performance for these loads should be explored.

Because it would be important for ERCOT to know where and when aggregated residential and small commercial DR is deployed in real-time, TXU Energy offers that a model could be developed that would estimate, based on temperature and humidity, the expected deployment level for an aggregated DR load (e.g., aggregated pool pumps or air conditioning switches). The model's estimates could be verified with the AMS 15-minute interval data relating to aggregated DR. This verification process would enable the model to be refined until it becomes sufficiently accurate to predict expected DR response in real-time. The output of the model could be transmitted to ERCOT as frequently as needed while DR is deployed to inform ERCOT about the real-time volume of DR, which should assist ERCOT in planning purposes.

Finally, consistent with the discussion in Section II.A.1 of these comments, the Commission should consider financial consequences only, instead of administrative penalties, for a load resource not providing a product designed strictly for reliability whose AMS data indicates that the required demand reduction was not met. For example, if AMS data reveals that the load resource did not meet its reduction in demand commitment, the ERCOT protocols could withhold payment for lack of performance. With that said, administrative penalties should

remain an option that the Commission may apply to any load resource providing a product designed strictly for reliability to ERCOT.

B. Section Two: *Incorporating DR in Wholesale Markets.*

1. Forecasting

- a. **How are existing ERCOT, Load Serving Entities (LSE) and utility DR programs forecasted in forward demand and resource adequacy projections? How could DR programs be better reflected?**
- b. **How do price based DR incentives offered by LSEs contribute to load forecasting errors? What other pricing and rate structures impact the wholesale market?**

With respect to existing ERCOT and utility DR programs, TXU Energy offers that, consistent with Section 8 of the ERCOT Planning Guide, it is useful to separately account for certain demand response, such as Load Resources providing Responsive Reserve (LRRRS), Load Resources providing Non-Spinning Reserve (LRNSRS), ERS, and certain demand response provided under the statutorily-required TDSP energy efficiency programs,⁹ to derive the Firm Peak Load Estimate that is used for calculating the planning reserve margin in the Capacity, Demand and Reserves (CDR) Report.¹⁰ With that said, TXU Energy would suggest that the current line item in the CDR labeled “Energy Efficiency Programs (Per SB1125)” should be renamed “TDSP Load Management Programs under PURA §39.905” and that the number of MW attributed to such programs be limited to the TDSPs’ programs that manage load during peak hours. For each of the DR programs that are separately accounted for in a line item, ERCOT should ensure, to the extent practicable, that the load reductions effectuated by those programs are not already captured in the historical load trend that ERCOT uses to start its calculation; otherwise, there would be double counting. In addition, any growth in these

⁹ PURA § 39.905.

¹⁰ ERCOT Planning Guide, Section 8.3.1 (setting forth the formula for calculating the Firm Peak Load Estimate, which estimate is derived by subtracting the following elements from the Total Peak Load Estimate: Load Resources providing Responsive Reserve (LRRRS); Load Resources providing Non-Spinning Reserve (LRNSRS); ERS; the amount of controllable Load Resources that is available for dispatch by ERCOT not already included in LRRRS or LRNSRS; and the amount of energy efficiency programs procured by TDUs pursuant to P.U.C. SUBST. R. 25.181).

separately accounted for DR programs should be based on something firm (e.g., the Legislature amends PURA to set specific TDSP demand management goals).

In contrast to the load management programs offered by the TDSPs as part of their obligations under PURA § 39.905, TXU Energy does not believe it is appropriate to include the other TDSP energy efficiency programs in a separate line item. In this context, TXU Energy is referring to energy efficiency programs that produce permanent changes in electricity usage (e.g., improved insulation, lighting upgrades, or higher efficiency air conditioning). The results of these programs should be reflected in the historical trends for loads. As a result, only if ERCOT determines that the historical trends do not properly reflect known increases in the energy efficiency programs should a line item be included.

With respect to the relationship between load forecasting and price-based DR offered by LSEs, TXU Energy interprets “price-based DR incentives offered by LSEs” to mean programs offered by REPs that provide participating customers a certain monetary benefit, which would not necessarily need to be defined in cents per kWh, for reducing their demand when called upon. Such programs would include TXU Energy’s Brighten® Conservation Program, which offers participating customers a Brighten® iThermostat™ to cycle customers’ air conditioners during peak demand periods, time-of-use price plans such as TXU Energy Free Nights, and other REP programs.¹¹ TXU Energy submits that, based on its own experience with cycling air conditioners during peak demand periods, the overall MW impact on load forecasting caused by current price-based DR incentives offered by LSEs is likely small.

