

# **DADRP Extension Proposal**

**Business Issues Committee  
June 29, 2005**

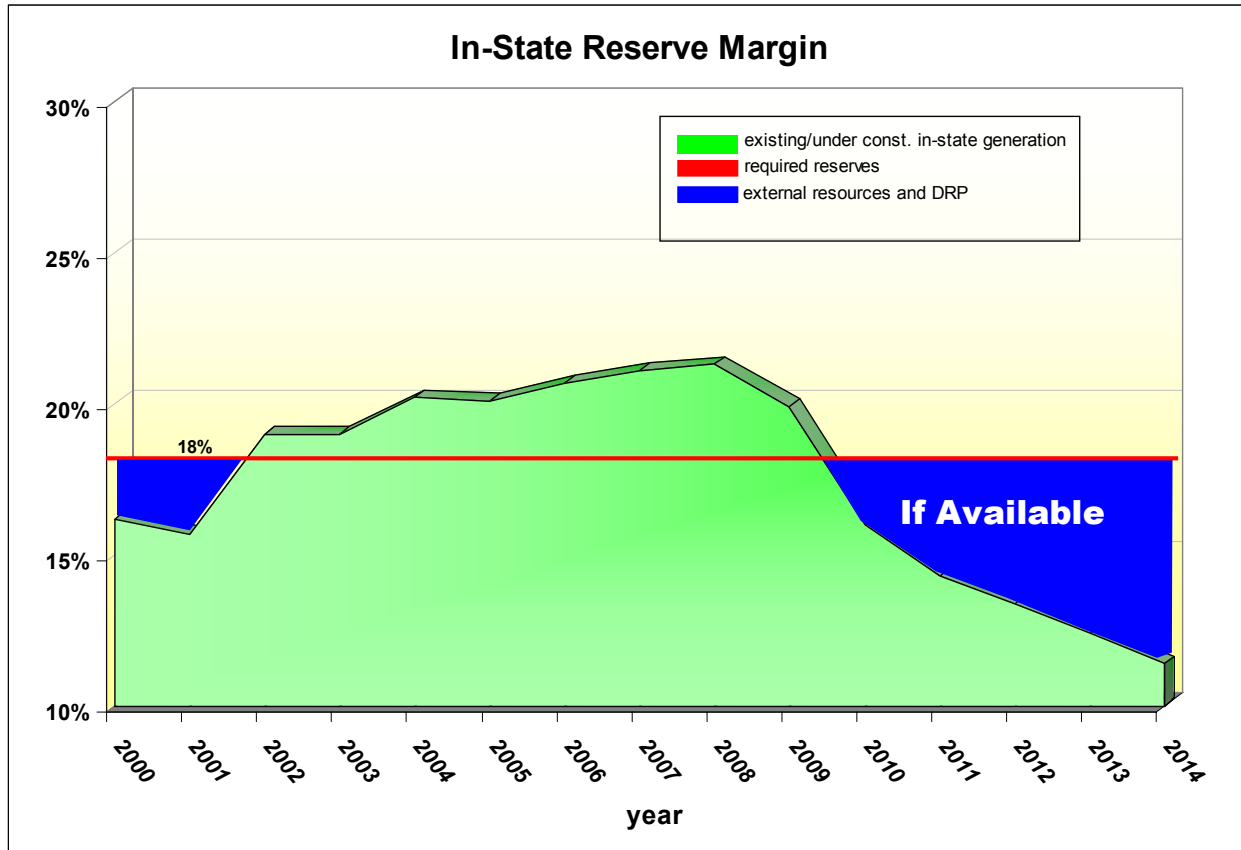
# **DADRP Extension**

- **Faced with its pending expiration, Market Participants spent several months during 2003 and 2004 reviewing alternatives to the current (incentivized) DADRP program.**
- **Alternatives considered included non-incentivized versions of the program, both with and without third-party DRPs, as well as continuation of the program in its current form**
- **It was determined that DADRP without the incentive is the functional equivalent of Price Capped Load Bidding, which excludes Aggregators**
- **Notably, market participants expressed no enthusiasm for the idea of eliminating the program in its entirety**
- **MPs agreed that the current incentivized version of the program was preferable to any of the alternatives considered, subject to adjusting the floor price, eliminating the “higher of” pricing rule for schedule deviations and eliminating the sunset date**
- **These changes were approved unanimously with some abstentions**

