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Wisconsin Public Service Corporation ("WPSC") has used demand response to provide customer value for a number of years. This is becoming more important as electric rates continue to escalate. It is also important that these demand response programs are cost based and do not contain subsidies, which only goes to increase the already rising costs for non participating customers.

WPSC has approximately 13-15% of its load as interruptible for both economic and emergency purposes. These are legacy retail and wholesale programs that are used as part of WPSC's resource adequacy requirements that customers are obligated to interrupt for system emergencies, including those declared by the Midwest ISO. Failure to do so results in penalties.

WPSC has also installed an automatic meter reading system that is capable of obtaining hourly information from all of its customers. This has enabled WPSC to implement additional demand response programs, including critical peak pricing programs for both commercial and residential customers, to provide better price signals during the high load and price time periods to allow customers to make economic decisions regarding consumption of electricity. These programs do not

require customers to interrupt and contain no penalties for not interrupting or reducing load, only the incentive of avoiding a high cost per kWh.

Customers abilities and desires to interrupt load varies significantly across customers and even can change significantly for a specific customers depending upon sales, equipment availability and/or time of year. We believe that both mandatory interruptible programs and voluntary demand response programs have a place and value for the electric system, though the values are different and this difference needs to be reflected in the retail demand response programs and tariffs.

We believe that the role of the Midwest ISO is to provide the appropriate price signals to encourage the construction of the needed generation capacity in the Midwest ISO footprint and/or demand response programs to allow the grid to operate reliability and serve firm customers at times of system peak. We believe that a formal capacity market similar to PJM's RPM would be appropriate and support the advancement of demand response. Having an efficient, transparent market value for capacity could be used by load serving entities such as WPSC to value capacity and reflect this capacity value as credits in the legacy interruptible programs. While I am not intimately familiar with all of the details of the PJM forward capacity market, it appears that demand response has been very active in both the PJM and ISO NE capacity markets.

One of the concerns that have been raised about demand response is the lack of predictability of whether the response will actually occur. There are a few issues that we believe need addressing.

First, the amount of load to be interrupted is best understood by the Load Serving Entity (“LSE”). The LSE has real time metering information for the larger customers on the interruptible programs and is aware of the customers’ operations. The Midwest ISO would not be in a position to have similar knowledge and information. This creates issues with the Midwest ISO’s understanding of the amount of load that can be shed at any one time and for any duration. For example, an LSE may have a retail customer with an interruptible load, normally at 10 Mw. On a particular day when an EAA2 event is being contemplated, the retail customer may only actually have 2 Mw of load. The Midwest ISO can’t expect to get 10 Mw of load reduction from that customer at that time as the customer has essentially “pre-interrupted” 8 Mw of load.

Currently there is a lack of audit and verification by the Midwest ISO that load serving entities actually invoked interruptible programs upon its declaration of an EAA2 event. Since interruptible load may represent a small portion of a load serving entity, simply reviewing the aggregate load shape of the LSE is not sufficient to verify if the interruptions were invoked. If Midwest ISO includes retail demand response in its resource adequacy construct, it needs to audit and verify

interval data and firm or interruptible nominations of retail customers that represent the interruptible load submitted as a capacity resource

Second, the financial consequences for failure to interrupt load during an EEA 2 event is not known at this time. Many of the LSE legacy programs have financial penalties for failure to interrupt the sufficient amount of load, the penalty for WPSC's tariffs are an approximate loss of interruptible demand credits for 13 months. Not having clear and well defined financial consequences for failure to interrupt is not sustainable and is very problematic. WPSC and other LSE's should be and have been modifying retail tariffs to reflect the wholesale market prices and procedures. Updating of the interruptible tariffs to reflect a Midwest ISO or market cost for non compliance is not possible at this time as the cost for non compliance is not known. This needs to be addressed soon.

Finally, the administration of the spot energy market provides the Midwest ISO the capability of providing transparent price signals to the market that accurately reflect the cost of providing the energy. The Midwest ISO is in a unique position to do this, and by providing accurate price signals, enables load serving entities, aggregators, regulators and others to design and implement cost effective demand response programs and policies. Unfortunately, the true cost of providing energy is sometimes masked by not allowing the locational marginal prices to reflect the true cost of providing such energy. Instead, a portion of the costs is uplifted across the entire market in a variety of ways. This blunts the true

reflection of the actual costs and should be avoided whenever possible, effective and efficient. Specifically, pricing of the revenue sufficiency guarantee, revenue neutrality, ancillary services, and losses should be, as much as possible based on cost causation.