Demand Response as the Proxy Plant for the ICAP Demand Curves

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NYISO ICAPWG Meeting

January 22, 2013

Rensselaer , New York

DRAFT – FOR DISCUSSION PURPOSES ONLY

NYISO Commitment for Current Reset

In the NYISO's Final Report for the 2011-2014 Demand Curves reset, NYISO committed to consider the use of demand response as the peaking unit in the next reset cycle, contingent upon

- ***better definition of the process for identifying demand response technology types, and***
- ***the methodology and means to quantifying the fixed and variable costs associated with those technologies***

[NYISO Report is Exhibit DJL-1 to NYISO November 30, 2010 Filing in EL12-2224-001.]

- **As part of the Evaluation of the New York Capacity Market scope, FTI was asked to evaluate the use of demand response as the ICAP Demand Curve peaking unit.**

FTI Evaluation of the New York Capacity Market - Preliminary Draft - Conclusions on Demand Response

- **"Demand response resources can be used to meet forecasted peak load, but cannot however, be used to meet forecasted firm load because by definition firm load is the load that must be met after the load of Special Case Resources and other demand response is off the system."**

  [Page 13, FTI Evaluation of the New York Capacity Market - Preliminary Draft , November 7, 2012]

FTI Conclusions on Demand Response – contd.

- **"The costs to power consumers of reducing consumption in order to provide incremental demand response would not provide a workable basis for setting net CONE, because it is inherently customer specific, rather than a generic cost that can be benchmarked as in the case of a generating facility."**

  [Page viii, FTI Evaluation of the New York Capacity Market - Preliminary Draft , November 7, 2012]

FTI Conclusions on Demand Response – contd.

- **"…while demand response is an important resource in capacity markets, neither the "cost" nor the offer price of these resources provide an appropriate exogenous measure of the long-run cost of the capacity used to meet firm load."**

  [Page 13, FTI Evaluation of the New York Capacity Market - Preliminary Draft , November 7, 2012]

FTI Draft Capacity Market Study—Recommendations on Proxy Unit

- **Since demand response reduces the amount of generation needed to meet firm load, it cannot be used to meet firm load. Therefore, demand response is not a suitable resource for anchoring the demand curve.**

  [Page 13, FTI Evaluation of the New York Capacity Market - Preliminary Draft , November 7, 2012]

NYISO Conclusions

- **NYISO concurs with the FTI conclusions that demand response is not a suitable resource for the proxy unit used to establish the Demand Curves.**
- **The NYISO does not have the appropriate data to define the fixed and variable costs that are comparable to a generator, either by "generic" demand resource category, or in the aggregate.**

Proposed MST §5.14.1.2 Tariff Language

- **Proposed tariff revisions marked in separate Word document provided with meeting materials**
- **The main difference from the revisions proposed at November 19, 2012 ICAPWG is "unit" has been replaced by "Generator"**
- **At that ICAPWG meeting, the NYISO proposed that the tariff also be revised so that it is the technology that results in the lowest ICAP Demand Curve reference point among all other units' technology that are economically viable.**
  - ***Current tariff provides that it be the plant with the lowest fixed costs and highest variable costs***

Proposed Tariff Revisions

- **Review of *MST Section* §5.14.1.2**
- **Next Steps**
  - ***February 2013 BIC and MC***
  - ***March Board of Directors***

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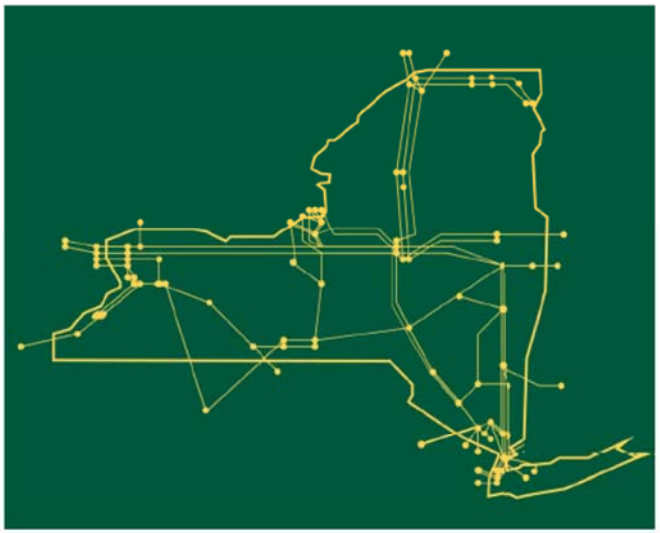

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