

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

Wholesale Competition in Regions With)	
Organized Electric Markets)	Docket Nos. RM07-19-000
)	and AD07-7-000
)	

Southwest Power Pool, Inc.)	
)	Docket No. ER09-1050-000
)	

**SOUTHWEST POWER POOL, INC.
REPORT ON REMAINING BARRIERS TO DEMAND RESPONSE**

Pursuant to Order No. 719¹ and the Federal Energy Regulatory Commission's ("Commission") November 20 Order in Docket No. ER09-1050-000,² Southwest Power Pool, Inc. ("SPP") submits this report assessing remaining barriers to comparable treatment of demand response resources in SPP-administered wholesale ancillary service markets. The SPP Market Monitoring Unit's assessment is being filed separately in these dockets.

I. BACKGROUND

SPP is a Commission-approved Regional Transmission Organization ("RTO") with 58 Members in nine states, serving more than 5 million customers in a 370,000 square-mile area. SPP is responsible for administering open access transmission service

¹ *Wholesale Competition in Regions with Organized Electric Markets*, Order No. 719, III FERC Stats. & Regs., Regs. Preambles ¶ 31,281, at P 274 (2008), *as amended*, 126 FERC ¶ 61,261, *order on reh'g*, Order No. 719-A, III FERC Stats. & Regs., Regs. Preambles ¶ 31,292, *reh'g denied*, Order No. 719-B, 129 FERC ¶ 61,252 (2009).

² *Sw. Power Pool, Inc.*, 129 FERC ¶ 61,163, at P 96 (2009) ("November 20 Order").

over the facilities of its transmission-owning Members and ensuring regional electric reliability as a North American Electric Reliability Corporation (“NERC”) Reliability Coordinator. SPP administers a real-time energy imbalance service market (“EIS Market”)³ and is in the process of developing day-ahead and real-time energy and additional ancillary services markets (“Future Markets”),⁴ as well as a region-wide consolidated Balancing Authority. SPP accepts bids from demand response resources in its EIS Market and, with its stakeholders, is considering how best to integrate demand response resources into its Future Markets.

Order No. 719 required each RTO and Independent System Operator (“ISO”) to assess and report on any remaining barriers to comparable treatment of demand response resources, and required RTO and ISO market monitors to submit reports to the Commission expressing their views on these issues.⁵ In the November 20 Order, the Commission found “SPP to be in partial compliance with respect to the reporting requirement on existing barriers to comparable treatment” for demand response resources, but directed SPP and its market monitoring unit to file reports assessing remaining barriers to comparable treatment for demand response resources “within six months of the date of” the November 20 Order.⁶

³ See *Sw. Power Pool, Inc.*, 118 FERC ¶ 61,055, *reh’g denied*, 120 FERC ¶ 61,018 (2007) (approving SPP’s EIS Market).

⁴ Currently, the “Future Markets” design includes adding a Day-Ahead Market with Transmission Congestion Rights, Reliability Unit Commitment process, and incorporation of a price-based Operating Reserves procurement.

⁵ See Order No. 719 at P 274.

⁶ November 20 Order at P 96.

II. ASSESSMENT

SPP has identified several issues that can potentially serve as barriers to comparable treatment of demand response resources in the SPP EIS Market including: (a) SPP market-related and operational barriers; (b) state jurisdictional barriers; (c) technological barriers; and (d) retail rates.

A. SPP Market-Related and Operational Barriers

SPP's market system for its EIS Market currently limits requests and offers for capacity or demand in increments of whole megawatts ("MW"). This means that the granularity of offers into the EIS Market cannot be smaller than 1 MW. This limitation was not designed to erect a barrier to any type of participant and is consistent with the industry standards for dispatch and scheduling, but may potentially limit the ability of smaller entities to offer demand response into the EIS Market.

SPP anticipates being able to reduce significantly or eliminate this potential barrier in its Future Markets being developed at this time; however, SPP does not envision modifying the size requirement in the EIS Market prior to the implementation of the Future Markets.

The primary reason for not attempting to implement a different granularity at this time is that the EIS Market is a real-time market only and relies on five minute dispatch of resources. Because of the full effort at this time to develop the Future Markets, although potentially postponing additional opportunities for smaller demand response resources, SPP believes that the Future Markets will provide more cost-beneficial opportunities for demand response resources when implemented. Once these new markets are implemented, SPP believes that this barrier will be eliminated.

B. State Jurisdictional Issues

SPP's EIS Market serves part or all of eight states.⁷ Currently, the only state in the SPP footprint that has any retail competition is Texas, and outside of the Electric Reliability Council of Texas region, there is no direct retail access to the wholesale markets. This is not directly a barrier to comparable treatment of demand response; however, the integration of regulated retail demand response customers in a wholesale market requires coordination with the state regulatory agencies. To date, state retail regulatory commissions in Arkansas, Kansas, Missouri, and Oklahoma have opened dockets⁸ to investigate issues surrounding state laws and regulations with regard to wholesale demand response and aggregators of retail customers ("ARC"). These dockets generally are seeking comments from all interested parties regarding whether the laws and regulations of the states allow or prohibit participation of demand response and ARCs in SPP Markets. All dockets have been opened since the issuance of Order No. 719, and all currently await final ruling by the Commission on SPP's pending filings in Docket No. ER09-1050.

