

**VERMONT COMMENTS:
FERC/State Collaborative Dialogue on Coordination of
Electricity Demand Response Policies:**

I. Vermont State-Wide Demand Response Initiatives

In Vermont, the term "demand response" refers to several options which result in changes to customers' electricity consumption patterns. These include: energy efficiency services, interruptible rates, seasonal rates, and programs that allow customers to adjust their usage in response to price or reliability signals.

Energy Efficiency

Since 2000, Vermont has acquired cost-effective energy efficiency resources through our statewide Energy Efficiency Utility. This program has been highly successful in delivering a wide range of services to all types of customers, ranging from rebates for compact fluorescent bulbs purchased by residential customers to complex custom measures for large industrial customers. Vermont's Energy Efficiency Utility is responsible for cutting in half the State's electric load growth over the last 5 years. Energy efficiency now meets over 4 percent of our electrical energy needs.

In August of this year, the Public Service Board decided to significantly increase Vermont's investment in energy efficiency services, ramping up from the previous annual level of \$17.5 million to \$30.75 million in 2008. The Board has also determined that the additional funds should be "targeted," initially toward peak capacity reductions statewide, and ultimately toward energy and capacity reductions in certain geographic areas.

Interruptible Rates

Several Vermont utilities offer reduced rates to customers who agree to interrupt or curtail their load at the utility's request, either through special contracts or, more recently, tariffs.

Seasonal Rates

For many years Vermont experienced a much higher peak in the winter months than the summer months, due in large part to higher lighting and heating loads in the cold weather. During the 1970s, the Public Service Board approved seasonal summer/winter demand rates for many Vermont utilities in order to encourage efficient use of electricity in the winter months. These programs were very successful, leading to lower peak demand in the winter and discouraging the installation of electric heat. In recent years Vermont's summer peak has grown faster than the winter peak, largely as a result of greater air conditioning load. The summer and winter peaks in the state have now converged to the point where there is no longer a need for summer/winter rate differentials. Thus, most of these programs have been allowed to expire.

Demand Response Programs

Each Vermont utility that serves eligible customers now facilitates those customers' participation in the RTO-NE Load Response Programs (originally through special contracts which are now being converted to new tariff riders). The utilities withhold 30% of the payments to the customers to cover administrative costs. Some customers participate in the RTO-NE programs via 3rd-party providers such as EnerNoc.

II. New England Regional Efforts to Promote Demand Response:

Wholesale Energy and Reserve Market Demand Response Programs:

New England consists of a mix of states under traditional regulation and retail competition. All utilities participate in the electricity markets organized under RTO-NE. The New England states have long supported a vibrant wholesale market that includes active participation by demand response resources. The New England RTO, with support and participation from the states, offers many types of demand response programs including price responsive load programs and emergency load response programs in both the day-ahead and real-time energy markets. (See Connecticut comments for further information on RTO-NE demand response programs). In addition, demand response resources may now participate directly in the ancillary services markets (energy and real-time reserve markets and the locational forward reserve market).

Wholesale Capacity Program – Participation of Demand Resources:

The newest development in New England is the incorporation of demand resources in the design of a forward capacity market. Under a broad settlement approved by the FERC, demand resources, including energy efficiency, will now be able to compete against traditional supply-side resources and set the clearing price in a forward capacity auction.

During the transition to the new capacity market, all eligible demand resources and new energy efficiency resources will receive transition payments for capacity. RTO-NE, with active participation from the states and other stakeholders, is working on developing rules under which demand response and energy efficiency resources will be able to participate in the new capacity market on a par with traditional resources.

In the new capacity market, bids can be submitted by (1) supply-side resources (traditional generation), (2) intermittent resources (wind and run of river hydro), (3) real time demand response (dispatchable load management and distributed generation), and (4) other demand resources (these resources are referred to as ODRs and can include distributed generation, load management, and energy efficiency). Bids from a demand resource have to be a minimum of 100 kW aggregated in a Load Zone.

In the new capacity market demand resource types are defined by the way in which they reduce load. Demand resources must choose one of the following categories in order to place a bid: (1) On-Peak Demand Resource (e.g., non-dispatchable energy efficiency), (2) Seasonal Peak Demand Resource (e.g., non-dispatchable, weather-sensitive Energy Efficiency measures such as energy efficient air conditioning), (3) Critical Peak Demand Resource (designed for active Load Management and Distributed Generation that can be dispatched by the owner or the ISO), (4) Real-Time Demand Response Resource (designed for dispatchable Load Management and Distributed Generation), or (5) Real-Time Emergency Generation Resource (designed for dispatchable Emergency Generators only).

All resource types, once certified as eligible by the RTO, will have the ability to set the clearing price in the capacity auction. All capacity, including demand resources, must be available during a defined set of Performance Hours in order to receive capacity payments. Penalties are imposed for non-performance. The rules, demand reduction values, and Performance Hours will vary for each of the demand categories listed above.

The amount of capacity purchased in the auction is determined by the regional installed capacity requirement (ICR). ICR will be calculated so as not to double count the demand side resources expected to bid into the forward auction. This is so the region does not buy “too much” or “too little” capacity.

Including energy efficiency and other demand resources as long-term capacity is a new and innovative component of the wholesale market that moves the New England region much closer to the concept of parity for all resources. Measurement and verification protocols are being developed to ensure that the demand side resources meet common standards for inclusion in the market. It is important to note that the RTO does not require direct control over these resources for planning or operational purposes, nor is direct control required for participation in the new capacity market.

Vermont applauds both RTO-NE and the FERC for their leadership in promoting parity for all resources in the wholesale market.