

# **Are Markets Ready for Supply and Demand Response Trading?**

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# Think about paradigms

- Life insurance was originally called death insurance
- The earth's North Pole points up
- The State of Virginia defined Pi as 3.00
- ISO perspectives define market success

“When all you have is a hammer, everything starts looking like a nail.”

# The Ringers in All Markets

- Volatility is needed to drive trading – it is good
  - Volatility, in general, has been lower these past few years
  - Traders have generally gone “long” more often
  - Short term instruments are being deemed less valuable
- Without long term buying requirements
  - Traders will not lock in longer term resources
  - Therefore, markets will not value the longer term
- Therefore, we have the Tale of Two Cities
  - Regulated markets: there is a market for DR
  - Unregulated markets: the business case is less clear
- There is of course a reliability market as well
  - Here, there are instruments to consider value – but it is low

# Where are we with traders?

- Traders are business people
  - The rules of the road dictate actions and they will follow
  - They love options ... the more the better
    - They want to know what they do and the risks
    - They want to know what they will cost
  - **DR options have to look like supply side options**
  - Oh sure, they will pull every lever when against the wall
- Most DR platforms are not trader friendly
  - Traders are intrinsically lazy – just want to buy and sell
  - Don't ask them to think or calculate anything
  - Always think in terms of premiums and exercise prices

# Where are we with the resources?

- We are making progress on some fronts
  - Large customers are trading efficiently
  - Very small customers are beginning to trade well
  - The middle group is “waiting for the right offer”
- Switches on HVAC/Pool Pumps, etc.
  - We are “there” in most cases for reliability purposes
  - We are still not quite there in hourly trades
  - What good is it to dec at \$150 and then inc at \$140
  - We need more volatility to improve the business case
- We all face a DR showdown on gaming
  - Too many of the “successful” programs are shams
  - We will all suffer when someone looks under the hood

# Work still needs to be done

- Define realized costs and benefits
  - Keeping all parties whole in the value chain
  - ALL net load shape change impacts
  - How about “Dec NZ and INC AU”
- Define rights of ownership and P-V relationships
  - RTP as currently defined is inadequate with LMP
  - Is LMP the right model over time?
- ISO mechanisms are not market mechanisms
  - 90+% of the market is forward
  - ISOs are balancing and reliability markets – not THE market
- We shouldn't be surprised then ... we still haven't figured out how to get THE MARKET into the action!

# Where should we be going?

- Move past all the PILOTs
- Energy marketers (retailers)
  - Should have DR as a differentiator
  - But, are the most elastic customers the best?
  - Are the least elastic customers the best?
  - Our simulation indicates neither ... hmmmm
- Regulatory agencies and politicians
  - Paradigms about “protecting customers” are flawed
  - Lack of political will is just like permissive parenting
- ?
- ?