SPP currently recognizes controllable load as a wholesale resource and has approximately 1,500 MW of controllable load, cogeneration, and behind-the-meter generation participating in its EIS Market, producing over 5,000 GWh (including 50

⁷ The states with Market Participants are: Arkansas, Kansas, Oklahoma, Texas, New Mexico, Nebraska, Missouri, and Louisiana.

⁸ Docket numbers are: Arkansas Docket No. 09-090-U; Kansas Docket No. 10-GIME-215-GIE; Missouri Docket No. EW-2010-1087; and Oklahoma Docket PUD 20100043.

MWh of load reduction) during 2009.⁹ Clearly, there is some level of participation by demand response resources in the EIS Market; however, the relatively low level of load reduction to date indicates that there is a lack of participation of this type of demand response. The current level of participation by load reduction resources in the wholesale market can be partly attributed to the fact that retail customer participation in wholesale demand response has not been fully addressed by the states, and until these issues are resolved, they remain potential barriers to full participation and comparable treatment of demand response resources at the wholesale level. Additionally, the low participation of load reduction resources in the wholesale market is not indicative of a lack of participation in the retail demand response market.

C. Technology Issues

Advanced metering technologies sufficient to facilitate participation of demand response resources do not currently exist to a large extent in the SPP footprint at the retail level. Oklahoma Gas and Electric Company (“OG&E”) is currently installing more than 21,000 “smart meters” in three areas of Oklahoma, and has asked its state regulators to approve plans to expand the program statewide. At this time, this can still be considered a barrier to increased participation of demand response resources due to the need for adequate measurement and validation.

⁹ See Informational Status Report Concerning Incorporation of Demand Response in SPP Markets and Planning of Southwest Power Pool, Inc., Docket No. ER06-451-000, at 4 (Mar. 1, 2010).

D. Retail Rates

The SPP footprint has traditionally had some of the most competitive retail rates in the U.S. In a report released in January 2010 by the U.S. Energy Information Administration (“EIA”),¹⁰ the average retail residential rate in SPP’s states for the calendar year 2008 was 17% below the national average. Average retail commercial rates were 26% below the national average, and average retail industrial rates were 8% below the national average. While this is certainly not an undesirable circumstance for SPP’s Members and their retail customers, it does have the effect of dampening the desire for customers to consider offering demand response. Of course, the goal is not to raise retail rates to the national average simply to provide a price signal to encourage demand response, but instead to find segments within the SPP Region that are uniquely positioned to participate in demand response in the EIS Market.

For example, exceptionally large retail discount stores that can control their loads present a potential opportunity for increased demand response in the SPP EIS Market, as such customers have been engaging in demand response at the retail level for many years. The opportunity for these customers to participate in the wholesale markets has not been fully investigated by SPP, which presents an opportunity, particularly for ARCs, that has not been widely discussed to date. Much will also depend on how the state laws and regulations in the SPP Region are determined to apply to ARCs and to address related issues such as double compensation.

¹⁰ U.S. Energy Information Administration, Table 5. Average Monthly Bill by Census Division, and State 2008 (“2008 EIA Retail Price Report”), *available at* <http://www.eia.doe.gov/cneaf/electricity/esr/table5.html>.

III. COMMUNICATIONS

Correspondence and communications with respect to this filing should be sent to, and SPP requests that the Secretary include on the official service list, the following:

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IV. SERVICE

SPP has served a copy of this report on all parties of record in Docket No. ER09-1050, all SPP Members and Customers, and all state commissions in the SPP Region. SPP also has posted a copy on its website (www.spp.org).

V. CONCLUSION

In conclusion, SPP acknowledges that there are opportunities for more robust demand response in the SPP footprint, and there are several bright spots to build upon for SPP. The development of additional wholesale markets in the next few years will present significant additional opportunities for development of demand response. Other organized markets, particularly those with day-ahead ancillary services markets, have more robust participation. The SPP Future Markets design, if approved, will aid in opening more participation opportunities and comparable access for demand response resources within SPP. To enable potential market participants to participate, one SPP member, OG&E, is already installing smart metering technology today that will have an educational effect on other areas of SPP. SPP has been fortunate to have members with low-cost retail electric service, and SPP will continue to work with those members and

other interested parties to identify segments of customers that have unique abilities to participate in demand response. State regulatory challenges are just that – not barriers in the traditional sense – but challenges that will involve continual education of all affected parties and coordination by SPP to ensure that the Order No. 719 requirements are clearly understood and the benefits of wholesale demand response participation are clearly communicated to state commissions and other retail regulatory authorities. SPP has coordinated with utilities, state commissioners, and other interested parties to consider provisions for participation of demand resources in its markets and planning and will continue to work together to eliminate any remaining barriers to comparable treatment of demand response resources. SPP has been and will continue to be responsive to the Commission’s directives in Order No. 719, particularly in Docket No. ER09-1050.

Respectfully submitted,

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Document Content(s)

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