

# Collaborative Dialog on Demand Response

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## Q. Why Are We Here Today?

We Are Here Today To Launch a Collaborative Dialog Between the Federal Energy Regulatory Commission and The National Association of Regulatory Utility Commissioners to Explore the Steps Necessary to Establish an Efficient Regulatory Framework to Enable an Industry.

## Q. What Is That Industry?

A. That Industry Is Demand Response.

## Q. What is Demand Response?

A. Demand Response is the Ability of Electric Consumers, Industrial, Commercial, and Residential, to Modify Their Patterns of Electric Use at Times of Peak Electric Load to Both Effect Price and Reliability. This Activity Can Take the Form of Using Energy More Efficiently During Peak Times, Managing Loads to Ensure Minimization of Loads During Peak Times, Shifting Loads to Off Peak Times, or Even Using Self Generation on Peak.

## Q. Why Demand Response?

A. Demand Response Is a Necessary Component of an Efficient Market for Electricity. Without it Consumers Will Not Realize the Full Benefits of a Competitive Electric System.

## Q. How Will Demand Response Provide Additional Benefits to Electric Market Consumers?

A. Markets Function Best When Consumer Demand is Elastic and Supply Constraints Can be Mitigated. Reductions in Consumer Demand Through Demand Response Can Provide Regional Grid and Control Area Operators With a Valuable Tool to Check Price Spikes in Electric Markets, Reduce Price Volatility, and Save Consumers Money. For Example, PJM Estimated That the Use of Demand Response in One Week in August This Summer Saved Consumers \$650 Million.

Q. Do Consumers Need to Suffer Inconvenience and Reduced Energy Services to Provide Effective Demand Response to Electric Markets?

A. No. New Technologies and Techniques Are Available Such That Consumers at All Levels, From Industrial and Commercial to Residential, Can Effectively Participate in Demand Response Programs and Suffer Little or No Loss in Energy Services.

Q. But Shouldn't Consumers be Protected From High Peak Electric Prices?

A. Yes They Should. But That Protection Needs to Take the Form of Mechanisms for Them to Effectively Participate in Demand Response so That the Economic Benefits They Receive Will Offset or Even Exceed the Cost Increases That They May Experience From Being Exposed to Real Time Market Prices. In This Way Consumers Can be Protected While Electric Markets Can Still Function Efficiently.

Q. Why is a Regulatory Framework Necessary to Create This Industry?

A. Because for Demand Response to Become a Viable Part of Electric Markets it is Necessary to Establish the Appropriate Economic Signals for Business to Invest in Demand Response. Those Signals Include Both the Economic Signals to the Consumer of the Real Time Retail Prices in the Market and the Signals in the Wholesale Market That Will Reflect and Reward the Benefits Provided to the Grid by Demand Response Participants. These Are Areas for Both FERC and NARUC to Explore and Discuss.