In general, TXU Energy acknowledges that passive load response is difficult to measure explicitly. As noted by the Brattle Report:

Accounting for price-responsive demand in load forecasts requires adding a price variable to the load forecasting model so the model can ‘learn’ that when prices reach very high levels, load is lower than it otherwise would be under similar time and weather conditions. The planning model would also need to incorporate price by adjusting load downward during hours in which load would be shed and prices would be at the cap.¹²

¹¹ For example, as noted previously, the Reliant e-Sense® Degrees of Difference Program pays customers up to \$0.30/kWh for conserving electricity during periods when high electricity demand is anticipated.

¹² The Brattle Report at 99-100.

At this time, TXU Energy does not advocate that the CDR be modified to include a price component for purposes of determining the impact of price-based DR. Such modification would require fundamental changes to the CDR, namely injecting a price element, which is an element that is not used with any other input in the report. These changes would likely raise more questions than could be potentially answered (e.g., should price be a component in projecting other variables in the report and, if so, how should this impact be projected from year to year). Instead, TXU Energy raises this issue as illustrative of the complexities that would surround including price-based DR in load forecasts.

TXU Energy is currently working with ERCOT in a survey to better ascertain what level of passive DR is currently engaged in the market. ERCOT is conducting this survey pursuant to P.U.C. SUBST. R. 25.505(e)(5), which rule requires Load Serving Entities (LSEs) to provide ERCOT with complete information on load response capabilities that are self-arranged or pursuant to bilateral agreements between LSEs and their customers. TXU Energy, ERCOT and other market participants have been endeavoring to design this survey for use in the future in a manner that does not result in onerous reporting requirements on REPs to continually refresh this data. At this time, TXU Energy submits that an annual report by REPs to ERCOT regarding the number of MW that were under contract for DR for the prior year, along with some information about how the provider deploys the DR, should be sufficient for ERCOT to use this data for potential modeling purposes.

TXU Energy again notes that a certain level of priced-based DR offered by LSEs may already be reflected in ERCOT's load forecasts.¹³ Because ERCOT uses historic data inputs in its modeling of peak demand, to the extent that loads curtailing usage are captured in the historic load data, the decreased demand represented by these loads would be embedded in ERCOT's load forecast.¹⁴ Consequently, as stated above, ERCOT should try to avoid double counting DR that is already captured in the historic load data.

2. Pricing

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

¹³ 2013 ERCOT Planning: *Long-Term Hourly Peak Demand and Energy Forecast* at 6 (Dec. 31, 2012).

¹⁴ *Id.*

As discussed in Section II.A.1 of these comments, TXU Energy believes maximizing the economic dispatch of demand response through SCED is the best way to further develop price-setting demand response. This functionality is essential to the participation of load resources in ERCOT's competitive energy markets in a manner that will advance, rather than impair, resource adequacy objectives. Loads in SCED will permit load resources submitting price offers to ERCOT to set the market-clearing price for energy in competition with generation resources. Arguably, these price offers will be reflective of the customers' outage costs or VOLL. As the Brattle Report explains, "[f]or demand response to contribute to efficient energy price formation, it must be able to help set the energy clearing price at a strike price equal to its willingness-to-pay for energy (or its strike price for being curtailed)."¹⁵ If DR were so enabled, REPs would have an incentive to "monetize the expected value of DR if physical hedging through curtailments allows them to manage their exposure with financial hedging."¹⁶ This hedging would be facilitated by loads in SCED because the REP would have more certainty about the price it will receive for deployment. Moreover, if DR could help set market-clearing prices, such prices would provide more accurate signals in the wholesale market during periods in which available generation resources become scarce because DR tends to occur at strike prices exceeding the offers of generation.¹⁷

In connection with the above, TXU Energy submits that transitioning loads from traditional utility load management programs to participation in the competitive energy markets through SCED would further facilitate the objective of developing price-setting DR.¹⁸ The deployment of load pursuant to the utilities' current load management programs, which pays load to be curtailable in emergencies, does not send an affirmative price signal to the competitive market because the value of the load curtailed is not communicated with resources competing on the basis of price. As a result, the curtailment or shedding of load under those programs can, in certain instances, dampen or reverse prices in the competitive energy market. Participation by

¹⁵ The Brattle Report at 95.

¹⁶ *Id.* at 94.

¹⁷ *Id.* at 88 (stating that "[b]ecause demand response tends to occur at strike prices exceeding the offers of generation, its participation in the market can yield relatively high clearing prices, but only if it is able to set the price at its strike price.").

