

How Energy Customers Can Help Electric Utilities

Now User "Load" Can Be a Resource for Utilities' Ancillary Services

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Most of the commercially important ancillary services involve maintaining or restoring the generation and customer load real-power balance over varying time frames. Traditionally utilities have addressed this problem almost exclusively by controlling generation.

It does not have to be this way, however. The important concept is to balance user consumption and generation, which can be done using either side of the balancing equation. Controlling user load may be the single largest untapped resource currently available to the electricity industry.

Restructuring is beginning to provide a framework within which this resource could be exploited. Several obstacles exist (primarily related to aggregation, communications, and economic incentives) but technical and commercial solutions to these problems also exist.

WHICH SERVICES MIGHT ENERGY USERS SELL?

Table 1 presents the 12 utility ancillary services commonly discussed.¹ Clearly customers will not sell System Control, System Black Start, or Dynamic Scheduling. Energy Imbalance and Real-Power-Losses are primarily accounting services with the required physical energy and

capacity coming from other services. Reactive Supply and Voltage Control from Generation and Network Stability are services that energy customers are not likely to have the resources to supply (though if they do they should be encouraged to participate).

Table 1. Key Ancillary Services and Their Definitions

System Control: Control-area operator reliability and commercial functions

Reactive Supply & Voltage Control from Generation: Injection and absorption of reactive power from generators to control transmission voltages

Regulation: Maintenance of the minute-to-minute generation/load balance to meet CPS 1 and 2

Load Following: Maintenance of the hour-to-hour generation/load balance

Frequency Responsive Spinning Reserve: Immediate (10-second) response to contingencies and frequency deviations

Supplemental Reserve: Response to restore generation/load balance within 10 minutes of a generation or transmission contingency

Backup Supply Plan: Customer plan to restore system contingency reserves within 30 minutes if the customer's primary supply is disabled

Real-Power-Loss Replacement: Compensation for transmission system losses

Energy Imbalance: Accounting for the hourly discrepancy between scheduled and actual transactions

Dynamic Scheduling: Real-time metering, telemetering, and computer software and hardware to electronically transfer some or all of a generator's output or a customer's load from one control area to another

Network Stability: Use of fast-response equipment to maintain a secure transmission system

System Black Start: The capability to start generation and restore all or a major portion of the power system to service without support from the outside after a total collapse

The five remaining services (Regulation, Load Following, Frequency Responsive Spinning Reserve, Supplemental Reserve, and Backup Supply Plan) deal with maintaining or restoring the real-energy balance between generators and user loads. These services are characterized by the required response time, the response duration, and the communications and control required to facilitate the service.

Figure 1 shows the required response for the five energy balancing functions. Because regulation requires continuous adjustment of real power transfers between the resource and the system, it is unlikely that many customers will be capable of delivering that service at this time. (Water-pumping load, such as municipal-water and irrigation systems, may be a possible exception if they use variable-speed drives for their pumps.)

The contingency reserves are especially amenable to being provided by customers. Load following could be provided by loads directly or through the use of a spot market price response on a shorter time frame than 1 hour.

Similar restrictions apply to users supplying ancillary services as apply to generators supplying those same services. For a generator to supply contingency reserves, it must have capacity available to respond to the contingency. The generator cannot be operating at full load. Similarly, a customer selling contingency reserves must have capacity it can unload when the contingency occurs. The customer cannot already be at minimum load.

WHY UTILIZE USERS AS A RESOURCE?

There are several reasons that energy users should be encouraged to sell ancillary services. FERC is encouraging open competitive markets for generation. FERC ordered the unbundling of ancillary services to promote competitive markets, which should improve economic efficiency and lower electricity prices. These markets should be open to any technology capable of providing the service, not just generators. This will expand supplies and reduce horizontal-market-power problems.

