

FERC Demand Response Technical Conference

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Comments of Joyce Reives

DPL Energy Resources (DPLER), a subsidiary of DPL Inc., has been operating as a Competitive Retail Electric Service (CRES) provider in the State of Ohio since January 2001 when generation service became competitive. As the largest CRES provider in the area, DPLER has extensive experience working with commercial and industrial customers. Therefore, it seemed a natural progression to expand our service offerings to include demand response initiatives. DPLER became a Curtailment Service Provider (CSP) in March 2008 and is actively promoting PJM's demand response programs. While current focus is on customers in the Dayton Power and Light region, there is intent to expand into other areas, including areas under the control of the Midwest ISO, once formal programs are up and running.

DPLER is supportive of the concept of demand response and appreciates the Commission's objective of increasing its use and worth. We believe that demand response can prove a valuable resource in managing supply, minimizing volatility in wholesale markets and giving customers more control over energy costs. As an affiliate of a utility, we are sensitive to all aspects of the issue and, therefore, feel uniquely qualified to opine on the issues surrounding demand response. Specifically, in response to the Commission's request of addressing barriers, we offer two areas worth further review.

First, one of the largest barriers we've seen in our efforts to promote demand response is a general lack of understanding on the customers' part regarding price signals connected to the wholesale market. While there are some exceptions for customers served by CRES providers, end-users, for the most part, do not see price signals reflective of the wholesale market. Most retail rates are a legacy of historically regulated, fully integrated utilities.

Pricing options such as time of day rates, real time pricing and critical peak pricing are not widely available. Principally, customers simply incur the same price for electricity regardless of when it's consumed. This is one reason customers do not generally understand that the cost to produce electricity varies widely. They do not understand that the value of electricity varies. They do not understand that a wholesale market, complete with price signals, exists. Demand response programs (in PJM) link the wholesale market, and its price signals, to the retail market. It's a valid objective, but one the customer has a hard time understanding. Therefore, price signals more reflective of wholesale generation markets would help bridge the gap that exists now and, accordingly, would advance the understanding and acceptance of demand response. In fact, if retail customers faced real-time market prices, demand response would be inherent and special programs unneeded. While we recognize that scenario is years away, there are some transitional steps that could occur. To summarize, we believe price signals in the retail market need to catch up to those in the wholesale market. The lag delays customer understanding of the objective and value of demand response and, therefore, restricts commitment to participate.

Second, we believe an issue exists in that compensation should only be earned as a result of real reductions in demand. Some programs, including those in PJM, have struggled to ensure that the curtailment is strictly a response to a PJM event. In addition, where a capacity payment is awarded for having the ability to curtail, penalties are not significant enough to deter those "playing the odds". PJM has been fortunate in that few system emergencies have occurred and, therefore, few emergency orders to curtail have resulted. While this is good news for reliability, it has not served to verify that all of the demand response resources enrolled truly have the ability and intent to curtail. DPLER is an affiliate of a generation provider. Therefore, we are aware of all dimensions of the demand response issue. Retail customers, in affect, pay for the benefit of demand response through their retail rates. As such, the utility has a right and an obligation to ensure that the benefit paid for is received. Again, we do believe there is real value associated with demand response. We, as a CSP, only enroll customers that genuinely

have the ability and intent to curtail. However, we have spoken with customers who have a different “perception” of the opportunity based on interactions with other CSP’s. While this is an area that PJM has worked to remedy, we believe there is more work to do to certify and police CSP’s. This would ensure proper compensation for real demand response and, therefore, allow all parties to embrace the concept.

Again, we support the Commission’s commitment to demand response and appreciate the opportunity to engage in meaningful dialogue.