# **NYISO Needs DADRP because...**

- 1. The robust participation of Demand Response Resources (DRR) in the day-ahead energy markets is a critical component of the NYISO's market development strategy and a necessary condition to truly competitive markets**
- 2. FERC has required the three Northeast ISOs to open their energy markets to demand response resources**

# DADRP needs to start growing now



# DADRP is a Valuable Resource.....

- **DADRP is an additional resource for periods when tight supply drives prices higher than its bid price. The payment incentive can be thought of as an insurance policy protecting the availability of DADRP at “any” price.**
  - ✓ *The administrative cost to the NYISO of maintaining the DADRP program (at zero participation) is negligible, approximately \$55,000 per year.*
  - ✓ *Payments to participants have ranged from \$110,000 to \$217,000 per year*
  - ✓ *Total “subsidy/premium” for the DADRP “insurance policy” is thus between ~\$150,000 and 250,000 per year.*

# Historical DADRP Cost/Benefit

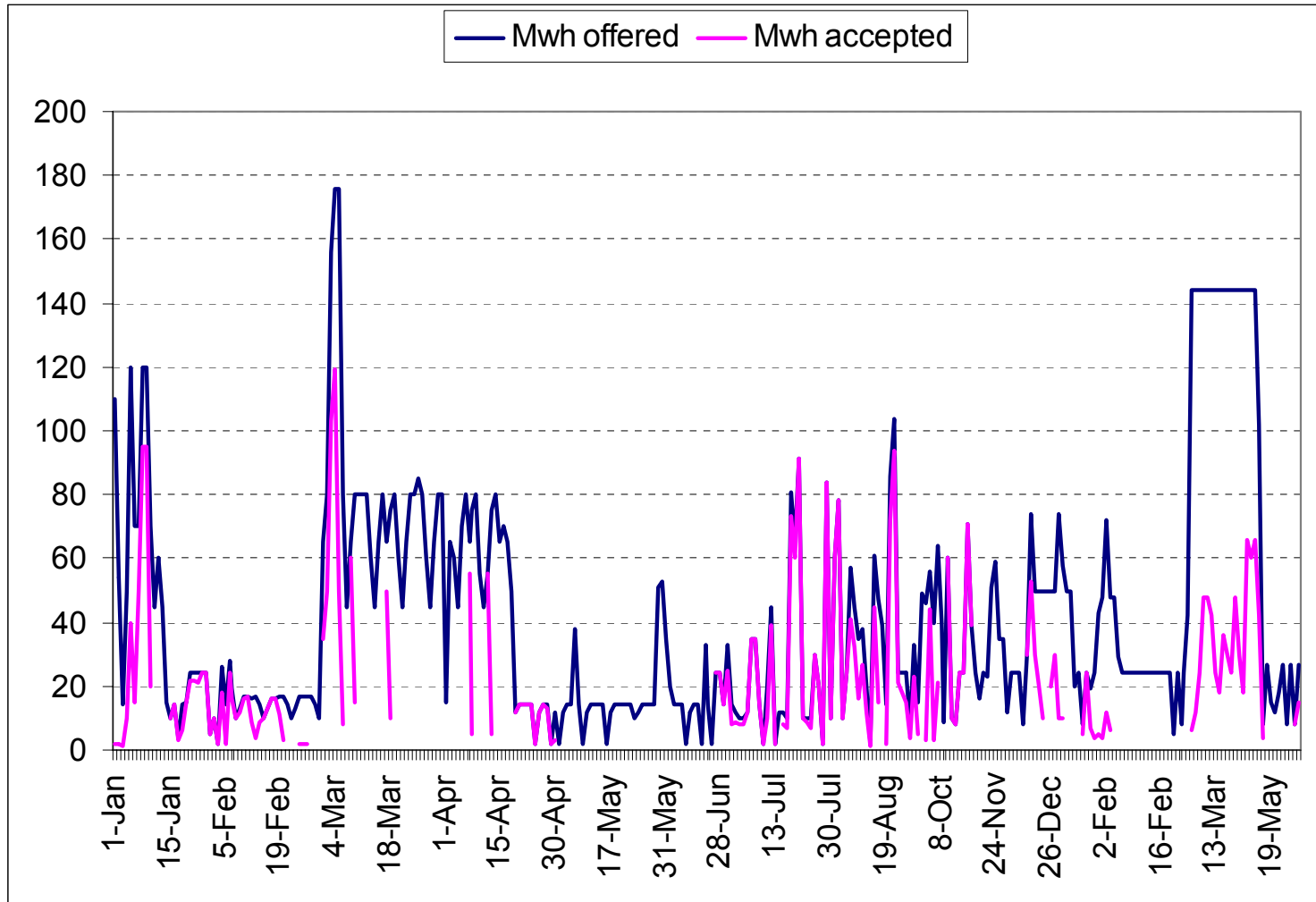
## DADRP Cost/Benefit Analysis

		<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>01 - 04</u>
<b>Labor</b>		\$20,453	\$13,778	\$9,818	\$12,272	\$56,321
<b>Payments to Participants</b>		\$217,487	\$110,216	\$121,144	\$40,651	\$489,498
