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August 1, 2007

MEMORANDUM

TO: Power Committee

FROM: Ken Corum

SUBJECT: Progress on the Pacific Northwest Demand Response Project (PNDRP)

The Pacific Northwest Demand Response Project (PNDRP) was formed after discussions with the region's utility commissioners and representatives of Bonneville and public utilities. The objective of the project is to encourage the development of demand response in the region. The project is being facilitated by the Regulatory Assistance Project (RAP), assisted by Lawrence Berkeley Laboratory (LBL), funded by the U.S. Department of Energy. RAP and LBL have worked with similar regional efforts in New England, the Mid-Atlantic states and the Midwest.

The plan for PNDRP is to focus on three areas that the commissions identified as important to future development of demand response: 1) a method for evaluating cost effectiveness of demand response; 2) pricing structures that provide appropriate incentives for electricity users to adjust their usage at times when the power system is stressed; and 3) incorporating potential savings to transmission and distribution systems resulting from demand response, in utilities' integrated resource plans. At the first meeting of PNDRP (May 2) we agreed to form the work group to address cost effectiveness first, leaving the pricing and transmission and distribution groups to be formed once the cost effectiveness work group is organized and work is underway.

The first meeting of the cost effectiveness work group was July 11 at the Washington Utilities and Transportation Commission in Olympia. At that meeting ([link to agenda and materials at http://www.nwcouncil.org/energy/dr/meetings/2007_07/Default.htm](http://www.nwcouncil.org/energy/dr/meetings/2007_07/Default.htm)) we heard from Quantec about work they have done for PacifiCorp, and from representatives from PacifiCorp, Idaho Power and Puget Sound Energy about their approach to evaluation of demand response.

The crucial issue in evaluating cost effectiveness of demand response is the estimation of the costs avoided by demand response. We discussed categorizing approaches to that estimation as "screening" (a simple measure, e.g. \$85/kw-yr, when more complex evaluation is impractical) and "portfolio" (an evaluation that incorporates the interaction of demand response with the

whole power system, recognizing risk arising from variability in demand, weather, market conditions and the like) approaches.

The next step for this workgroup is consideration of a working proposal for a cost effectiveness methodology, being formulated by Chuck Goldman, consultant to PNDRP from LBL. We hope to conclude the work of the cost effectiveness work group by January of next year.