

# *The Price Responsive Load Coalition*

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## **Empowering New York's Electric Consumers**

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### Charter Members

Aaron Breidenbaugh  
Advantage Energy, Inc.  
Association for Energy  
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ConEd Solutions, Inc.  
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The E<sup>3</sup> Company L.L.C.  
Enron Corp.  
KeySpan Business  
Solutions  
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Retx.com  
Tabors, Caramanis &  
Associates

## **Price Responsive Load Coalition Presentation To the Joint NYISO Board/Management Committee Meeting**

October 17, 2000

### Introduction and Background

The Price Responsive Load Coalition would like to thank the NYISO Board and the members of the End-Use Consumer Sector for allowing us to present our views at this meeting even though our membership application to the NYISO is still pending. We are aware that our application to participate as an organization representing end-use consumers has drawn some critical attention. However, we look forward to working with the other NYISO members to finding a suitable place for the Coalition to reside within the NYISO's governance that balances our legitimate need to have a meaningful voice within that structure with the delicate balances already achieved.

The Price Responsive Load Coalition, now little more than three weeks old, is a non-profit organization constituted to advance the ability of end-use consumers to participate more meaningfully in the New York's electricity markets. A copy of the Coalition's Mission Statement is attached. Our membership currently consists primarily of public interest groups, energy efficiency advocates, Load Serving Entities, technology solution providers, and consulting firms – as these were the entities willing to make the initial financial commitment necessary to ensure the Coalition would have sufficient resources to begin its work. Among our most pressing goals however is the need to bring into the organization those entities it is our charter to serve, those end-use consumers whose operational flexibility is the very resource New York most needs to harness in the months and years to come. Our particular focus is in mobilizing those smaller commercial and industrial customers that have gone largely unrecognized by load management programs to date.

To achieve this goal, the Coalition has opened its membership on a non-voting basis to all Small Consumers free of charge. In order to stimulate

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the involvement of these customers in the NYISO, we offer full voting membership in the Coalition to any Small Consumer that makes the modest but important commitment to join the ISO. In this way we hope to further integrate this most important interest group more fully into the marketplace<sup>1</sup>. In addition this will help to populate a currently underpopulated ISO subsector.

### The Need for Price Responsive Load

As the Board itself, along with FERC, and virtually every sector of the Market Participant community has recognized, New York is facing a critical shortage of generation capacity in the face of rapidly growing load. Few can help but have noticed the crisis that faced California and in particular San Diego this last summer. Fewer still have failed to note that there, but for an unseasonably cool summer could have gone New York City.

Despite the best efforts of the generation sector to propose and develop new central-station generating facilities, despite the best efforts of the NYISO to ensure an efficient System Reliability Impact Study Process, and despite the Siting Board's best efforts to expeditiously address Article X applications, New York faces a two to three year period during which, if aggressive actions are not taken, the current gap between supply and demand will continue to grow and several more years before that gap shrinks to levels considered reasonable.

During this period, left unaddressed, the supply-demand imbalance is very likely to result in increasingly severe and frequent price spikes and will eventually result in the need for regular voltage reductions and even rolling.

While the New York Power Authority's recently-announced initiatives to site eleven 50 MW combustion turbines throughout New York City may help, it is still far from certain that all or even most of these units will be able to navigate the uncertain waters associated with siting anything in New York City. Furthermore, even if NYPA is successful, if load continues to grow at the present rate the supply crunch will only be reduced, not eliminated.

Most parties have already recognized that the best resource available to the state during this period that is most likely to be available to stave off severe price spikes and potentially the need to curtail customers involuntarily is the vast, and still largely untapped supply of "negawatts" controlled by consumers. But this resource can only be realized through aggressive and focussed efforts on by the ISO, the utilities, state government, and New York City to remove numerous barriers, and the effective mobilization of service providers and consumers.

### Goals and Methods

The Coalition's fundamental position is that once New York removes numerous the longstanding barriers to the development of price responsive load and distributed generation, and provides consumers with the information, ability, and incentive to act on market prices, that the private market will develop the demand-side resources needed by the state faster and more efficiently than any government- or ISO-sponsored program could ever hope to do. To the extent that this is still not fast enough, the state should put in place incentive-based programs to move the market even faster.

