



U.S. Department of Energy Washington DC 20585

Thursday, September 1, 2005

The Honorable Sam. J. Ervin, IV
Commissioner
North Carolina Utilities Commission
430 North Salisbury Street
Raleigh, NC 27699-4325

Dear Commissioner Ervin:

Section 1234 of the Energy Policy Act of 2005 requires the Department of Energy to conduct a study on the benefits of economic dispatch in the electricity industry. In particular, the law directs the Department to study:

- (1) the procedures currently used by electric utilities to perform economic dispatch;
- (2) possible revisions to those procedures to improve the ability of nonutility generation resources to offer their output for sale for the purpose of inclusion in economic dispatch; and
- (3) the potential benefits to residential, commercial and industrial electricity consumers nationally and in each state if economic dispatch procedures were revised to improve the ability of nonutility generation resources to offer their output for inclusion in economic dispatch.

The Act provides a definition of economic dispatch, and directs the Department to offer recommendations to Congress and the States for legislative or regulatory changes. This study must be completed in time for the Department to submit its report, with appropriate recommendations, to Congress and the states by November 7, 2005.

DOE's Office of Electricity Delivery and Energy Reliability has tasked Joe Eto (at the Lawrence Berkeley National Laboratory) and Alison Silverstein to perform this study. Because the tight schedule will not permit us to conduct fresh analysis of the topic, I have directed them to collect existing information and analysis about economic dispatch, and to draft a report drawing on that material. To that end, I understand that Alison Silverstein has spoken with you and that you have agreed to support this research by sharing this request with the members of your stakeholder organization and inviting them to share their views and information directly with us. The Department appreciates your support of this effort very much.

Attached is a short list of questions on how economic dispatch is now practiced, and how it might be changed in the future. We invite interested parties to prepare answers to these questions and send them **no later than September 21** to Economic.Dispatch@hq.doe.gov, including such studies, testimony from regulatory proceedings, or other materials that can help Joe and Alison understand the issues and the submitter's views and concerns.

We realize that this schedule allows little time for gathering and submitting this material, so we thank you and your members in advance for your understanding and timely assistance. The statute requires DOE to update this study every year, so it is likely that issues not fully addressed in this initial study will get more attention in the future.

If you have any questions about the study, please contact me at David.Meyer@hq.doe.gov or Alison Silverstein at alisonsilverstein@mac.com.

Sincerely,

David H. Meyer
Acting Deputy Director
Office of Electricity Delivery and
Energy Reliability
U.S. Department of Energy

Energy Policy Act of 2005, Section 1234

Economic Dispatch Study

Questions for Stakeholders

Section 1234 of the Energy Policy Act defines economic dispatch as “the operation of generation facilities to produce energy at the lowest cost to reliably serve customers, recognizing any operational limits of generation and transmission facilities.” With that definition in mind, please answer as many of the following questions as you wish, attaching supporting materials such as studies or testimony that was filed in state or federal regulatory proceedings to support your answer.

Please send your response by e-mail to Economic.Dispatch@hq.doe.gov **no later than September 21, 2005**. Be sure to include the name and phone number of an individual who can answer any questions that may arise about your comments. Thanks in advance for your assistance with this study.

Alison Silverstein alisonsilverstein@mac.com
Joe Eto jheto@lbl.gov

Questions

- 1) What are the procedures now used in your region for economic dispatch? Who is performing the dispatch (a utility, an ISO or RTO, or other) and over how large an area (geographic scope, MW load, MW generation resources, number of retail customers within the dispatch area)?
- 2) Is the Act’s definition of economic dispatch (see above) appropriate? Over what geographic scale or area should economic dispatch be practiced? Besides cost and reliability, are there any other factors or considerations that should be considered in economic dispatch, and why?
- 3) How do economic dispatch procedures differ for different classes of generation, including utility-owned versus non-utility generation? Do actual operational practices differ from the formal procedures required under tariff or federal or state rules, or from the economic dispatch definition above? If there is a difference, please indicate what the difference is, how often this occurs, and its impacts upon non-utility generation and upon retail electricity users. If you have specific analyses or studies that document your position, please provide them.
- 4) What changes in economic dispatch procedures would lead to more non-utility generator dispatch? If you think that changes are needed to current economic dispatch procedures in your area to better enable economic dispatch participation by non-utility generators, please explain the changes you recommend.

- 5) If economic dispatch causes greater dispatch and use of non-utility generation, what effects might this have – on the grid, on the mix of energy and capacity available to retail customers, to energy prices and costs, to environmental emissions, or other impacts? How would this affect retail customers in particular states or nationwide? If you have specific analyses to support your position, please provide them to us.
- 6) Could there be any implications for grid reliability – positive or negative – from greater use of economic dispatch? If so, how should economic dispatch be modified or enhanced to protect reliability?