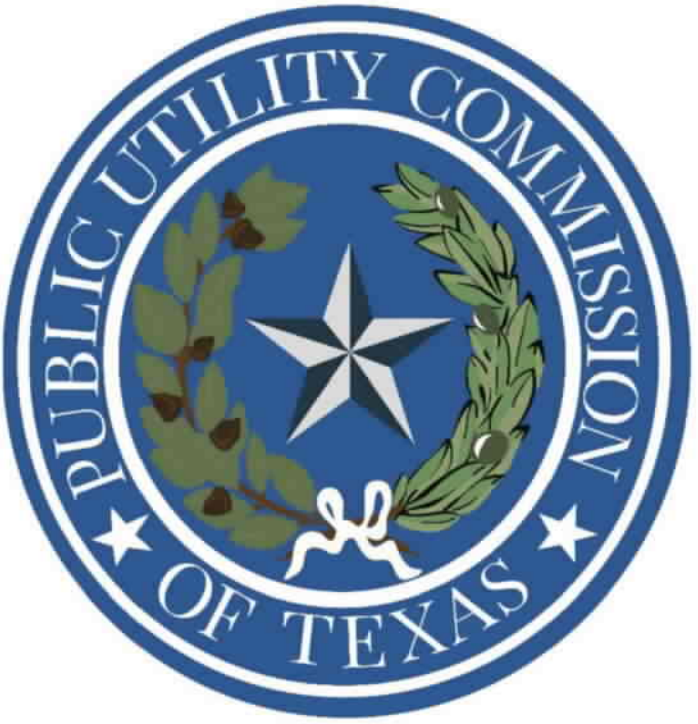

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PUC PROJECT NO. 56966

GOAL FOR REDUCING AVERAGE TOTAL RESIDENTIAL LOAD IN THE ERCOT REGION	**§ § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

COMMENTS OF ENVIRONMENTAL DEFENSE FUND & ALISON SILVERSTEIN CONSULTING

Comes now the Environmental Defense Fund, a non-profit, non-partisan, non-governmental environmental organization and Alison Silverstein Consulting, an independent energy consultant, to comment on the Proposal for Publication of New §25.186, Goal for Average Total Residential Load Reduction, to implement PURA §39.919.

This proposed rule as written will not achieve the statutory purpose to "reduce the average total residential load" nor "provide[s] demand response participation to residential customers where reasonably available" in any meaningful way. This failure could be remedied by revising the rule to define Retail Electric Provider (REP) demand response programs more broadly, revising the definition of average residential load reduction, revising the definition and calculation of the demand response goal, requiring REPs to offer residential demand response programs, and creating consequences for REPs that fail to meet the average residential demand response peak reduction goal.

These comments follow the order of the proposed rule.

There's more to demand response than smart responsive devices -- Proposed §25.186(a) and (c) address REP Responsive Device Programs, taking an overly narrow view of demand response programs that prioritizes "smart responsive devices" and controls. Although the statute specifies expanding the use of smart responsive devices, it does not limit demand response options to smart devices or appliances. (§39.919(b)). This rule should be broadened to cover and count all REP-identified demand response programs and measures, even if it only funds REP provision of smart responsive devices and controls.

The statute directs the Commission to enable REP demand response programs. A REP can offer a diversity of demand response options, including but not limited to smart responsive devices and controls. Other REP demand response options could include direct non-automated customer requests for energy use modifications, timers on hot water heaters and electric vehicle charging (since timers are arguably not smart responsive devices), and REP virtual power plants including use of residential batteries. This rule can support REPs' creativity, marketing skill and potential demand response impacts by not over-specifying or restricting relevant demand response measures. Therefore, the proposed rule should not limit REP demand response programs to only responsive device programs or measures.

