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DADRP Recommendations

Presented to:
NYISO Price-Responsive Load Working Group
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Presented by:
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Objectives of DADRP

- **To increase competition in DAM**
  - **Reduced price volatility**
  - **Reduced reliance on artificial market controls**
- **To increase competition in NY State's retail market**
  - **Create opportunities for customers to experience dynamic pricing**
  - **Demonstrate the value of dynamic pricing**

Summary of DADRP Activity for 2003

- **Enrollment**
  - Over 300 MW on the books
  - 27 participants, including 3 new

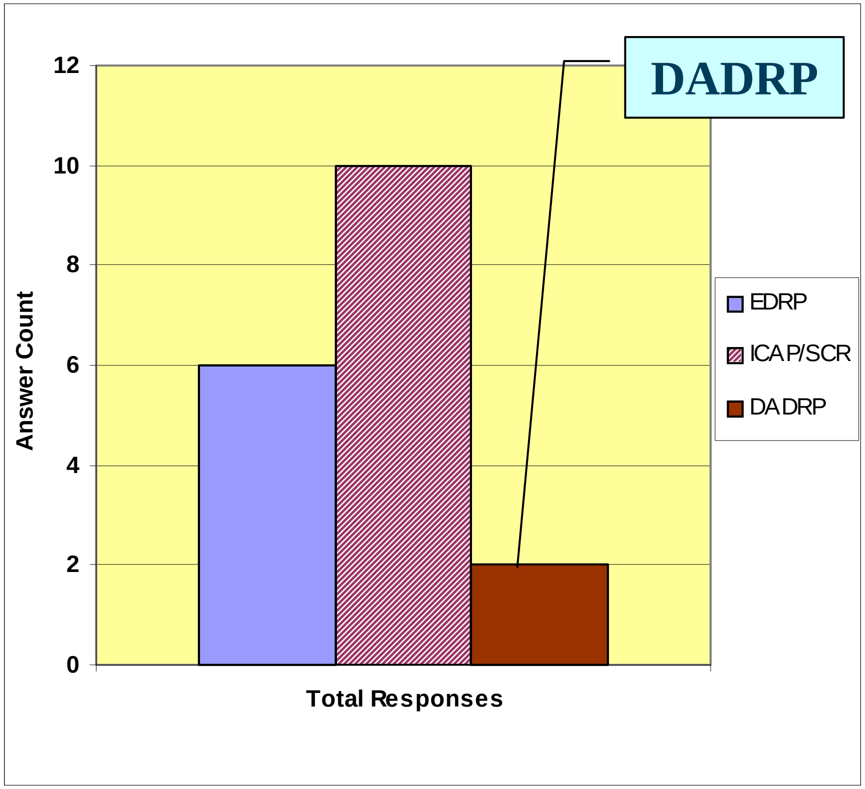
Bidding

  - Few actually bid
  - Too many at very low prices, non-critical periods

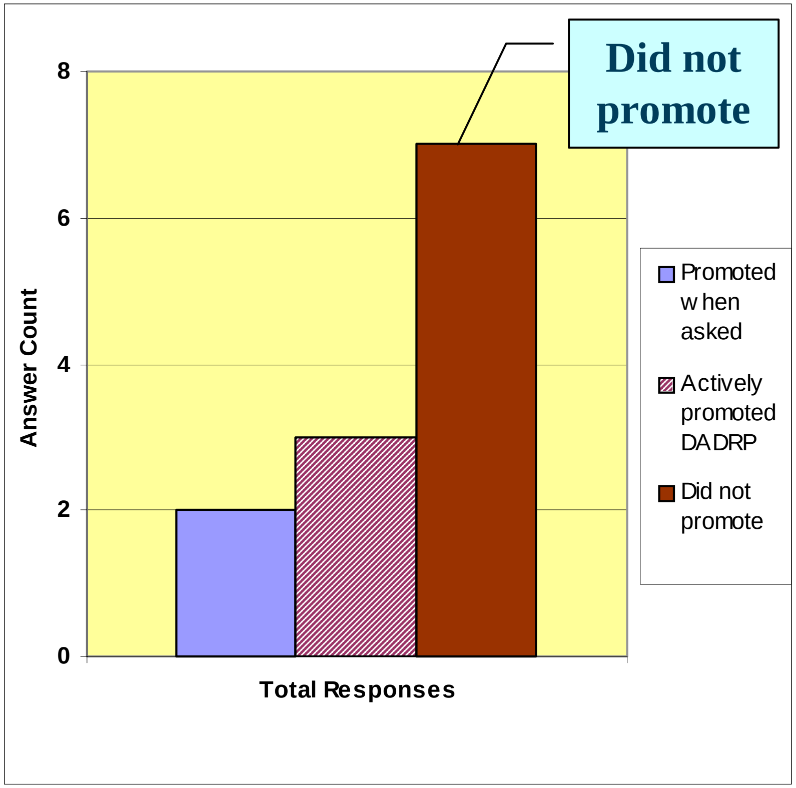
- **Scheduled**
  - Max 15 MW in 2003
  - Not much higher in 2002

