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Good Morning Commissioners. Thank you for inviting me to speak today on demand response.

New England is a success story when it comes to developing demand response. However, success does not come over night – nor does it come without significant effort and cost.

New England's experience demonstrates the value of initiating and evolving demand response programs – but ultimately the objective is to fully integrate these resources into the market, since this will ensure that they compete on an equal footing with supply and improve overall market efficiency.

Since the ISO began operations, demand response capability has grown from approximately 100 megawatts to almost 1,000 megawatts. The key drivers behind this growth are worth mentioning: the establishment of a Demand Response department in 2002; the opening of LMP markets in 2003; a gap Request For Proposals to maintain reliability in Southwestern Connecticut; a winter supplemental program after the January 2004 Cold Snap; and, transition payments related to the Forward Capacity Market (“FCM”).

This is an impressive expansion in a relatively short period – and it illuminates the elements for success in growing the demand side resource base.

- First, the establishment of a robust wholesale electricity market that sends locational price signals.
- Second, an unwavering commitment to the integration of demand resources into the markets by the FERC, the ISO, the state regulators and the industry. This includes the establishment of a dedicated staff within the ISO.
- Third, demand response resources, like power plants, must be compensated for the value they provide to the market. Like traditional supply resources, demand response requires investors to recover costs and earn a return. Unlike traditional supply resources, however, the value provided by demand response is for the most part established by programs and not by the market. The challenge is to transition from programs to direct participation in the markets so that the price and the amount will be determined by supply and demand.

The New England region has little choice but to fully exploit its demand response and energy efficiency potential. Siting has become increasingly difficult, the Regional Greenhouse Gas Initiative (“RGGI”) will limit carbon emissions beginning in 2009, continuing concerns exist about the heavy reliance on natural gas for power generation, and New England’s peak demand grows significantly faster than its overall consumption.

By the time of the FCM Settlement Agreement last year, the region was ripe to take a major step forward to further develop the demand side of the market.

Beyond appropriate compensation, the FCM market design provides greater certainty for new demand resources through its three-year forward planning process and by providing a five-year commitment.

Our early “show of interest” for the first auction has been robust with over 2,400 megawatts of demand resources including energy efficiency programs responding.

Yet disconnects between wholesale and retail electricity markets remain and untapped potential for naturally occurring demand response persists. While load-serving entities participate in the wholesale energy market by bidding in the maximum price they are willing to pay for energy, the products purchased on behalf of the vast majority of retail customers do not encourage such participation.

Short-term fixed-priced contracts serve most residential and commercial customers. Injection of dynamic pricing into these contracts so that the actual cost to produce electricity at different times of the day and year will reach retail customers is necessary to realize this potential.

It sounds logical and easy. But barriers to participation exist including the need for more advanced metering and billing systems, aligning the incentives for distribution utilities, and the need for customer education on the benefits.

Given the region’s energy goals and pressures, combined with the experience that has been developed through demand-response programs and markets, we are confident that the region is poised to further increase the level of direct customer participation in the markets.

Thank you.