ERCOT needs flexibility in non-peak hours -- Proposed §25.186(c)(3) identifies an ERCOT peak demand period as the summer and winter hours with the highest value of peak net load. This is consistent with the statute. However, the reality of current grid operations is that while the ERCOT system may often need load reductions during peak and net peak load hours, ERCOT may also need flexibility services during non-peak hours, as during shoulder season maintenance periods and transmission-constrained hours. Therefore, while this rule appropriately specifies summer and winter peak and net peak hours for the goal, it should recognize and stress the value of building REP demand response programs that can be operated to provide flexibility for multiple seasons and purposes. Additionally, as solar generation increases in Texas and more residential customers install batteries and use electric vehicles, it will be beneficial to use automated demand response capabilities to increase load-shifting and valley-filling off-peak residential load use.

Big nominal goal, minimal impact -- The demand response goal in proposed §25.186(d)(3) is not clearly articulated. The statute directs the Commission to establish, "the method by which the components of the ratio ... are calculated for purposes of determining whether the goals ... have been achieved." (§39.919(b)(7)). In §25.186(d)(3)(A), does 0.25 mean reducing total residential demand by 25% when measured at peak or net peak load? Would that be absolute maximum demand in every year, or a relative demand reduction that evolves over time? What are the numerator and denominator for this calculation? What is the justification for a 25% load reduction goal?

The proposed rule appears to measure this ratio as load reduced by all responsive device residential programs in a peak period relative to the total demand of all residential customers participating in those programs – but if few REPs offer demand response programs or market them poorly, there will be little DR participation and little peak demand reduction. Thus a high 25% demand response goal could yield trivial impact in terms of actual peak reduction from residential customers as a whole. A rule that allows and accepts residential demand response from a small number of REPs and customers will produce minimal average total residential load reduction when measured across all ERCOT residential customers and their peak demand.

Since the statute refers to "average total residential load reduction," it is appropriate to calculate this goal based on all residential customers, using actual total residential demand response peak hour reductions as the numerator and total residential load as the denominator. This would imply a much smaller demand reduction goal that could deliver a much larger total MW peak reduction impact.

We could secure more actual peak MW reduction from demand response by setting a 10% (or higher) peak demand reduction goal and requiring every REP (including Providers of Last Resort) to offer demand response programs to all its residential customers. This would mean every REP should be able to use demand response measures to reduce its total residential load in peak and net peak hours (and potentially non-peak periods) by 10% or more of total residential demand or more in summer and winter peaks. This would bring huge value for improving ERCOT-wide reliability and resilience year-round. Furthermore, requiring every REP to offer demand response programs would also meet the statute's goal of, "providing demand response participation to residential customers where reasonably available."

"Participation ... where reasonably available" – The statutory language invites consideration of what circumstances would make demand response programs NOT reasonably available (§39.919(b)(1)). This implies that there are acceptable justifications for why demand response opportunities need not be offered to specific customer groups. It is easy to imagine this leading to exclusion of low-income customers on the assumption that they will not shift loads, renters who do not own their appliances, or customers who lack broadband access and therefore have uncontrollable appliances. But easy assumptions can be wrong (e.g., demand response efforts outside Texas have shown strong responses from low-income customers), so the Commission should craft this demand response rule to offer demand response options for as many customer groups and customers as possible.

Demand response providers v. REPs -- The proposed rule does not address §39.919(b)(4), which "provides opportunities for demand response providers to contract with retail electric providers to provide demand response services." This should be explicitly stated in the proposed rule.

Goal and tracking, but neither carrot nor stick -- The proposed rule appears to measure the demand response achieved by each participating REP, but it's not clear why this matters. The proposed rule does not require any REP to offer demand response programs and sets neither rewards nor penalties to motivate REPs to offer demand response programs or achieve the demand response goal. If the only purpose of tracking is for information, then the information submission requirements should be lighter.

Burdensome information submission requirements -- Proposed §25.186(d)(1) contains extensive and potentially burdensome information reporting requirements for REPs, and submission of excessive and unnecessary information about residential customers. ERCOT already manages smart meter data and knows which ESI IDs are served by each REP, so when the REP is collecting and analyzing data about load responses to each demand response event, it is pulling those data from ERCOT files. The rule should simplify compliance and protect customer privacy by requiring only aggregate event information from each REP, particularly since different REPs may operate their residential demand response programs at times other than peak and net peak load hours. If the Commission feels that meter-specific or device-specific details are necessary for some reason, then the rule should clearly articulate that purpose and value and require ERCOT to protect this information as confidential.