NYISO Survey of CSPs

Which programs were promoted?



Efforts to promote DADRP



<u>Barrier #1: Almost no one is actively promoting DADRP</u>

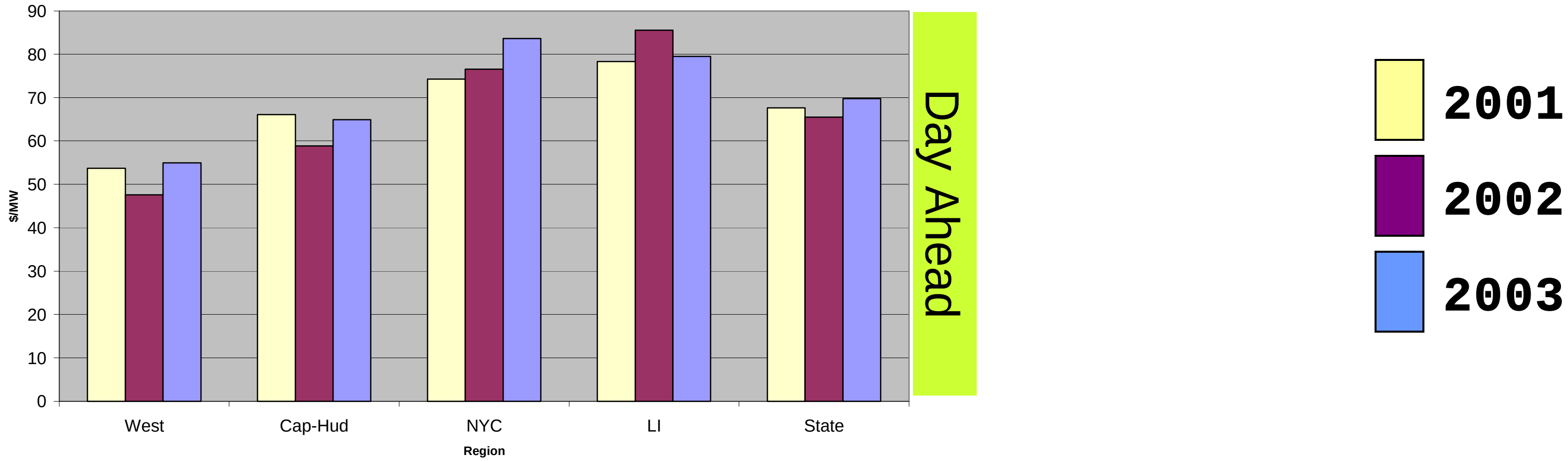
Design Barriers to Promoting DADRP

- **Program uncertainty**
- **One MW minimum bid (but 100 KW increments thereafter)**
- **Limited bus availability**
- **Credit requirements for enrolling entity**
- **"Penalty" remains – higher of DAM or RT price**
- **Data must be submitted by a TO**

Barrier #2: DADRP program design limiting promotion.