Beyond the argument of fairness, having customers participate as **suppliers**, as well as consumers, of electricity services improves resource utilization. Ancillary services consume generating capacity. When users provide these reserves, generating capacity is freed up to do

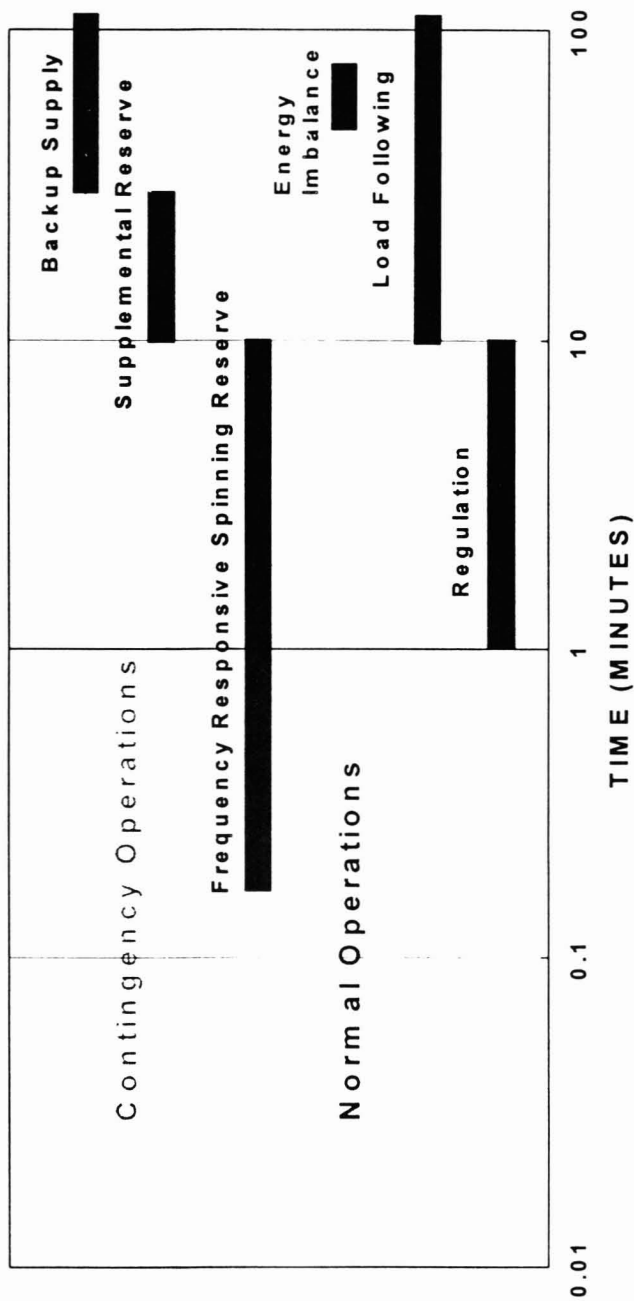


Figure 1. Required Response Time—Users

what it was designed for, i.e., generate electricity.

Users will probably respond more quickly to control-center requests than large generators because the load response is composed of many small resources. This will likely more than overcome the communications and control delays associated with their greater numbers.

Loads should be a more reliable supplier of ancillary services than conventional generators. Because each load will generally be supplying a smaller fraction of the total system requirement for each service, the failure of a single resource is less important.

Just as a system with ten 100-MW power plants requires less contingency reserves than one with a single 1000-MW plant so too a system that utilizes a large aggregation of loads as a resource to supply reserves will require less redundancy in the basic resource than one that carries all of its reserves on a few large generators. There can still be common-mode failures in the facilities of the aggregator, but it is easier and cheaper to install redundancy in this portion of the system than with an entire 1 000-MW plant.

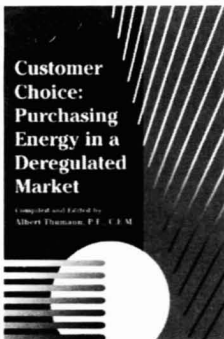
PROVISION OF INDIVIDUAL SERVICES

The electric consumer, in cooperation with an aggregator and the system operator, would determine the portion of the load which could provide the service. Metering, communication, and control requirements would then be established.

Looking first at the services required to restore the generation/load balance after a contingency, *Supplemental Reserve* is a likely candidate for many customers. The resource must fully respond within 10 minutes of the contingency.* Response must be maintained for an additional 20 minutes, i.e., until 30 minutes after the contingency. This is a short interruption that many customers may find acceptable. User candidates include water pumping, building temperature control, water heaters, and air compressors. Anything that inherently has some storage in the process, or any process for which storage can be readily added is a good candidate.

