

**FERC Order on Wholesale
Competition**
(Docket Nos RM07-19 & AD07-7)
Issued on 10/17/08

Donna Pratt
Demand Response Market Product Specialist
New York Independent System Operator

Price Responsive Load Working Group
Rensselaer, NY
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Background

- ◆ This Order is the culmination of a two-year rulemaking by the Commission
- ◆ Objective is to improve the competitive wholesale markets administered by ISOs/RTOs
- ◆ The Order acknowledges the progress that ISOs/RTOs have made in implementing competitive markets

Compliance Filing due April 28, 2009

- ◆ Each ISO/RTO is required to make a compliance filing:
 - *To either demonstrate that its existing practices are already in compliance; or*
 - *To propose revisions to its tariff or procedures to bring it into compliance*
- ◆ The directives in the Final Rule are aimed at providing further improvements in the wholesale markets

Provisions of the Final Rule

- ◆ The provisions of the Final Rule are broken down into four topical areas:
 - *Demand Response*
 - *Long-Term Contracting*
 - *Market Monitoring*
 - *Stakeholder Responsiveness*
- ◆ ISOs/RTOs are directed to consult with their stakeholders in advance of the compliance filing on several topics
- ◆ FERC did not mandate that all improvements must be implemented by the compliance filing date

Demand Response

- ◆ Paragraph 15:
 - A. *Accept bids from DR Resources for certain ancillary services, on a basis comparable to other resources*
 - B. *Eliminate, during a system emergency, certain charges to buyers in the energy market for voluntarily reducing demand*
 - C. *Permit Aggregators of Retail Customers (ARCs) to bid DR on behalf of retail customers into ISO/RTO markets*
 - D. *Modify rules governing price formation during periods of operating reserve shortage*
- ◆ Consult with stakeholders to assess and report any remaining barriers to comparable treatment of DR

A. Comparable treatment of Demand Response in Ancillary Services Markets

- ◆ Paragraph 47:
 - *Technically capable DR resources must be able to bid into ancillary services markets on a comparable basis with other resources*
- ◆ DSASP provides opportunity for DR Resources to participate in ancillary services markets on comparable basis

A. Additional Bidding

Capabilities for DR Resources Participating in Ancillary Services Markets

- ◆ Additional bidding capabilities mentioned in Order 719 (paragraph 81):
 - *Specify a maximum duration of dispatch*
 - This is already possible through the structure of the bid
 - *Maximum number of times a DR Resource may be dispatched in a day*
 - Functionality available for GTs to specify max starts and stops per day (DSASP Resources modeled as pumped storage, not GTs)
 - Limits number of times they are activated
 - Does not change settlement obligation; still required to buy out of schedule
 - Using economics of bidding can achieve same result
 - *Maximum amount of energy reduction a DR Resource may be required to provide either daily or weekly*
 - Using economics of bidding can achieve same result

A. Smaller DR Resources in Ancillary Services Markets



- ◆ Paragraph 97:
 - *Assessment of technical feasibility and value of smaller DR Resources providing ancillary services within one year*
 - Report findings on whether (and how) smaller DR Resources can reliably and economically provide operating reserves
 - Need for M&V and definition of what constitutes a “small demand response resource”
 - *NYISO will be developing a study to assess how smaller DR Resources (aggregations) may participate in ancillary services market*
 - Will be discussing with NYSERDA **and stakeholders**

B. Eliminate Deviation



Charges During System Emergencies

- ◆ Paragraph 111:
 - *Eliminate a deviation charge to a buyer in the energy market for taking less energy in the real-time market than was scheduled in the day-ahead market during a real-time market period for which the RTO or ISO declares an operating reserve shortage or makes a generic request to reduce load in order to avoid an operating reserve shortage*
 - *NYISO does not have a deviation penalty for buyers who take less energy in real-time.*

C. Permit Aggregators of Retail Customers (ARCs) to bid DR into ISO/RTO markets



- ◆ Paragraph 158:
 - *Aggregators must be allowed to participate in ISO/RTO markets unless prevented under state law or regulation*
 - *Criteria:*
 - ARC's DR bid must meet same bid requirement as a DR bid from any other entity
 - Aggregate demand response must be as verifiable as that of an individual demand response resource
 - Comparable M&V requirements (transparency, ability to be documented, ensure compliance)
 - Opportunity to bid, not a guarantee to be selected
 - An ARC can bid an individual customer or multiple retail customers
 - Individual customer may serve as an ARC on behalf of itself and others
 - ISO/RTO may specify certain requirements (registration, creditworthiness, certification that permission is not precluded by electric retail regulation)
 - *NYISO currently meets these criteria for SCR and DADRP, but not DSASP*
 - Does not apply to EDRP because it has no bidding functions

D. Modify rules governing price formation during periods of operating reserve shortage



- ◆ Paragraph 194:
 - *The RTO or ISO is required to provide*
 - A factual record that includes historical evidence regarding the interaction of supply and demand during periods of scarcity and the resulting effects on market prices;
 - An explanation of the degree to which demand resources are integrated into the various markets;
 - The ability of demand resources to mitigate market power; and
 - How market power will be monitored and mitigated, among other factors.
- ◆ ISO uses reserve demand curves and special scarcity pricing rules to calculate Real-Time LBMP during intervals when it has activated the EDRP and/or ICAP/SCRs in order to avoid reserve shortages
 - *Market Services Tariff: Sections I.A.2.a and 2.b of Attachment B*
 - *OATT: Sections I.A.2.a and 2.b of Attachment J*

D. Modify rules governing price formation during periods of operating reserve shortage - 2



- ◆ Criteria for determining whether factual record meets requirements (paragraph 247):
 - *Improve reliability by reducing demand and increasing generation during operating reserve shortage;*
 - *Make it more worthwhile for customers to invest in demand response technologies;*
 - *Encourage existing generation and demand resources to continue to be relied upon during operating reserve shortage;*
 - *Encourage entry of new generation and demand resources;*
 - *Ensure that the principle of comparability [and] of treatment is not discarded during periods of operating reserve shortage;*
 - *Ensure market power is mitigated and gaming behavior is deterred during periods of operating reserve shortages including, but not limited to, showing how demand resources discipline bidding behavior to competitive levels.*

Remaining Barriers for Demand Response



- ◆ Feedback received from four Market Participants:
 - *Real-Time Market program for DR*
 - *Assess ability for small or aggregated demand resources to provide ancillary services*
 - *TO contact for telemetry*
 - *1MW minimum commitment for an individual resource in DSASP (also required for DADRP)*

The New York Independent System Operator (NYISO) is a not-for-profit corporation that began operations in 1999. The NYISO operates New York's bulk electricity grid, administers the state's wholesale electricity markets, and provides comprehensive reliability planning for the state's bulk electricity system.

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