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Dear FTI Consulting and NYISO ICAPWG:

As a Curtailment Service Provider, I have two observations on FTI Consulting's draft "Evaluation of the New York Capacity Market" pertaining to the cost of demand response:

1) I believe the draft is freely interchanging the cost of demand response with an SCR's displaced energy costs for performing in a demand response event when they are in fact two separate items. Put another way, the draft is defining the cost of demand response as an opportunity cost for performing in an event as opposed to the ongoing expense for RIPs to administer and sell the program.
2) The draft's rationale for demand response's inability to anchor the demand curve is flawed – the CONE of demand response can in fact be quantified, but at the RIP level, not for each SCR separately.

The end of page 12 reads: "It would also be problematic to use the costs of demand resources to set CONE because *the relevant cost of demand response is the marginal value of the foregone power consumption, which is both customer specific and difficult for an ISO to estimate*."

I find a few flaws in this argument:

- Foregone power consumption = KWHs shed X the LMP. This is an energy calculation, not a capacity calculation, but is mentioned in a discussion on the ICAP DC. Forgone power consumption occurs a few hours per year for the SCR program. However, the cost of demand response is an ongoing cost in the capacity market (except for DADRP load).
- The study should not hint that the costs of DR should be calculated at a resource level. The costs should be calculated at the RIP level and view a RIP as a generating unit.
- This definition of DR costs ignores all of the fixed costs that occur at DR providers. After all, if there are no events, demand response still receives capacity payments, even where there is no foregone power consumption.
- Why is the cost of demand response simply not defined as the sum of capacity and energy payments paid to RIPs?

On page 14: "While there is a communications and settlement infrastructure cost to providing demand response, just as there are such costs to interconnecting physical generation, the bulk of the cost of providing demand response is the value of the

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power consumption that must be reduced to provide the demand response, and there is no stable measure of this cost."

I strongly disagree with this statement. If the study is intending to quantify the cost of DR at the resource level, it should state the rationale for doing so. As an *independent* system operator, the NYISO shouldn't be put into a position to base a calculation on the operating expenses of a customer of an MP, especially when the result is "there is no stable measure of this cost."

The cost of demand response should be the sum of the capacity and energy payments to RIPs. The bulk of the costs covered by these are ongoing SG&A costs standard to any service organization, coupled with a bundle of costs somewhat unique to this field – Engineering, a Command Center, and costs associated with metering and providing an energy management platform. The costs of foregone consumption are reimbursed in the form of energy payments a few times per year while these fixed costs are covered via the larger monthly capacity payments. These costs can absolutely be quantified and built into the CONE. However I do agree they should not be, as the MST dictates that a peaking unit be used for establishing the DC. As per section 5.14.1.2 of the MST, a peaking plant is a "unit with technology that results in the lowest fixed costs and highest variable costs among all other units." In contrast, Demand Response providers have high fixed and low variable costs.

In conclusion, I would request FTI to revisit its view on the cost of demand response in the study. Further, the relationship between capacity pricing and demand response participation should be included in the study. This issue is touched on in the discussion on a possible FCM, but should be analyzed as a stand-alone issue.

Sincerely,

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