The system operator takes some of the 10 minutes to recognize the

*Specific timing requirements for each service vary from region to region. The requirements referenced here are from NERC (1998) Draft Policy 10.



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contingency and to call for response. The aggregator's communications process will consume some/time. This leaves a few minutes for the customer to respond.

Obviously, users must be consuming power for them to curtail consumption during a contingency. Many candidate loads cycle as they provide service (e.g., hot water heaters). Since individual users do not cycle together, the aggregation will always have some load available for curtailment. The aggregation has to be accurately characterized to know how much reserve is available at any time. Individual users also have to be controlled after the reserve is released to prevent them from all returning to service simultaneously.

Frequency Responsive Spinning Reserve is both easier and more difficult for consumers to provide. Because the service responds to system frequency, each load has the triggering signal available at all times. The service only has to be provided until it is replaced by Supplemental Reserve, 10 minutes, creating a shorter interruption. Full response is required within 10 seconds, however, which may make it harder for some users to provide. Having each load in an aggregation responding at slightly different frequencies could create a typical generator droop characteristic.

Frequency Responsive and Supplemental Reserves restore the system's generation/load balance and maintain it for 30 minutes. Thirty minutes after a contingency occurs the customer that was receiving the lost generation is responsible for making other arrangements or curtailing its load. *The Backup Supply Plan* is a pre-arrangement that tells the system operator how to proceed for each load's loss of primary supply. Some users may find it attractive to provide Backup Supply for other loads. The 30-minute warning provides time for communications and for the curtailing user to take actions to reduce its own costs.

Consumers may also wish to participate in maintaining the generation and load balance during normal operations, though this seems less likely. A user or aggregation of users could provide *Load Following* by cycling their daily operations in response to direct MW commands from the system operator or by responding to short-term price signals.²

Regulation is the least likely of the generation/load balancing services for a user to provide. It is possible, however, that users with variable speed drives (e.g., water pumping) could accept automatic-generation control signals from the system operator. Municipal water pumping accounts for approximately 1% of national electricity con-

sumption, providing potentially significant sources of load-based regulation or other ancillary services.

PAST USE OF LOAD CONTROL

Load control has been and is currently used in a number of locations.³ Some implementations have been successful but the idea has not been universally adopted. This is at least partly because of traditional rate structures, which provide little flexibility to customers. The customer must agree up front to be subject to utility control, usually for a year or more. There is no ability to enter and leave the market as the customer's economic conditions change. The customer often gets paid a flat fee independent of how or if the resource is actually used. This provides little flexibility for the load and little incentive to actually perform.

Similarly, the costs of peaking generation or peak reserves are typically spread over an entire season or year. Charges (both operating and capital) are not assigned exclusively to the hours when the generation or reserves are required. Assigning the costs to the hours when they are needed would result in much higher prices for those services during specific hours (and lower prices at other times). Under either good economic regulation or a truly competitive market, the result would be the same total revenue collection (that required to pay for the resource). Providing a price signal that accurately reflects the real-time cost to provide the service will encourage all suppliers, users and generators, to offer supply when it is needed most.

SUPPLIER CONTROL OF ITS FACILITY

While automatic deployment is necessary when selling some reserves, it is often important to allow the user to decide when it will participate and when it will not. Just as the price of hourly energy and each of the ancillary services vary, so do customer economics. For many customers there are times when less flexibility exists and the load cannot be interrupted without high costs being incurred. These times are often independent of anything happening on the power system and are therefore unrelated to the price of the service.

For the right price, a residential customer might be willing to automatically curtail air-conditioning use for 30 minutes to supply contingency reserves, for example. This same customer would probably be unwilling to curtail use at any price on the evening when he was holding a dinner party, however. Similar restrictions might apply for an industrial customer such as a continuous chemical processing plant while it is taking a monthly inventory and needs a stable process.