REP access to TDU efficiency funds -- The proposed language for funding under §25.186(f) should be more specific. As written, a utility, "... may use up to 10 percent of the budgeted spending for responsive device programs offered by a REP under subsection (c) of this section." The use of, "may use up to 10%," appears to allow the utility to exercise its discretion in how much of its energy efficiency budget to use to support REP responsive device efforts. This language should be rewritten to require the TDU to use up to 10% of its energy efficiency budget to meet REP responsive device requests, with limited discretion to give less and some guidance on how the TDU should allocate those funds among multiple REPs and programs.

Customer compensation – The proposed rule does not address customer compensation for their participation in demand response programs. Recent experience in ERCOT has shown that between growing demand, generation shortfalls and transmission constraints, there have been

many hours and events when demand response has been used to maintain grid reliability or reduce very high prices. During these periods, customer demand response has been highly lucrative and cost-reducing for REPs and large industrial customers. As the Commission implements PURA §39.919, please add a provision to assure that residential demand response customers receive reasonable compensation that reflects the resource adequacy and cost relief value of their demand response efforts.

Don't forget peak-oriented energy efficiency -- In closing, it will be helpful for customer bill management and grid reliability and cost management to have more robust residential demand response programs. But better residential demand response programs can best support ERCOT reliability, resilience and affordability if they are complemented by aggressive peak-oriented energy efficiency programs such as heat pumps and attic insulation. Peak-oriented energy efficiency measures will deliver substantive, predictable, long-lasting and cost-effective load reductions that enhance ERCOT grid reliability and lower customers' bills year-round, creating a solid foundation for expanded residential demand response programs. The Commission should expand energy efficiency programs and budgets to assure that efficiency and demand response operate as true partners to support and enhance ERCOT-wide reliability, resilience and affordability.

Respectfully,

Colin Leyden
Environmental Defense Fund

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Alison Silverstein Consulting

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EXECUTIVE SUMMARY
ENVIRONMENTAL DEFENSE FUND & ALISON SILVERSTEIN CONSULTING

This proposed rule as written will not achieve the statutory purpose to "reduce the average total residential load" nor "provide[s] demand response participation to residential customers where reasonably available" in any meaningful way.

This rule should be broadened to cover and count diverse REP DR programs and measures, even though it only funds REP provision of smart responsive devices and controls. REPs can offer a diversity of DR options, including but not limited to smart responsive devices and controls.

While this proposal appropriately specifies summer and winter peak and net peak hours, it should address and enable building REP DR programs that can provide flexibility for multiple seasons and purposes.

The proposed rule is unclear about how the DR goal is calculated and why it is set where it is. The proposed rule appears to measure this ratio as load reduced by all responsive device programs in a peak period relative to the total demand of all residential customers participating in those programs – but if few REPs offer DR programs, there will be little participation and little peak demand reduction. Thus a high 25% DR goal could yield trivial impact in terms of actual peak reduction from residential customers as a whole. Since the statute refers to "average total residential load reduction," we should calculate this goal based on all residential customers, using total residential DR peak hour reductions as the numerator and total residential load as the denominator. Under this formulation, a much smaller demand reduction goal could deliver a much larger total MW peak reduction impact.

The proposed rule does not require any REP to offer DR programs and uses neither rewards nor penalties to motivate REPs to offer DR programs or achieve the DR goal. The Commission should require all REPs to offer DR program options to all residential customers.

The proposed rule contains extensive and potentially burdensome information reporting requirements for REPs, and submission of excessive and unnecessary information about residential customers.

The proposed language for REP access to TDU efficiency funds appears to allow TDUs the discretion to disburse less than the allowed 10% of the TDU efficiency budget.

The Commission should adopt aggressive, peak-oriented energy efficiency programs and budgets to assure that efficiency and demand response operate as true partners to support and enhance ERCOT-wide reliability, resilience and affordability.