<b>Consulting</b>		\$0	\$43,333	\$43,333	\$43,333	\$129,999
<b>Total Program Costs</b>		\$237,940	\$167,327	\$174,295	\$96,256	\$675,818
<b>Market Impact</b>		\$1,570,998	\$439,094	\$207,331	\$32,802	\$2,250,225
<b>Qualitative Criteria</b>	<b>Weighting</b>					
<b>Avoided Risk</b>	<b>10%</b>	2.00	2.00	2.00	2.00	2.00
<b>Customer Satisfaction</b>	<b>10%</b>	4.00	1.50	0.50	1.00	1.75
<b>Environmental Impact</b>	<b>10%</b>	2.00	2.00	2.00	2.00	2.00
<b>Market Efficiency</b>	<b>10%</b>	3.00	1.00	1.00	1.00	1.50
<b>Core Benefits Score</b>	<b>40%</b>	2.75	1.63	1.38	1.50	1.81
<b>Cost/Benefit Ratio</b>	<b>60%</b>	0.15	0.38	0.84	2.93	0.30
<b>Overall Weighted Score</b>		<b>3.41</b>	<b>2.82</b>	<b>2.45</b>	<b>1.24</b>	<b>2.94</b>
	(0-4, 4=highest)					

# ..... At a Bargain Basement Cost

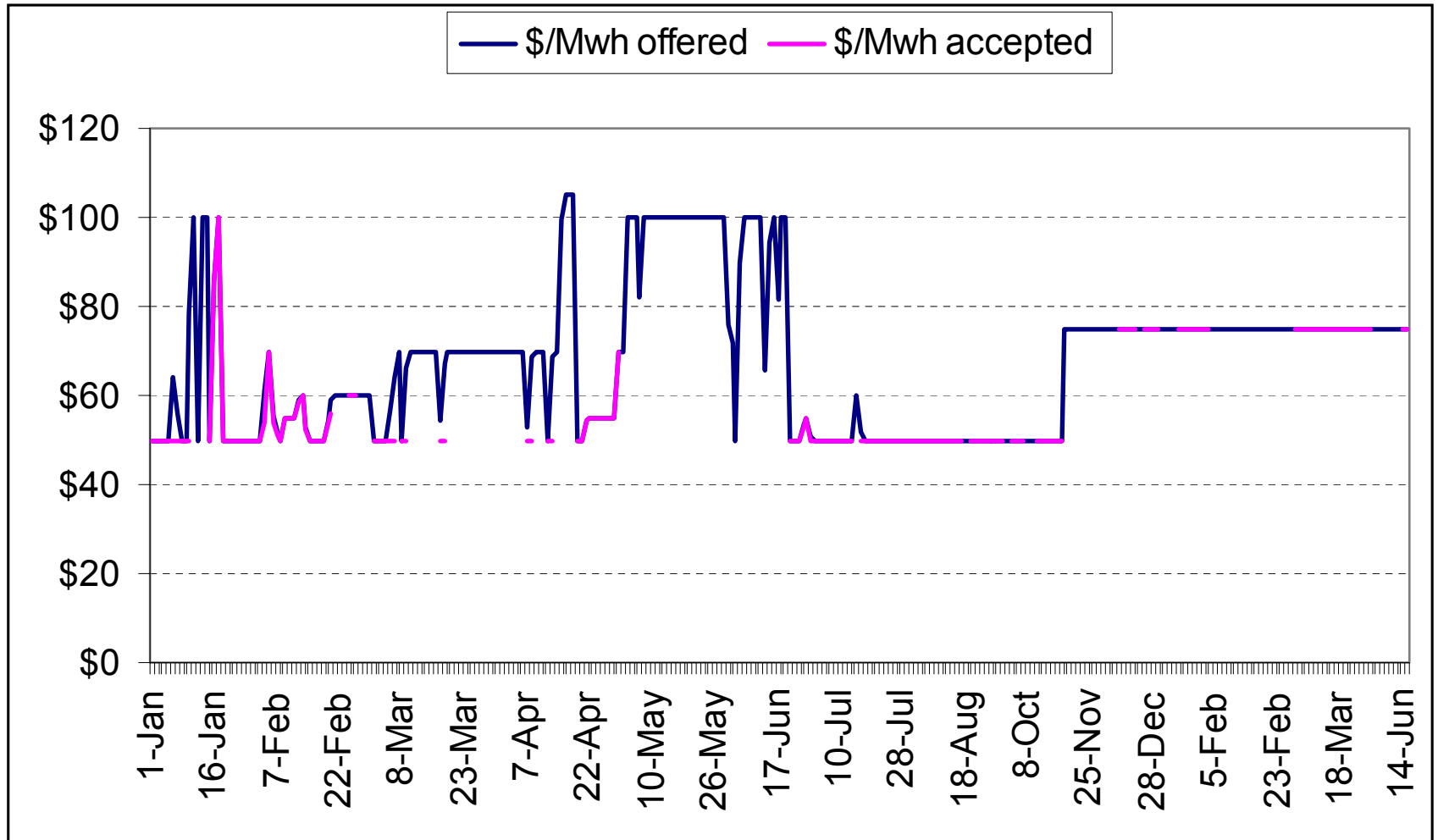
- **When supply curves are steep (i.e. the “hockey stick” is present), DADRP is highly cost effective**
  - ✓ *In 2001, when supplies were relatively tight, the DADRP program provided an estimated \$2.2 million in benefits (collateral savings and reduced hedge costs) relative to program payments of ~\$0.2 million*
- **During periods when supply curves are flat, DADRP benefits are more limited**
  - ✓ *In 2003, benefits and payments were approximately equal at ~\$0.2 million*
  - ✓ *The Bid floor strikes a balance between participation and value*