In pursuit of its Mission, the Coalition has already begun actively participating in the NYISO's Price Responsive Load Working Group process. Our goal in that forum is to ensure that as many barriers to the market implementing price responsive and emergency load curtailment programs

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<sup>1</sup> / Full voting membership in the Coalition is also open to entities that represent Small Consumers, as well as all other End-Use Consumers, Other Suppliers and Environmental Groups, provided they agree to pay an equal share of the Coalition's costs. Due to the likelihood of conflicts on a number of issues, the Coalition presently excludes members of the Generator, Municipal, and Transmission Owner sectors. Nevertheless, it is our intention to work very closely with members of any sector that share our vision of empowering consumers.

are removed by next summer. In addition, we have met with the New York State Department of Public Service to discuss tariff-related barriers to price responsive load, and the New York State Energy Research and Development Authority to suggest ways in which the state can encourage LSEs and consumers to develop the potential still laying fallow as quickly as possible.

We strongly support and applaud the DPS Staff's recent recommendation to extend the System Benefits Charge program and to accelerate the collection of SBC funds so that they can be speedily directed to price responsive load programs as soon as possible. We hope and expect that the NYISO will be closely involved in this process.

In the near future, the Coalition also plans to meet with the New York State Department of Environmental Conservation to discuss ways in which unused back-up generation can become a meaningful resource without jeopardizing the environment.

Finally, if it appears that action by the legislature is necessary to realize the state's goals, the Coalition will be there to provide its input and guidance.

### Recommendations

#### 1) Emergency Load Curtailment Programs are Not Enough

First, the ISO, PSC and others must not be lulled into thinking that emergency programs such as those recently adopted in PJM, New England, and California, or proposed by ConEd will be sufficient to the challenge before us. They will not.

While the ISO and PSC should aggressively pursue such programs, they need to recognize that these programs are still largely untested and have never been called upon to produce the results needed to meaningfully address the looming crisis that faces New York. They may suffice to keep the lights on, but they will not be enough to keep prices down.

By their nature, these are emergency programs, triggered by the system operator only when the power system is nearing collapse. At such times prices will no doubt rise to stratospheric levels. The problem is that there are many customers that will not be at all interested in paying stratospheric prices and would instead prefer to curtail their usage or activate on-site generation when prices rise to only mid-way through the troposphere.

The process to develop PJM-like programs is vital and should be completed as soon as possible. Equally important will be the need to test these programs prior to next summer through a limited pilot program in the late winter or spring. This will allow time for corrections to be made before summer.

We cannot afford to place all of our eggs in one basket; we can afford even less to drop those eggs into the basket all at once before we know how well the basket was woven.

#### 2) Customers Must be Able to Just Say "No"

In parallel with the development of the emergency load curtailment programs, it is vital that the ISO and the state act to ensure that consumers have the ability to see prices, to take actions to respond to those prices, and to realize the appropriate rewards for their responses.

The NYISO has promised consumers for more than two years that they would have the ability to submit price-capped load bids that would allow them to opt out of the market when day-ahead prices rise above levels they are willing to accept. This ability is an

absolute prerequisite to meaningful participation by consumers in the marketplace. After implementing an emergency load curtailment program, providing this capability should be the NYISO's single most important task between now and this summer. If it is necessary to put other ISO projects on hold or to delay them, so be it.

The ability of parties to submit virtual bids, trade at hubs, or do any of the other things they can't do now but would like to will be meaningless if the ISO markets are shut down as the result of a political backlash to shortages this summer. All of these projects are valuable and will help to increase the efficiency of the market, but they cannot be allowed to stand in the way of consumers' long-delayed right to get out of the market when they can't afford to stay in.

The NYISO Board should assign the highest priority to implementing price-capped load bidding by no later than April 1 and should direct its staff to undertake whatever actions are necessary to meet this goal.

3) Customers Must be Able to Respond to Real-Time Prices and Benefit Accordingly

In addition to being unable to opt out of the day-ahead market, most customers are currently blind to spot market prices. A kilowatt-hour used on-peak is generally worth the same to them as one used off-peak. The same applies to energy they choose not to use. Most customers that take actions to save a kWh save a fixed amount on the order of a few cents. This savings remains the same whether the spot price on the wholesale market at the time is three cents/kWh or three dollars/kWh.

The ISO needs to take action to ensure that all customers can realize the true economic benefits of their reduced consumption and must develop rules that allow these negawatts to be sold back into the spot market directly by the customer or its LSE/aggregator.

