

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

113 FERC ¶ 61,089

October 25, 2005

In Reply Refer to:
New York Independent System Operator, Inc.
Docket No. ER05-1437-000

New York Independent System Operator, Inc.
Attn: Robert E. Fernandez, Esq.
General Counsel and Secretary
3890 Carman Road
Schenectady, NY 12303

Dear Mr. Fernandez:

1. In this letter order, the Commission accepts tariff revisions submitted by the New York Independent System Operator, Inc. (NYISO) to eliminate the sunset provisions of its Day-Ahead Demand Response Program (DADRP) and its Emergency Demand Response Program (EDRP). These programs were scheduled to expire on October 31, 2005.
2. The Commission accepted revisions to the NYISO Services Tariff to implement the DADRP in an order issued on April 27, 2001.¹ The Commission accepted an extension of this program, until October 31, 2005, in a letter order issued on October 29, 2004.² The Commission accepted revisions to the NYISO Services Tariff to implement the EDRP in an order issued on May 16, 2001.³ The Commission accepted an extension of this program, until October 31, 2005, in a letter order issued on March 21, 2003.⁴ To date, both programs' continuation has been subject to annual review.
3. NYISO provides four reasons why the DADRP should be made permanent. First, NYISO states that this program has been repeatedly vetted and supported by stakeholders as the most effective use of Demand Side Resources (DSR) in its day-ahead energy

¹ *New York Independent System Operator, Inc.*, 95 FERC ¶ 61,136 (2001).

² *New York Independent System Operator, Inc.*, 109 FERC ¶ 61,101 (2004).

³ *New York Independent System Operator, Inc.*, 95 FERC ¶ 61,223 (2001).

⁴ *New York Independent System Operator, Inc.*, 102 FERC ¶ 61,313 (2003).

market and alternative designs, including Market Participant-designs, have failed to gain more support than the existing program.

4. Second, NYISO states that its primary concern with DADRP “is the fact that it has an expiration date. This creates uncertainty that discourages potential new DSRs from expending the time and effort necessary to participate in the program.” NYISO adds that few entities are likely to incur the costs of developing demand reduction products, recruiting customers and establishing administrative processes for only one year. In NYISO’s view, making DADRP permanent will eliminate these problems.

5. Third, NYISO asserts that DADRP has provided quantifiable economic benefits by reducing price volatility and ultimately reducing costs. NYISO explains that, when DADRP curtailments displace higher-priced resources, the corresponding Day-Ahead Market clearing price falls, reducing the cost of purchases made by LSEs through fixed price and price cap load bids.

6. Fourth, NYISO states that DADRP cost/benefit evaluations demonstrate favorable program paybacks.⁵ NYISO states that the benefits have been particularly significant during periods of relatively tight supply. For example, NYISO estimates that in 2001, when supply was tight, DADRP provided \$2.2 million in benefits,⁶ relative to program costs of approximately \$200,000.

7. Regarding the EDRP, NYISO advances three reasons why this program should be made permanent. First, NYISO asserts that program participants are “quite satisfied” with its performance.⁷

8. Second, NYISO asserts that having a program such as EDRP is “critical to ensure a functioning grid if an emergency occurs that results in the need for demand reductions. In fact, EDRP has been activated eleven times since it became effective” and “most notably, EDRP resources aided in system restoration during the August 2003 blackout by remaining off the system on the two days immediately following the blackout, thereby allowing several hundred MW of system load to be served.”

⁵ See NYISO Bi-Annual Compliance Report on Demand Response Programs, Docket No. ER01-3001-011 (December 1, 2004).

⁶ The benefits included collateral savings (reduction in load serving entity day-ahead and real-time energy costs due to lower location-based marginal prices (LBMPs)) and reduced hedging costs (imputed impact of lowered LBMPs on future bilateral contract supply costs).

⁷ See 2003 NYISO PRL (Price Responsive Loads) Evaluation Report, Chapter 1, p.1-3.

9. Third, NYISO states that EDRP cost/benefit evaluations demonstrate favorable program paybacks.⁸ For example, NYISO states that evaluations showed EDRP benefits outweighed costs within six months during the period from 2001 to 2003.

10. Notice of NYISO's filing was published in the *Federal Register*, 70 Fed. Reg. 54,735 (2005), with protests and interventions due on or before September 22, 2005. No protests were received.

11. Interventions accompanied by comments supporting adoption of the proposed changes were filed by Multiple Intervenors⁹ and by the New York State Public Service Commission (New York Commission).¹⁰ Both Multiple Intervenors and the New York Commission assert that the programs will enhance reliability in New York State and make NYISO energy markets more competitive. Both emphasize that the programs' sunset dates foster uncertainty and discourage potential new DSRs from investing the time and resources necessary to participate in these programs.

12. Multiple Intervenors (supported by the New York Commission) assert that DADRP contributes to price reductions during times when DADRP curtailments displace higher-priced resources and that EDRP helps preserve system reliability in the event of reserve shortages or emergency conditions. Multiple Intervenors further assert that participant satisfaction in the EDRP is evidenced by the continuing increase in the number of participants. For example, in the first year of the EDRP (2001), 292 participants supplied over 400 MW of sustained load over a total of 17 hours on three consecutive summer days, when reserves were short.¹¹ In 2002, EDRP participants subscribed more than 1481 MW of load, representing a more than three-fold increase from 2001 enrollment.¹²

⁸ See NYISO Bi-Annual Compliance Report on Demand Response Programs, Docket No. ER01-3001-011 (December 1, 2004).

⁹ Multiple Intervenors are an unincorporated association of approximately 55 large industrial, commercial and institutional energy consumers with manufacturing and other facilities located throughout New York State, including the service territories of all of the State's major regulated electric utilities.

¹⁰ In addition, a motion to intervene was jointly filed by Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., LIPA, New York Power Authority, New York State Electric & Gas Corporation, Rochester Gas and Electric Corporation, Orange and Rockland Utilities, Inc., and Niagara Mohawk Power Corporation, that raised no substantive issues.

¹¹ See 2003 NYISO PRL Evaluation Report, Chapter 1, p.1-3.

¹² *Id.*

Discussion

13. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2005), the notice of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

14. We find that the DADRP has proven valuable in incorporating Demand Side Resources into the Day-Ahead Market for energy, that EDRP has proven to be a valuable emergency program and repeated short-term extensions of the programs appear to reduce their effectiveness. Moreover, the proposed revisions gained unanimous stakeholder support and no party has contested NYISO's proposal to make these programs permanent.

15. Accordingly, the Commission accepts NYISO's proposed revisions¹³ to eliminate the sunset provisions of its DADRP and EDRP.

By direction of the Commission.

Magalie R. Salas,
Secretary.

¹³ See FERC Electric Tariff Original Volume 2, Tenth Revised Sheet No. 34, First Revised Sheet No. 95.01 and Second Revised Sheet No. 459, as modified, effective November 1, 2005.