In both cases the customer choice not to participate is unrelated to the utility economics; neither load is trying to avoid providing the service when it is highest in value. In fact, the chemical plant may intentionally select times for its inventory when the power system is not stressed, such as at night or on weekends. It would do this not because of a concern for the power system but because that may be a time when the chemical process is stable as well due to reduced activity at the chemical plant.

The utility needs information about which users will be supplying services ahead of time. The user must declare that it is available before it enters or leaves the market. Perhaps this declaration would be one day in advance for the following 24 hours. Both the utility and its customer will need the ability to change the availability on shorter notice, perhaps with economic consequences. A user that experiences technical difficulties and is suddenly incapable of supplying the service must be able to leave the market.

Conversely, if the power system finds itself unexpectedly short of reserves it will need to be able to call for additional reserves quickly, perhaps by raising the current price. Indeed, this is how the day-ahead, hour-ahead and real-time markets are intended to operate in California's competitive bulk-power system.

It is critical to avoid providing an incentive for a resource (either load or generation) to declare itself available when it is not (as is done in the United Kingdom). Equipment failures are inevitable but service providers should have an incentive to maintain the reliability of their resources. They should never find it profitable to sell a service that they know they cannot deliver.

TRADING CERTIFICATION FOR METERING

Most of the generators on a typical power system are relatively large and expensive. It is reasonable for the system operator to monitor

unit output and bus voltage every 2 to 8 seconds. The amount of data and the expense per MW are both reasonable. When the operator calls for response the response can be monitored in real time.

Providing the same information from hundreds or thousands of individual users would be prohibitively expensive and would provide an overwhelming amount of data that could not be managed in real time. An alternative to real-time monitoring of each individual resource exists. Users could be certified, either individually or in aggregation, for the provision of each ancillary service.

Certification would consist of exercising the resource under controlled conditions to determine the reliable response.⁴ Testing of the contingency reserves, for example, would not be announced to the resource. The response would be measured on control-area metering. Periodic testing would monitor continued capability. Recording meters at each resource could also be audited to verify performance for both actual events and tests.

AGGREGATION AND COMMUNICATION

The major objection often voiced to customer supply of ancillary services is that the system operator cannot deal with the large number of individual resources and that the communications requirements would be overwhelming.

These are valid concerns but ones that can be addressed. Aggregators can provide a genuinely valuable function here. By handling the communications with a large number of users they can present the system operator with a single point of contact for a reasonable amount of capacity, similar to the system operator's interface with generating resources.

They can also be an interpreter between the electrical system and customers. The system operator is not interested in learning the details and concerns of each customer. Similarly, customers are in businesses of their own and have neither the time nor the interest in learning all about the power system. The aggregator can bridge this gap, creating a valuable resource in the process.

Communications are inherently different with an aggregation of resources than with a single entity. As mentioned above, it is not currently practical to collect data from thousands of individual loads every

2 to 8 seconds. It is practical, however, to send instructions to those loads as fast as necessary. That is because it is the same signal going to large groups of the loads. That signal could be “deploy now” or it could be “the current price for response is \$X.”

CUSTOMER ECONOMICS

In competitive bulk-power markets, customers will have many choices with respect to their use of electricity and their payment for electricity services. In the context of this discussion, they can choose to participate in hourly markets and face spot prices that can vary widely in response to supply/demand relationships.

Alternatively, they can sell reserve services (options) as discussed above. Decisions on whether to participate in spot markets or sell reserves will be based on the customer’s flexibility in modifying its electricity use (in particular, its fixed and variable costs to modify its electricity use in real time), the prices of energy and reserve services, and the frequency with which outages occur.

For example, higher reserve prices and less frequent outages will lead customers to sell reserve services, forgoing opportunities to reduce consumption at times of high spot electricity prices. On the other hand, increasing flexibility (i.e., declining cost) in modifying electricity use will lead to more decisions to participate in spot energy markets.

CONCLUSIONS

Users can provide several of the energy-balancing ancillary services. They should be encouraged to do so because of the reliability and commercial benefits provided by expanded supplies of these resources. Artificial barriers to the entry of customers into these markets should be removed. The customers themselves will have to determine their economic costs and benefits to see if and when they will participate. Customers must be given the flexibility to respond to their own economic constraints.