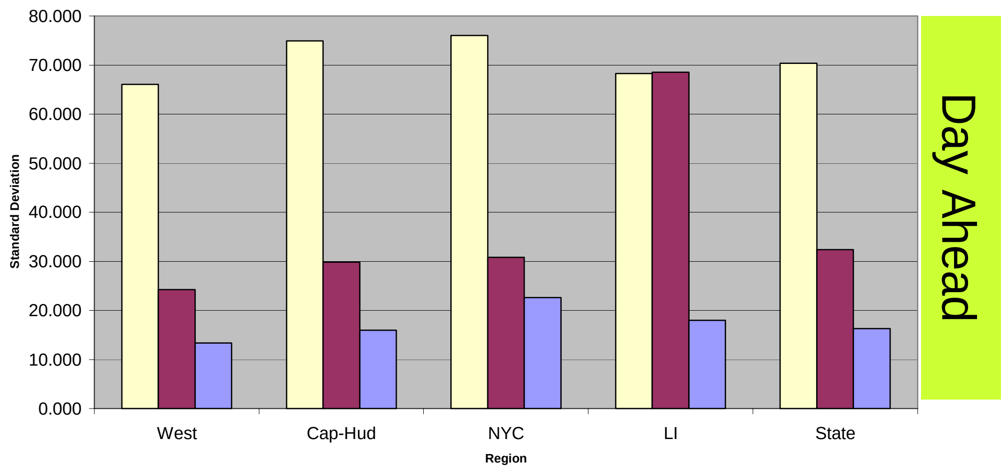
Summer NYISO DAM Prices

Day-Ahead Average Prices have increased

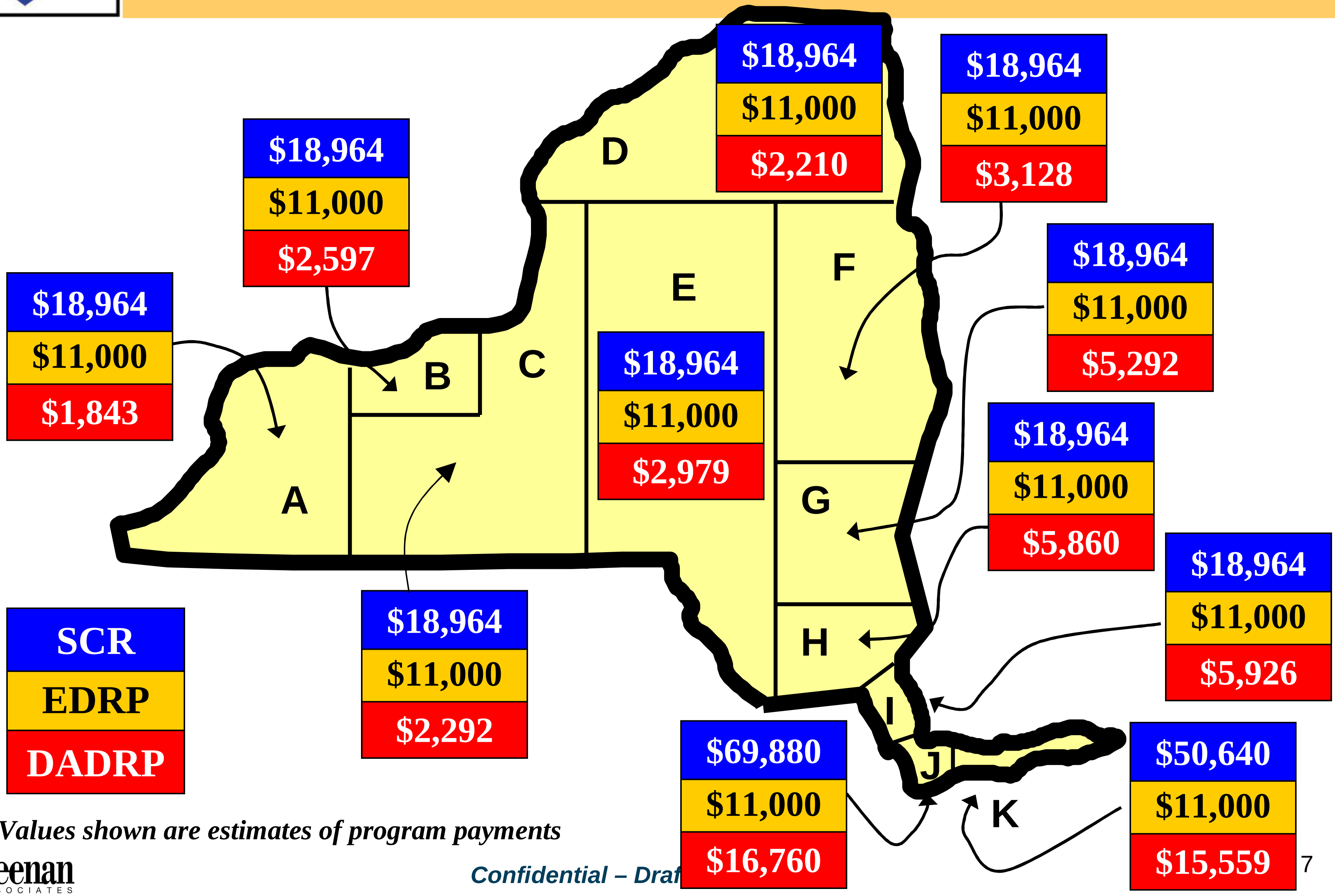


Day-Ahead Price Volatility has decreased

- Statewide average prices higher in 2003 in DAM, but volatility has been dramatically reduced



Value of 1 MW of Demand Response



Values shown are estimates of program payments

CSPs don't see value of DADRP

- Lack of price volatility means fewer opportunities to be scheduled
  - CSPs think customers have high outage costs, therefore would need to bid high
- Value of 1 MW of DADRP is significantly lower than reliability programs
- CSPs can't recover up-front investment and customer acquisition costs of promoting DADRP

Barrier #3: Benefits don't outweigh costs for CSPs to develop infrastructure

Customers don't understand the market

- Enrollment in EDRP and SCR is steady, yet programs have shorter notice than DADRP and penalties in SCR can be much greater than benefits
- Most customers have demonstrated curtailment capabilities in reliability programs
- Customers are not market experts, but bidding requires market expertise
  - Evolving market structure
  - Characteristics of NYISO DAM prices
  - Use of non-linear and step-wise bidding provisions

Barrier #4: Customers are unable to develop bid strategies

Current state of the DADRP program

- Very little promotion by CSPs
- CSPs don't see value to invest in infrastructure
- Customers don't know how to bid and don't understand the market
- Price volatility appears to have calmed down

Why continue DADRP?

DADRP Provides Important Market Benefits

- Tighter capacity and continued load growth forecasted for next few years
- Price Capped Load Bidding not backed up by actual load reductions