# DADRP Experience (1/1/2004-6/23/2005)





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# Aggregators are Essential

- **Aggregators have proven to be the key to marketing NYISO's reliability demand response programs**
- **Simple extension of DADRP for another year or two does not address the fundamental concern of aggregators that aggressive attempts to market DADRP may be met with program cancellation next year**
- **Without enthusiastic efforts by aggregators, the other DADRP initiatives (standing bids and notification) are likely to be ineffective**

# DADRP Barriers

- **Day-Ahead prices have been lower than necessary to attract participation**
  - ✓ *The prices at which most loads are willing to reduce consumption on a non-emergency basis appear to be above recent market prices*
  - ✓ *Demand response resources appear not to be competitive with the offer prices of all but the most expensive generators, thus*
  - ✓ *Demand Response bids are likely to be scheduled relatively infrequently*
  - ✓ *Economic demand response is not a “baseload” resource, but rather looks more like a “super peaker”, called upon when all but the most expensive resources have been called upon*
- **Lack of Certainty**
  - ✓ *Potential DADRP participants and aggregators report that the lack of certainty regarding continuation of DADRP represents a major barrier to expending the resources necessary to participate/enroll customers in the program*
- **Complexity**
  - ✓ *Participation in the DADRP program requires daily monitoring of the NYISO Market Information System and the regular submission of bids.*

# NYISO's DADRP "Vision"

**Several hundred MW of active DADRP resources available to be called upon when the LBMP reaches their bid price**

- **To achieve this vision, NYISO needs to:**
- **Grow DADRP**
  - ✓ *There are currently ~475 MW registered in the program*
  - ✓ *Less than 20MW actively bid*
  - ✓ *Less than 5 MW are frequently scheduled*
- **Simplify end-user participation by:**
  - ✓ *Providing for standing bids (currently available through MIS)*
  - ✓ *Being able to notify resources when their bids become economic (2006 project candidate)*
- **Encourage third party aggregators to aggressively market DADRP to end-users**
  - ✓ *Aggregators have enrolled the majority of participants in the EDRP and SCR programs*
  - ✓ *Eliminating the uncertainty associated with DADRP as a program is a necessary condition to achieving this goal*