Technical problems associated with the need to aggregate many individual user loads to achieve a resource of sufficient size to be useful can be overcome. This may be one of the areas where load aggregators

can play a genuinely useful role. An aggregator can relieve the system operator of the burden of dealing with an excessive number of individual resources while still providing the required response.

Similarly, the high communications burden associated with a large number of resources can be alleviated by broadcasting control signals to the resources. Rigorous certification, coupled with post-event meter audits, can substitute for real-time monitoring of each resource.

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ABOUT THE AUTHORS

Brendan Kirby, P.E., is a senior researcher at Oak Ridge National Laboratory and a private consultant. He has 23 years of electric utility experience, has been working on restructuring and ancillary services since 1994 and spot retail power markets since 1985.

Brendan's interests include electric industry restructuring, ancillary services, distributed resources, demand side response, energy storage, renewable resources, and advanced analysis techniques. He has published 33 papers, articles, and reports on restructuring issues. He is participating on the NERC IOS Working Group, served as staff to the Department of Energy's Task Force on Electric System Reliability, and has appeared as an expert witness in FERC litigation. He has conducted research projects concerning restructuring for the NRC, DOE, EEI, numerous utilities, state regulators and EPRI.

Mr. Kirby holds an electrical engineering degree from Lehigh University.

Eric Hirst, Ph.D., has been conducting and managing applied research projects related to a variety of energy issues for more than 25

years. He is a consultant in electric-industry restructuring and a senior researcher at Oak Ridge National Laboratory (ORNL).

Hirst's consulting practice focuses on five key areas related to recent and ongoing changes in the U.S. electricity industry:

Ancillary services: The amounts of each service (e.g., regulation, load following, and voltage support) required for commercial transactions and to maintain bulk-power reliability. Industry practices to unbundle and rebundle services and to establish appropriate metrics for each service. Factors that determine the costs and prices for these services. Relationship between these services and the functions of independent system operators.

Transition costs: Analytical and market methods used to determine the amount of money at risk for individual utility assets and liabilities. The key factors that affect these estimates. How utilities, regulators, wholesale power providers, and others can offset these costs. Allocation of the remaining costs among utility shareholders, retail customers, wholesale customers, and other groups. Cost-recovery methods that foster competitive electricity markets.

Environmental effects of restructuring: Effects of bulk-power market structures and pricing methods on generator retirements, and on the types of generators constructed and dispatched to meet loads. Alternative market and regulatory methods to ensure that increased competition in power supply reduces the adverse environmental effects of electricity production.

Horizontal market power: Definition of geographic and product markets, given the characteristics of generating units and the existence of transmission costs, losses, and constraints. Analytical methods used to assess the ability of different generators to set time-dependent spot-market prices and thereby earn "excess" profits. Regulatory tools to reduce market power.

Public-policy benefits: R&D, energy efficiency, renewable resources, and other societal goals. Public-policy functions that may require special support in a restructured electricity industry.

During the past several months, Hirst has conducted consulting projects for Enron Capital and Trade, the Electricity Consumers Resource Council, American Electric Power, the Edison Electric Institute, and the Idaho Public Utilities Commission. The diversity of Hirst's past and present clients attests to his deserved reputation for professional integrity and even-handedness.

At ORNL since 1970, Hirst is a Corporate Fellow, a distinction shared by only 1% of the ORNL technical staff. He is also leader of the Electric-Industry Policy Studies Group, which conducts projects for the U.S. Department of Energy and Environmental Protection Agency on electric-industry restructuring. During the past 3 years, the group has focused on projects that deal with unbundling generation and transmission services (ancillary services) and transition (stranded) costs. Hirst and Kirby are the authors of five ORNL reports plus many papers and presentations at technical conference on ancillary services. In addition to their work for DOE, they have conducted projects on ancillary services for Detroit Edison and the National Regulatory Research Institute. Hirst and Kirby also serve as staff to the Department of Energy's Task Force on Electric-System Reliability, a topic closely related to ancillary services.

Hirst holds a Ph.D. degree in mechanical engineering from Stanford University. He has published more than 300 reports, journal articles, and book chapters.

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