

**OMS Commissioners and Staff Members Are Invited To Attend  
The Midwest Demand Response Initiative  
Kick-off Steering Committee Meeting**

**Friday, February 9, 2007**

**Time: 9:30 a.m. to 3:00 p.m. CST**

**At the Illinois Commerce Commission Offices  
Main Hearing Room – 8<sup>th</sup> floor  
160 N. LaSalle Street, Chicago**

Dial In capability will be available for this meeting. Call: **877-452-6418** Code: **701-328-2400**

**The OMS Board of Directors voted at its January meeting to reimburse the travel expenses of two commissioners and one staff member per state attending this meeting.**

**ATTACHMENTS:**

- Meeting Agenda
- Travel Information with Hotel List
- Letter explaining MWDRI
- OMS Travel Approval Request Forms & Reimbursements

Chairman Norris and Commissioner Lieberman would like to extend to you an invitation to attend the first Midwest Demand Response Initiative (MWDRI) *Steering* Committee meeting on Friday, February 9, 2007. You may also be interested in learning about the MWDRI--an initiative that will focus on the retail market.

The two initiatives are complementary. The MISO Demand Response Task Force is focusing on the wholesale market. The outputs from the Task Force will have a direct impact on the market participants in the wholesale market, which in turn will impact the retail markets in the respective MISO states. But, recent studies have demonstrated that demand response relies on a strong connection between wholesale and retail markets and regulation. Demand Response cannot be done just at the wholesale level. Despite their best efforts and intentions, neither FERC nor the RTOs can create robust demand- and price-responsive retail markets. Customers do demand response. **Regulated local utilities need to promote demand response. Retail pricing is the sole responsibility of state regulators.**

Unfortunately, the policy, programs and knowledge to create a robust demand- and price- responsive retail market are not yet in the regulatory toolkit of most Midwestern states. Regulators need to learn how to do it. That is one of the primary objectives of the MWDRI.

The purpose of the MWDRI is to build upon and expand the work of the New England and Mid-Atlantic Demand Response Initiatives. **Working with the Organization of MISO states and MISO itself, MWDRI will help Midwest state commissions and policy makers quantitatively and qualitatively understand the value and the necessity of a region-wide demand- and price-responsive retail market capability while also addressing the two barriers discussed above: building the knowledge base among Midwestern regulators, staff and stakeholders about how to create such a market; and building the will to do it together while sharing the benefits of a more efficient market. The MWDRI concept is explained in more detail in the letter that is attached.**

A copy of the agenda for February 9<sup>th</sup> is also attached. **The morning session** will be open to all participants. The **afternoon session** will be open to state commissioners, staff and associate members of OMS.

Please Contact Mary Collins at the Illinois Commerce Commission to register for this meeting.  
Mary Collins - (312) 814-1628 (work)  
Policy Advisory to Commissioner Lieberman 160 N LaSalle Street, Suite C-800 Chicago, IL

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Robert F. Lieberman  
Commissioner

160 North LaSalle Street  
Chicago, Illinois 60601

October 16, 2006

Letter to MISO Commissioners:

I have been with the Illinois Commerce Commission approximately 18 months and before that spent ten years running the Center for Neighborhood Technology in Chicago, where we developed and managed community-based energy efficiency and demand response programs. Over that period of time, I have observed significant changes in the electric industry. One of the most striking—and perhaps under-appreciated—is the urgent need to strengthen our wholesale markets and deliver benefits to retail customers by developing a robust regional demand response capability within our retail markets. I have been monitoring with interest the outputs from the New England Demand Response Initiative (NEDRI) and the Mid-Atlantic Demand Response Initiative (MADRI). I believe that it is now time for the Midwest states to take similar regional action to address this important regional issue and create a Midwest Demand Response Initiative (MWDRI). The following pages reflect my initial thoughts on why this Initiative should be undertaken and what we can hope to accomplish.

I am sending you this letter in the hopes that you also believe that this is an Initiative that should be undertaken and join me as a member of the Steering Committee.

**Resource Adequacy in the Midwest—Seeking the Balance between Demand Response and New Supply-Side Investment**

As Benjamin Franklin said, on the signing of the Declaration of Independence, “We must all hang together, or assuredly we shall all hang separately.” State regulators in the Midwest need to work together towards the goal of building a broad customer-based demand response capability with retail price-responsiveness, or they will assuredly face a future of separately approving the pass-through of higher and higher wholesale electricity prices.

Against the backdrop of rising energy prices, shrinking regional reserve margins and new regional wholesale electricity markets, the value of robust demand response programs and price-responsive markets is becoming increasingly clear, for states both restructured and vertically integrated. Without a retail market that responds to price increases with dynamic reductions in demand, regulators in the Midwest will soon face an electricity system seriously out of balance—demand will outstrip supply and wholesale and retail electricity prices will rise further. As wholesale market price caps become institutionalized and administratively-determined

capacity markets become the norm, states will continue to cede regulatory authority — intentionally or otherwise—to new regional organizations regulated solely by FERC with only a vague accountability to the states they serve. Retail customers will pay for new generating plants before they are built, and with no guarantee that investment in new capacity will actually occur, or produce appropriate fuel diversity.

