

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

National Action Plan on Demand Response)

Docket No. AD09-10-000

**PREPARED OPENING REMARKS
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November 19, 2009

Good afternoon Chairman Wellinghoff, Commissioners and staff. My name is John Haney and I am the Director of Demand Side Management Programs for Florida Power & Light Company (FPL). FPL recognizes the considerable effort and emphasis that the Commission has placed on developing the National Action Plan on Demand Response (National Action Plan) and appreciates the opportunity to participate in today's discussion.

FPL is one of the largest and highest-performing electric utilities in the nation. We serve approximately 4.5 million customers throughout the state of Florida. Our primary mission is to offer our customers affordable, reliable, clean-energy solutions to meet their energy needs. One of the primary ways we achieve this is by offering a multitude of cost-effective energy efficiency programs to help our customers use energy more wisely and lower their bills.

FPL has long been a champion of Demand-Side Management (DSM) – and Demand Response (DR) in particular. We've offered DSM to our customers for 30 years and our program has deferred more MWs than any program in the nation. Our load management program, which based on the *Discussion Draft* terminology, falls into the "dispatchable" classification, includes over 800,000 customers making it the largest in the country. Based on this experience, we would like to offer some practical and pragmatic ideas

regarding designing and executing effective DR programs in a disciplined manner which can help form recommendations for the National Action Plan.

The key challenge for the National Action Plan is to determine how to best support tapping the potential DR while **one** recognizing and accommodating the legitimate differences in regional, company and customer requirements across markets and **two** not creating unintended consequences.

Speaking to the latter first, the two most obvious problems that can occur are:

- First, **capacity shortfalls** stemming from over-reliance on insufficiently-tested response capabilities. In other words, a company defers its investment in needed supply-side resources by relying on DR resources that may ultimately prove to not be sufficiently reliable or sustainable. Supply-side replacement typically requires a long lead time and results in a de-facto double payment for the needed resources; and
- Second, **customer and political backlash** caused by either resulting cost increases or reduced quality of service. It should be recognized that many customers perceive “managing” their own energy usage as an added nuisance and therefore lower service quality. Companies, of course, try to offset this with financial incentives or the like, but maintaining the long-term value balance does entail risk.

In the past there have been failures of well-intended programs. In order to not make the same mistakes, all providers must thoroughly test planned DR programs and effectively and proactively communicate program parameters, benefits, and mutual obligations to customers, and possibly regulators.

As with any program, the key to successful execution requires identifying and addressing a myriad of details. But I want to focus on just three critical, and interrelated, issues that the National Action Plan should reflect:

#1 Determine True “Usable” DR – The first issue I’d like to address is that there is a practical limitation on the amount of *new* DR any utility can and should use. There are three key points that a utility must address:

1. the potential demand response available;
2. the amount of usable demand response on their electrical system dictated by load shape;
3. the amount of demand response that is appropriate from a system reliability perspective

The *National Assessment of Demand Response Potential* report (Assessment Report) does a very good job of addressing the first point. The remaining two issues should be addressed by individual utilities and are based on the fact that there is a practical limitation on the amount of new DR any utility can and should use. These two critical constraint factors must be applied to refine the results presented in the Assessment report.

#2 Determining What Works Best – As I mentioned at the outset, FPL has a large and growing DR program. Additionally, our current plans, as part of our “Energy Smart Florida” smart grid initiative, include system-wide deployment of advanced metering infrastructure (AMI) and testing of pricing (or “non-dispatchable”) alternatives to assess their DR benefits. For us, DR price signals could act as a substitute or complimentary product offering to load control. However, there are still many unknowns, for example:

- Which is the most cost-effective way to achieve customer and company benefits?
- Will the customer responses to price signals be persistent over time, or will “response fatigue” set in and the DR levels erode?
- What pricing structure(s) best meet our customers’ and company’s needs?

It is critical that we thoroughly research these questions in order for system operators to be able to rely with certainty on this DR resource over the long-term. Absent proven reliability, it is certain that capacity problems and backlash will ensue. What works well for FPL in Florida may not be the optimal plan

elsewhere. This is where a coalition could be of great service to act as a clearing house of current information.

#3 Timing Considerations – The industry today has limited experience with DR pricing mechanisms. And broader application, in part enabled by the Department of Energy’s (DOE’s) smart grid grants, will not be possible until the AMI infrastructure is deployed and trials are conducted. Wide-spread AMI deployment is 3-5 years in the future. The prudent course, in the interim, is for companies to take this opportunity to conduct pilot programs to understand what benefits they can achieve given their local system situation and customers.

Given this information, let me close by discussing our view of how the Commission can best support the continued development of DR. The 3 overall strategies presented in the *Discussion Draft* are reasonable. But more important than *what* is done will be *how* it’s done. As discussed, the nation has a mix of relatively mature and nascent programs and this will necessarily remain so for the foreseeable future. To be effective and accelerate DR adoption, the planned assistance needs to align with the varying experiences of those companies.

Direct load control remains very much a proven and viable product whose further growth should be promoted as a foundational DR resource. Experienced firms are likely already doing this effectively. But those with more limited DR backgrounds may benefit from support. Encouraging adoption here more likely requires working with utility operations, such as system operators, so they can become comfortable that these DR resources will be there when called upon.

True DR pricing mechanisms, as distinguished from traditional time-of-use and similar programs, have to date only had limited pilot testing. Though promising, their persistence and reliability is as yet unknown. The good news is that the next few years will present the opportunity to evaluate various alternatives through

company-specific research and trials on a broader scale as AMI begins to be more widely deployed. Since there are no long-term experienced operators today, the dissemination of others' experiences and tools amongst providers could prove valuable to many.

The Commission could support these programs through gathering and disseminating results from successful programs. Additionally, a coalition or group of experienced utility operators could be established to deliver this information and begin carrying out the objectives articulated in the Energy Independence and Security Act of 2007. When needed, this could also serve as an effective delivery channel for customer education and communication of best practices.

In sum, the primary objective should be to collect and disseminate the lessons learned – successes and failures others have and will experience – so that effective, tailored programs which deliver value to customers and companies alike can be developed by all. FPL would like to offer the Commission its assistance in helping further these goals. Thank you again for the opportunity to appear here today and I look forward to answering any questions.