4) Reforms to the ICAP Markets are Crucial

The NYISO has already made significant strides by proactively addressing the need for so-called Special Case Resources, including emergency and back-up generators, as well as Interruptible Loads to participate in the capacity market. Nevertheless, it is crucial that certain reforms be made to further encourage participation by consumers.

The ICAP Working Group has been made aware of these necessary changes, and we are pleased to note that significant progress is being made.

As noted above though it is imperative that Special Case Resources activated by the NYISO receive appropriate credit for the energy they provide, as well as their capacity.

6) NYISO Needs to Allow Aggregation

The NYISO's Market Information System (MIS) is currently incapable of recognizing bids in non-integer or less than 1 MW amounts. While a significant number of individual loads in the state are larger than 1 MW, the requirement that demand reductions be offered in 1 MW increments creates significant artificial limitations on both the number and types of customers that can respond meaningfully to high electric prices.

A substantial resource base of facilities having demand reduction capability in the 100 kW range exists all over New York at medium-large commercial and industrial facilities. Even greater resources exist throughout the state's small commercial and industrial facilities with smaller peak loads.

The NYISO needs to modify its MIS and operating software to accommodate non-integer increments of supply and demand resources. This is an issue that has been on the ISO screen for months and needs to be pursued diligently. In the shorter term, the NYISO must be able to accommodate the need for LSEs to aggregate smaller facilities at disparate locations for participation in ALM and price responsive load programs. It should not be necessary for each individual load to be located at a specific NYISO bus, nor for the amounts aggregated to be rounded into 1 MW increments.

7) NYISO Needs to Work to Accommodate Loads in the Ancillary Services Markets

The Coalition believes that ancillary service markets should not be forgotten. Many customers are capable of shedding load within the 30- and 10-minute windows required for participation in the NYISO's reserve markets. The ISO's process should explore the ability of loads to provide 30-minute reserves, 10-minute non-spinning reserves, as well as 10-minute spinning reserves (if NPCC uncertainties can be resolved

8) Additional Incentives Need to be Considered

New York urgently needs to acquire additional responsive demand side resources before next summer. Accordingly, the NYISO should provide additional incentives (beyond the market reforms advocated herein) to attract demand reduction resources beyond or sooner than those the market might otherwise provide. Such incentives could be developed jointly by the NYISO, PSC and NYSERDA and funded from System Benefit Charge funds.

Any incentives should be performance-based and structured so as to encourage rapid development, testing, and broad participation. The Coalition intends to discuss the concept of incentives further with NYSERDA and others.

# THE PRICE RESPONSIVE LOAD COALITION

## MISSION

It is the mission of the Price Responsive Load Coalition (PRLC) to promote the ability of electric customers to respond to market signals through load reduction, curtailment, fuel switching, generation, energy-efficiency, and other technologies.

## APPROACHES

PRLC will participate in relevant processes at the New York Independent System Operator, New York Public Service Commission, New York Legislature, and other regulatory and policy-making fora in furtherance of its mission.

PRLC will attempt to advance its mission, where possible, through collaboration and consensus building with all participants in the New York electricity markets.

## GOALS

The PRLC's goals include:

- **Increasing Customer Choice** - Providing all end-use electric customers with a meaningful opportunity to respond to the market price of energy, capacity, and ancillary services.
- **Enhancing System Reliability** - Providing equitable opportunities for energy users to realize the true benefits of reduced consumption, recognizing not only the appropriate value for energy not consumed, but the value of their reduced consumption in enhancing the reliability of the interconnected transmission and distribution system.
- **Lowering Market Barriers** – Reducing barriers to the development, construction, interconnection, and operation of distributed generation facilities and other demand-side resources that have the effect of reducing load, particularly during peak periods.
- **Receiving Equal Treatment** - Ensuring that demand-side and distributed resources have a comparable opportunity to participate in markets alongside traditional generation facilities.
- **Developing Liquid Markets** - Encouraging the development of robust, liquid markets for demand-side participation in New York's energy, capacity, and ancillary service markets.
- **Capturing Benefits** - Ensuring that all of the benefits of distributed and demand-side resources are appropriately considered and captured by those resources.
- **Lowering Reserve Margins** – Installed reserve margin requirements should appropriately reflect the contribution of reliable reductions in peak load and peak load reduction programs should receive adequate credit in the market for installed capacity.