A robust demand and price-responsive market would discipline wholesale markets by reducing generators' market power, moderating price spikes and volatility, and reduce the need for investment in expensive new power plants and transmission lines. As a result, demand response would lower average prices for everyone, in both restructured and vertically integrated states.

But there are at least two significant barriers to the creation of such a market in the Midwest.

The first is that, despite their best efforts, inclinations or intentions, neither FERC nor the RTOs can create robust demand- and price-responsive retail markets. Retail pricing is the sole responsibility of state regulators. As the authors of the recent draft competition report to Congress said:

“...an important component of effective market operation is customer response to prices. The demand for power ... is derived entirely from consumption choices at the retail level... Yet state regulators set the prices for retail customers. State regulators generally have treated wholesale rates as an input into retail prices...” (p.44)

The policy, programs and knowledge to create a robust demand- and price- responsive retail market are not in the regulatory toolkit of most Midwestern states. Regulators need to learn how to do it.

The second barrier could be the more difficult one. Even if state regulators learn how to create and implement robust demand response in retail markets, it is challenging to capture the value of these actions for our retail consumers. For eighty years, individual state regulation operated independent of the actions of other states—Illinois largely ignored what Indiana did, and vice versa. Now, with each state a relatively small portion of the demand in a large regional wholesale market, an individual state's work to foster a price-responsive retail market will have only a small effect on disciplining the wholesale market, and the benefits that do occur will flow to all retail customers across the Midwest. This market scale problem combined with the “free-rider” problem has justified state regulatory inaction for years.

## **The Need for a Midwest Demand Response Initiative**

To address these two barriers, I invite you to join me in establishing a Midwest Demand Response Initiative. The purpose of this initiative is to build upon and expand the work of the New England and Mid-Atlantic Demand Response Initiatives. Working with the Organization of MISO states and MISO itself, MWDRI will help Midwest state commissions and policy makers quantitatively and qualitatively understand the value and the necessity of a region-wide demand- and price-responsive retail market capability while also addressing the two barriers discussed above: building the knowledge base among Midwestern regulators, staff and stakeholders about how to create such a market; and building the will to do it together.

A MWDRI process, building on the NEDRI and MADRI foundation with the assistance of committed DOE funding, could be up and running by January, 2007. Eighteen to twenty-four months later, we hope MWDRI can claim the following accomplishments:

- Create the tools necessary to visualize and value a robust price-responsive retail market in the Midwest
- Estimate the value of implementing such a retail market, from a price, cost and resource adequacy perspective
- Inventory current status of price-responsive programs in the region including but limited to distributed resources, advanced metering, pricing, demand-response technologies and energy efficiency.
- Create prototype program and rate design options to help state regulatory commissions achieve MWDRI objectives
- Develop consensus for state advocacy to align wholesale market value with retail price-responsive initiatives
- Develop consensus strategies for regional and state implementation

For this initiative to be effective, it must be connected to our states' public utility commissions. It is the PUCs—acting singularly and—hopefully, jointly—that will implement pricing and programmatic initiatives at the customer level to create a robust price-responsive retail market. The Midwest PUCs are currently working on regional issues through OMS. We envision building on this existing framework to further develop the demand response work that has been initiated through the OMS. Since it will be up to the PUCs to advocate these regional reforms, it will be critical for them to present a unified voice. I believe that the work that can be done through the MWDRI can accomplish that objective. It is for this reason that I would like to see at least one Commissioner from each state in the Midwest on the MWDRI Steering Committee.

If you would be willing to provide your expertise, assistance and leadership by becoming as a member of the MWDRI Steering Committee, please acknowledge by sending me a signed copy of the signatory page (below) with your contact information. With your help I hope we can achieve the appropriate balance of electric supply investment and demand response in the Midwest.

Sincerely,



Robert F. Lieberman  
Commissioner  
Illinois Commerce Commission

I am pleased to be a signatory to the Midwest Demand Response Initiative (MWDRI) and I am willing to serve as a member of the Steering Committee.

