

Proposal from the Staff of the Dept. of Public Service

Extension of EDRP

The NYISO put forth a revised position based on the August 28th PRLWG meeting. Staff of the NYS Dept. of Public Service believes that the revised position unduly complicates and modifies the EDRP program and will significantly increase the risk of reduced participation, and jeopardize the program's success.

1. We agree that the program should be extended through October 31, 2004.
2. We strongly recommend that the program be left as is with no changes from the customer prospective:
 - ◆ Continue to pay EDRP customers the \$500/MWH minimum.
 - ◆ Continue to call EDRP customers on a zonal basis and implement flexibility to call on a round robin/rotation basis. The ISO's Notification Manager Software now provides the capability to dispatch a percentage of load or even individual customers within zones.
 - ◆ Leave the two-hour notice in place.
 - ◆ Continue to call SCR and EDRP together or risk a shift in SCR participation. When EDRP has been called, nearly all the SCR curtailed and approximately 61% of non-SCR EDRP customers curtailed.
 - ◆ EDRP was designed as an emergency reliability program not an economic bidding program. Calling the EDRP remains restricted to emergencies when there is a projected reserve deficiency.
 - ◆ Participants delivered an average hourly load reduction of 420 MWH in 2001. Total EDRP payments were approximately \$4.1 million for 2001. This is far less than the cost that NYPA paid to install 11 generators.
 - ◆ The program was recognized in a recently completed NARUC study as the most successful of its type in the nation.
3. We do not support the NYISO's changes. The ISO changes are predicated on the fact that during EDRP called events, there has been over-performance by participants and that market-clearing prices have been reduced when the market is in a scarcity-pricing situation. However there has been no evidence that over-performance has occurred, and the NYISO's own evaluation performed by Neenan determined that the impact on real time prices has been approximately \$650,000 for 2001, on a \$5 Billion market.

Not one of the proposed changes will increase program participation. Every one of the proposed changes increases the risk of reducing participation. Any changes that are being considered to extending the EDRP should make the program more attractive and easier for customers to participate. No changes should be made unless there is clear evidence that they are needed.

Staff's response to the NYISO's proposal:

- ◆ To institute a strike price requirement adds further complication to a business planing process and unlike generators, there is no means by which bidders can view accepted EDRP prices, and calculate a competitive bid. Moreover, customers may be unwilling to devote administrative resources to the submittal of monthly or quarterly bids when the program is called so infrequently (4 times in 2001 and 4 times in 2002). By forcing customers to determine a bid price, makes the EDRP more of an economic program rather than an emergency/reliability program.
- ◆ Operations should be given some latitude as to what to call; however, segregating SCR and EDRP will jeopardize the operations of the program. It will also have an effect on the economics of the program for the customers. Moreover, there has been no evidence presented that any significant amount of overcalling has actually occurred.
- ◆ Reducing the call time minimum from two hours to one-hour increases customer response requirements and administrative costs while at the same time potentially reducing EDRP payments. Customers would be disadvantaged in getting only a one-hour notice to shut down an operation for the required minimum 4 hours.
- ◆ When further demand reduction is necessary, less expensive EDRP blocks would be called first. Since this program is called only on an emergency basis, higher priced EDRP may not be called, and Customers at the higher end of the strike-bid curve would not be called and will become disinterested and participation will begin to drop.
- ◆ By eliminating the \$500 floor and implementing a payment based on the greater of their strike price or LBMP, the ISO not only presents a significant economic reduction to customers but also disadvantages them in comparison to generators. As generators bid into the market, the last bid accepted sets the market clearing price thus increasing all the generators' payments, all the way up the bid curve. However, as the ISO proposes, strike prices have the potential of freezing each customer's payment on the bid curve unless the LBMP exceeds the bid, which is a clear disadvantage to customers. In other words, not all EDRP customers will receive the marginal EDRP bid accepted.

Further Staff Remarks:

- ◆ The NYISO has not demonstrated that the operation of the EDRP has had a material market price impact on generators. This has been offered as theory, but numerical evidence has not been provided.
- ◆ Notification Manager Software installed by RETEX for NYISO provides operators the ability to call load in increments.
- ◆ In a July 2002 NARUC report prepared by Dr. David Kathan, *Steps to Reduce Barriers* to increase the level of demand response in electric markets were advocated. One of the recommendations was keeping the programs simple in order to encourage customer participation.

- ◆ There has been no market assessment of the impacts of these proposed changes on program participants and customer acceptance.
- ◆ The majority of market participants administering the program, including the utilities, believes the changes will over-complicate the program and reduce the participation.
- ◆ We expect greater levels of demand response for 2002 due to the increased number of registrants. However, there has been no demonstration that events in 2002 resulted in over-performance and significant impacts on real time prices.