

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

**Demand Response in Wholesale Markets  
Docket No. AD07-11-000**

**TESTIMONY OF  
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**Thank you for providing me with the opportunity to speak today. I am Bernie Neenan, Vice President of Pricing and Demand Response for UtiliPoint. I will direct my remarks to the questions posed to this panel, however not in the order that they are listed in the agenda, and not with the same degree of emphasis.**

**For example, as a confirmed neo-Luddite, who believes that the last truly useful technological advance was the corkscrew, I will leave to others the discussion of the role and value of technologies that enable demand response. Some see technology as the answer. For others, like me, it is still an opportunity, the benefits of which are not yet fully understood.**

**What has been my experience with ISO/RTO demand response programs? In a word: Exhilarating. Because of the efforts of ISO/RTOs in the past seven years, thousands of customers have responded to price signals that reflect contemporaneous market conditions. The consequences have been valued in the hundreds of millions of dollars. I have found ISO/RTO staff to be open to new ideas, fast to find creative solutions, and appreciative of thoughtful and purposeful analysis, but not afraid to just try things out. Market stakeholders with diverse interests have demonstrated the ability to resolve their differences through fact-finding, diplomacy and the earnest pursuit of self-interest that makes markets work so much better than regulation.**

**Is further integration required? ISO/RTOs programs already are fully and artfully integrated into the technical and economic fabric of the many wholesale markets. In some cases, price and demand response resources are virtually indistinguishable from their generation counterparts for purposes of scheduling, dispatch and remuneration. The equal pay for equal performance doctrine that guided the**

**development of the requisite market protocols ensured that outcome.**

**The question of integration may be motivated by that for some the term program is disparaging, suggesting that ISO/RTO initiatives are transient or transitional. Perhaps that is the appropriate treatment for some of the ways in which load is treated as a resource.**

**Take the case of direct bidding of load curtailments into wholesale energy spot markets, which has generated intellectual lightning and thunder to the degree that rivals that of a hot summer afternoon in the South. This issue has been a boon for economists and those that torment them. The principle is admirable. Direct bidding influences LMP formation head on through dispatch and price setting operations because these loads are treated as resources. However, the same result can be achieved spontaneously by customers adjusting loads under pricing plans offered by LSEs that link usage prices to supply costs in ways that benefit both, as utility RTP programs have demonstrated. If they are equivalent, which is preferable?**

**The debate over how to measure the benefits of direct bidding continues. To some, customer bill savings from lower LMP volatility are net benefits that are rightfully considered for policymaking purposes. Others condemn them as transfers that represent a redistribution, not and an augmentation, of societal welfare that can have unintended and adverse consequences.**

**Conversely, spontaneously price response by its nature benefits those that undertake it, without the need for an additional financial inducement, and other consumers realize welfare savings as a bonus. A later panel will discuss the problems of measuring performance of direct bidding, which is not an issue with spontaneously occurring demand response.**

**I was an early and outspoken advocate for allowing customers to bid load curtailments as resources into the day-ahead market as an alternative to generation resources. The shortcomings seemed to be tolerable, at least for a while, because I considered this a stopgap measure, one of many market transformation initiatives that serve as placeholders while retail market alternatives were devised and matured.**

**Widespread participation in and persistent response to retail pricing plans has not materialized. The issue we face now is to ascertain how direct curtailment bidding contributes to, or acts as a deterrent to, the promulgation of such pricing plans. Does direct bidding serve to introduce customers to new behaviors that they then exercise spontaneously, or do RTP-type default service programs accomplish that result better? There is little evidence to support or defeat either notion.**

**Are the terms of direct bidding, which in effect socialize the costs, better than any retailer can offer? If that is the case, then the benefits from direct bidding are at the expense of potentially much larger gains from spontaneous price response. Alas, we cannot establish the truth or fallacy of either proposition. Resolution of the long-term role of direct bidding will clearly require greater coordination between ISO/RTO and state regulatory agencies.**

**Finally, is greater coordination needed between wholesale and retail markets? My answer is that coordination will be sufficient when sellers and users of electricity engage so vigorously that prices truly reflect the value of the resources committed that we eliminate price caps and other restraints to price formation. In other words, when the Market Monitor becomes like the Maytag repairman, forgotten, forlorn and forsaken. Fostering demand response will speed up the arrival of that day.**