Signed \_\_\_\_\_ Date \_\_\_\_\_

My Contact Information:

Business Phone:

Business Fax:

Mobile Phone:

Email address:

This information can be faxed to: 312.814.1818

## **Midwest Demand Response Initiative October, 2006**

### **Preliminary Goal**

- Create the regional knowledge base necessary to allow the Midwest states to develop and implement price-responsive retail markets

### **Preliminary Objectives**

- Create the tools necessary to visualize and value a robust price-responsive retail market in the Midwest
- Estimate the value of implementing such a retail market, from a price, cost, system operations and resource adequacy perspectives
- Inventory current status of price-responsive programs in the region including but not limited to distributed resources, advanced metering, pricing, demand-response technologies and energy efficiency.
- Create pro forma/prototype program and rate design options to help state regulatory commissions achieve MWDRI objectives
- Develop consensus for state advocacy to align wholesale market value with retail price-responsive initiatives
- Develop consensus strategies for regional and state implementation

### **Steering Committee**

- Comprised of commissioners from MISO states, DOE, EPA and the Midwest ISO
- Provide overall strategic direction and policy guidance for the initiative
- Helps secure financial resources
- Provides a “regional” focus on the initiative

### **Tentative Schedule**

- Phase I: Getting Organized—October 2006 - December 2006
  - Initial Steering Committee meetings
    - Ground rules
  - Recruit additional Commissioners
  - Recruit business, consumer, utility and vendor advisory councils
  - Prepare background materials
- Phase II: Visioning and valuing—January - April 2007
  - Develop estimates of the value of implementing a robust price and demand response market from both a wholesale and retail perspective using a computer-based interactive simulation tool
  - Initial stakeholder meetings with MWDRI Steering Committee
  - Meet with state commissions, and other interested parties. to share with them the value estimates

- Allow participants to experiment with the computer-based interactive simulation tools
    - Begin an active dialogue concerning the value of a robust retail market
  - Develop consensus among the state commissions to undertake a more active role in better aligning the wholesale market value with retail price-responsive initiatives
  
- Phase III: Inventory and Prototypes —May - December 2007
  - Identify and inventory the current status of price-responsive programs in the region.
  - Identify the barriers to the expansion of these programs
    - Determine the most feasible solution for addressing these barriers
  - Steering Committee review of barriers and solutions
  - Conduct workshops to develop pro forma/prototype program and rate design options for state regulatory commissions, MISO, utilities and demand response providers
    - Business and consumer groups will be encouraged to participate
  - Publish the prototype programs and rate design options on a MWDRI-sponsored website and share them with the Midwest stakeholder communities.
    - Include policy papers, handbooks, presentations, etc.
  - Steering Committee review of findings and the prototype programs and rate design options
    - Develop consensus strategies for regional and state implementation
    - Develop consensus as to the desired outcome and the timeline for meeting these objectives
  
- Phase IV: Implementation Strategies—January - June 2008
  - Steering Committee consideration of demand response programs and options for implementation and leadership within their respective state commissions
  - Meet with the state commissions to identify the programs and rate design options that best meet the needs of their respective states
  - Develop protocols for measurement and evaluation of demand response program reach, penetration, costs, benefits and impacts and secure commitment from states, utilities and MISO to collect these data and conduct systematic program evaluation.
  - Continue to update the MWDRI website with lessons learned as the states proceed with their implementation of programs and rate design options.

### **Preliminary Technical Assistance Support**

- Regulatory Assistance Project – Project Facilitation
- Lawrence Berkley Laboratory – Inventory, Policy Analysis and Prototype Development
- Interdisciplinary Center for Economic Science – Interactive Computer Simulations

### **Preliminary Financial Support**

- USDOE Office of Electricity Delivery and Energy Reliability (Committed)
- MISO (Committed)
- USEPA (?)

**Midwest Demand Response Initiative  
Kick-off Steering Committee Meeting  
Friday, February 9, 2007**

*Logistics*

**Location:** Michael Bilandic Building, 160 N. LaSalle Street, Chicago, Room N-502

**Time:** 9:30 a.m. to 3:00 p.m.

*Draft Agenda*

- 9:30-9:45      Welcome and Introductions  
*Commissioner Bob Lieberman, Illinois Commerce Commission  
Chairman John Norris, Iowa Utilities Board*
- 9:45-10:15    Overview/Objectives of the MWDRI  
*Commissioner Bob Lieberman, Illinois Commerce Commission  
Chairman John Norris, Iowa Utilities Board*
- 10:15-10:45   Lessons Learned from MADRI/NEDRI  
*Rich Sedano, Regulatory Assistance Project  
Commission Rick Morgan, DC Public Service Commission*
- 10:45-11:00   Break
- 11:00-11:30   FERC and MISO Perspectives on Demand Response  
*David Kathan, Federal Energy Regulatory Commission (Invited)  
Sherman Elliott, MISO*
- 11:30-12:00   Technical Support to Initiative  
*Lynne Kiesling, Interdisciplinary Center for Economic Science  
Chuck Goldman, Lawrence Berkley Labs*
- 12:00-1:00    Lunch (*Luncheon Speaker—Angie Beehler, Wal-Mart*)
- 1:00-3:00      The Midwest Demand Response Initiative  
*Discussion led by Rich Sedano*
- a. Goals and Objectives
  - b. Recruiting of commissioners
  - c. Identification and recruiting of business, consumer, utility and vendor advisors
  - d. Identification of specific tasks to be accomplished during the next six months
  - e. Identification of Working Groups
  - f. Schedule next meetings

