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Subject: Is Real Time Pricing Worth the Effort?



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March 9, 2005

Is Real Time Pricing Worth the Effort? A New Study Examines Impacts of Utility Real Time Pricing Programs

*By Ben Long, Senior Director, Pricing Solutions and
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Real Time Pricing programs have been around since the mid-1980s beginning with experiments by utilities in California, followed by the development of two-part RTP at Niagara Mohawk. RTP began to get nationwide attention when the industry noticed the spectacular results at Georgia Power. Unfortunately, most were not able to replicate the Georgia Power results, including Georgia Power's sister companies.

At best, experience with RTP programs has been mixed. Several utilities have demonstrated that voluntary RTP programs are capable of generating substantial demand response. However, most programs have attracted only modest levels of participation, in large part because programs were narrowly targeted and passively marketed, many times to achieve a goal other than price response.

A recent study of RTP programs has been conducted due to the renewed interest in price responsive load programs. The study surveyed the industry's experiences with RTP programs. "A Survey of Utility Experience with Real Time Pricing" was coordinated by the Consortium for Electric Reliability Technology Solutions (CERTS) and funded by the U.S. Department of Energy Office of Electric Transmission and Distribution. It was conducted by Galen Barbose and Charles Goldman of the Lawrence Berkeley National Laboratory, and Bernie Neenan of Neenan Associates.

"RTP has experienced a recent resurgence of interest among economists and policymakers who recognize its potential role in improving the performance of competitive electricity markets and reducing the need for additional generation capacity," explains Goldman. "We undertook the study to shed light on several unknowns about how well voluntary RTP programs have performed across a broad range of regulatory and market settings. In particular, we wanted to better understand how many customers have enrolled in these programs, and what size load reductions they have provided."

The study is based on the researchers' interviews with utility program managers of 43 voluntary RTP programs offered in 2003. After reviewing the response by utilities, the researchers drew some conclusions about the performance of voluntary RTP programs to date.

Although some programs have achieved a significant level of participation, most have not. Nationwide, approximately 2,700 non-residential customers were enrolled in RTP programs in 2003, representing more than 11,000 MW of load. However, most of these RTP participants are associated with a small number of programs. Only three RTP programs reported more than 100 non-residential customers or more than 500 megawatts (MW) enrolled; these programs accounted for about 80 percent of all non-residential RTP customers. One-third of the programs included in the study had no participants in 2003, and another third had fewer than 25 customers enrolled.

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Although many customers on RTP are price-responsive, most are not appreciably so. Among programs with more than 10 participants, managers reported (anecdotally) that between 20 and 60 percent of participants have exhibited some response to hourly prices, while the remaining customers have not shown any response. RTP programs reportedly achieved load reductions equal to 12 to 33 percent of participants' combined load, across a wide range of prices. Among eight programs with more than 20 participants, six report load reductions in the range of 12 to 22 percent of participants' combined non-coincident peak demand, while the other two observed load reductions of about 33 percent.

Researchers' Recommendations

The researchers make several specific recommendations:

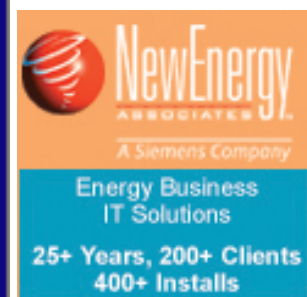
Devote sufficient resources to developing and implementing a customer education program. Customers are unlikely to gravitate in large numbers toward RTP on their own accord, in part because an RTP tariff is quite different from conventional electricity services.

Help customers understand and manage price risk. Participation in RTP could potentially be improved if customers were offered technical assistance and training to help them understand market price formation and to identify physical and financial strategies for managing price risk.

The costs and benefits of obtaining incremental amounts of price-responsive load from RTP must be weighed against those of other types of demand response programs. RTP is just one of several approaches to creating price responsive demand. Given the diversity and heterogeneity of retail customers, a portfolio of RTP and other demand response programs may be more likely to achieve meaningful levels of price responsive load than focusing exclusively on RTP.

Success Requires Commitment

What can we conclude from this report? RTP has been and remains an important price responsive load program. But, RTP requires a substantial and on-going commitment by the retail utility to ensure success.



KEYS TO RTP SUCCESS

- ▲ Use a 2-part program design that does not have demand charges on incremental usage (RTP usage)
- ▲ Make a dedicated program manager responsible for program success
- ▲ Communicate regularly with participants and potential subscribers regarding program performance
- ▲ Commit enough resources to ensure success

And last, but not least, if all else fails, serve customers in Georgia.

Editor's note: UtiliPoint® has many clients in the energy industry; Georgia Power is one of them.

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