¹⁸ TXU Energy recognizes that not all load participating in utility load management programs may be capable or eligible to participate in the ERCOT market. However, to the extent such load desires to be included in SCED and is capable of being economically dispatched, TXU Energy would urge its inclusion in SCED.

these load resources in ERCOT's competitive energy markets should not have this effect. Such participation would permit those resources to submit offers and set market-clearing prices that are more indicative of customers' VOLL. TXU Energy believes that transitioning utility load management programs into SCED – when such transition would be economic, feasible and desirable for load participating in such programs – would be consistent with the Commission's recent amendments to P.U.C. SUBST. R. 25.181(m)(6), which subsection explains, in relevant part, that "utilities offering load management programs shall work with ERCOT and energy efficiency service providers to identify eligible loads and shall integrate such loads into the ERCOT markets to the extent feasible." Consistent with the discussion in Section II.A.1 of these comments, such integration should include financial and behavioral penalties in lieu of administrative penalties for certain participating loads that fail to perform as required.

With respect to DR deployments as a part of specific ERCOT products used to alleviate tight load conditions (e.g., ERS and RRS), such products should ensure that the market sends the right scarcity pricing signals. Stated another way, deployment of such resources should be market-based and not be permitted to dampen prices.

b. Do the Real-Time Market Enhancement and/or Hour-Ahead Market proposals submitted by the Market Enhancement Task Force to the Technical Advisory Committee (TAC) offer an appropriate framework for the participation of DR in the ERCOT market?

Like others that filed comments with the Market Enhancement Task Force (METF), TXU Energy does not wholly understand the full impact of the proposed Real-Time Market (RTM) Enhancement framework on the current ERCOT market. Accordingly, TXU Energy is unsure whether the proposed RTM Enhancement submitted by METF to TAC would appropriately or efficiently address the operational and reliability needs of the ERCOT system. Therefore, TXU Energy reserves further comment on this issue at this time.

TXU Energy believes that a properly constructed Hour-Ahead Market could possibly create an appropriate framework for the participation of demand response in ERCOT. An Hour-Ahead Market could potentially provide load a known price and notice period to curtail. However, while an Hour-Ahead Market may be workable, it does not address all of the issues

affecting participation in demand response programs. When a coherent and comprehensive demand response framework is developed, existing out of market processes should be replaced.

- c. Is load participation in the real-time market feasible when compared to voluntary price response? How does voluntary price response help set pricing or skew scarcity pricing signals?**

The current market design does not allow for load participation in the real-time market through SCED. Additionally, it is unclear which specific criteria would be used to measure performance and what the potential penalties would be for non-performance. Uncertainty surrounding performance standards and compliance penalties are but two of the main obstacles for meaningful residential and small commercial aggregation participation in DR.

Voluntary price response, to a degree, will cause price reversal. Load will simply disappear at a certain point in time based on its VOLL (e.g., when prices hit a certain level or when a large industrial customer believes an average coincident peak (4CP) interval may be occurring and is incented to decrease demand due to TDSP 4CP rate structures). TXU Energy does not believe the market will be able to or should eliminate all voluntary price response. Customers will continue to do what they can to minimize their costs, which includes voluntarily reducing their demand when individual circumstances warrant. However, due to the unpredictability and price dampening effects of voluntarily price response, the market should do what it can to encourage moving as much of this activity as possible to active demand response. Active demand response by its very nature helps set price and, thus, is a much better contributor to the overall health of the competitive market. Moreover, active DR would likely be far easier to include in load projections than would passive DR.

- d. Would Loads in SCED attract significant DR participation beyond those resources already providing ancillary services?**

Before loads could actively participate in SCED, direction will need to be provided by the Commission or ERCOT regarding the parameters for performance and method for verification of performance. Once that occurs, the ability for load to be dispatched economically should serve to facilitate more robust demand response in ERCOT. As discussed earlier in these comments, one of the major obstacles to more load participation in DR is the uncertainty

involving the price that a load resource will receive by reducing demand. By allowing load to participate in SCED, load will have more certainty that, if selected through SCED, it will receive a certain price. This price-certainty should serve to incentivize significant DR participation in the market beyond those resources already providing ancillary services. Additionally, because REPs could also use the loads in SCED tool to help manage their increased swing costs resulting from higher SWOCs, as discussed in Section II.A.1 of these comments, more robust DR participation would likely be seen in ERCOT as a result of loads being able to participate in SCED.

III. CONCLUSION

TXU Energy appreciates the opportunity to comment on the Commission's questions regarding Demand Response and respectfully request that these comments inform the Commission's decision of how best to enhance and account for DR in the ERCOT market.

Respectfully submitted,

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**ON BEHALF OF TXU ENERGY
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