### *Travel Information*

- The Commission offices are located in the Michael Bilandic Building, 160 North LaSalle Street—the corner of LaSalle and Randolph. The meeting will be held on the 5<sup>th</sup> floor. Participants will need to show identification and go through security before being allowed into the offices.
- The offices are easily accessible from Midway via the Orange Subway line and from O’Hare via the Blue Subway line. From both lines you would exit at Clark Street through the James R Thompson Center and the Commission offices are across the street.
- There are a number of hotels within walking distance of the Commission office. They are listed in order of proximity.
  - Hotel Allegro, 171 W Randolph 800.643.1500
  - Renaissance Chicago, One West Wacker 800.468.3571
  - Burnham Hotel, One West Washington 877.294.9712
  - Palmer House, 17 E Monroe 312.726.7500
  - Hotel 71, 71 E Wacker 800.621.4005
  - Crowne Plaza, 10 South Wabash 888.303.1753
  - Hotel Monoco, 225 North Wabash 312.960.8500
- For those of you that will arrive on Thursday, we are planning on having an informal get together. Information on that will be provided closer to the meeting date.

## REQUEST FOR TRAVEL APPROVAL

Date of Request: \_\_\_\_\_

Traveler's Name: \_\_\_\_\_

Traveler's Commission: \_\_\_\_\_

Date(s) and Destination(s) of Trip(s): \_\_\_\_\_

Purpose of Trip(s): \_\_\_\_\_

Travel Advance Requested:    No             Yes             Amount \_\_\_\_\_

Address to mail Advance to: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Description of Anticipated Expenses*	Amount
Transportation	_____
Hotel Lodging	_____
Meals	_____
Miscellaneous:	_____
_____	_____
<b>TOTAL:</b>	<b>\$ 0.00</b>

Contact Person: \_\_\_\_\_

Phone Number: \_\_\_\_\_ E-Mail Address: \_\_\_\_\_

Approval: \_\_\_\_\_ Date: \_\_\_\_\_  
**William H. Smith, Jr., Executive Director**

### PAYMENT INFORMATION:

Travel Advance: \_\_\_\_\_ Check Number: \_\_\_\_\_  
Date: \_\_\_\_\_

Balance of Reimbursement: \_\_\_\_\_ Check Number: \_\_\_\_\_  
Date: \_\_\_\_\_

\*Airline tickets; rental car, lodging, meals, registration fees, miscellaneous taxi, tips, etc.

Please mail to: **Organization of MISO States**  
**100 Court Avenue \* Suite 218**  
**Des Moines, IA 50309**

Please email **Julie Mitchell**  
or fax: **Organization of MISO States**  
**julie @misostates**  
**515-243-0746 - fax**



Organization of MISO States

**Travel Expense Reimbursement Form**

**Please return this form to OMS within thirty days of the meeting.**

Date submitted: \_\_\_\_\_ Phone: \_\_\_\_\_  
Participant (Traveler's) Name: \_\_\_\_\_ Commission: \_\_\_\_\_  
Name/Organization that should appear on reimbursement check: \_\_\_\_\_

Mailing address for reimbursement check: \_\_\_\_\_  
\_\_\_\_\_

Type of Meeting: \_\_\_\_\_

Location of Meeting & Date(s): \_\_\_\_\_  
\_\_\_\_\_

	Charges Directly Billed to State	Out-of-Pocket Expenses to be Reimbursed	Direct Bill & Out-of-Pocket Totals	For Office Use Only (Account Numbers)
Airline Ticket				
Lodging (Room charges)				
Meals (Liquor cannot be reimbursed)				
Mileage, Parking and Other Transportation Miles: \$/mile:				
Miscellaneous				
Grand Totals				
<b>Travel Advance if Applicable</b>				
<b>Total Amount to be Reimbursed:</b>				

Meals detail:

	M	T	W	Th	F	Chicago rate
Breakfast						12
Lunch						18
Dinner						31
Incidentals						3

**\*\*\*\*PLEASE ATTACH ORIGINAL RECEIPTS FOR ALL EXPENSES\*\*\*\***

If the total amount claimed for reimbursement differs from the total out-of-pocket expenses, please explain:

Depart home: \_\_\_\_\_ Arrive destination: \_\_\_\_\_  
Depart destination: \_\_\_\_\_ Arrive home: \_\_\_\_\_

Please send this form and all **original** receipts (including passenger receipt from airline ticket) to:  
**Organization of MISO States, Attn: Julie Mitchell, 100 Court Ave. Suite 218, Des Moines, IA 50309**