- Few retail RTP-type product initiatives
- Adequate amount of DADRP resources would serve as competition to generators
  - To restrain prices naturally
  - Would ultimately remove the need for bid caps
- DADRP has potential to make dramatic reductions high prices
  - With more reasonable goals for DADRP curtailments (Lesser of 5% of zonal load or 500 MW), the highest price seen in the summer of 2001 could have been cut by nearly a third.

Customers need more help

- **Market Information and experience**
  - **Training**
    - **General market information**
    - **Market trends (e.g., long-term price forecasts)**
    - **Market simulations (e.g., Cornell)**
- **Support**
  - **DR Audits**
    - **Identify curtailable load**
    - **Determine when load can be curtailed**
    - **Estimate cost of load curtailment**
    - **Develop bidding strategies**

DADRP "Super Aggregator"

- Single independent entity that acts as "Super Aggregator" for all interested LSEs, CSPs and Direct Customers
- Aggregator's relationship with NYISO would be functionally identical to that of a CSP. However, the Aggregator would <u>not</u> compete with CSPs, would not market to end-users.
- Accepts bids from all comers on a non-discriminatory basis
- Creates infrastructure to facilitate mass aggregation of bids at standardized buses
- Addresses limitation on number of busses
- Addresses 1 MW minimum bid issue
- Simplifies bidding through standard bids
- Facilitates standing bids
- Allows CSPs to promote without burden of cost for developing DADRP "back office"

Example of Standardized DADRP Products

		Strip Strike Price		
		$100	**$250**	**$400**
Strip Window	**4 Hours** *(1 p.m. – 5 p.m.)*	**A**	**B**	**C**
	8 Hours *(10 a.m. – 6 p.m.)*	**D**	**E**	**F**