The Price Responsive Load Coalition

Empowering New York's Electric Consumers

Membership

Advantage Energy, Inc.

Association for Energy Affordability, Inc.

Customized Energy Solutions, Inc.

The E^3 Company L.L.C.

Enron Corp.

ePowerR_X, a PowerCold Company

MetroGen L.L.C.

Pace Energy Project

RETX.com

Tabors, Caramanis & Associates

Initial Comments to NYISO Price Responsive Working Group

September 22, 2000

The Price Responsive Load Coalition (PRLC) is an informal non-profit organization that advocates on behalf of electric consumers and those public or private interests that are involved in or supportive of the delivery of demand reduction services to electric customers. The ultimate beneficiaries of the Coalition's activities are intended to be end-use consumers, in particular smaller end use customers (< 2 MW in size.)

These smaller consumers are presently the ones least able to participate in the ISO's markets and the ones least able to protect themselves from large price swings in the marketplace. However, they are also those with some of the largest potential to supply demand reduction services to the marketplace if given a real opportunity to do so.

The general philosophy of the Coalition is that once artificial barriers are eliminated, customers, in partnership with private businesses will have both the ability and entrepreneurial drive to make loads an active and vibrant part of the state's energy markets.

PRLC appreciates the opportunity to provide its initial comments and recommendations to the New York Independent System Operator's Price Responsive Load Working Group (PRLWG). While these comments reflect the position of the PRLC as a whole, they do not necessarily reflect the views of all individual members.

A number of PRLC's members are submitting comments and proposals of their own and PRLC endorses those recommendations. The PRLC's comments here are not intended to be exhaustive, but rather to provide a general context and to fill in those gaps not already covered by its membership.

General Comments

The year 2000 has seen extraordinary activity in electric markets around the country. In particular, the convergence of tight supplies in the face of increasing demand, coupled with various market imperfections, has resulted in unprecedented spot prices in the newly deregulated wholesale electricity markets in New York, New England, PJM, and most conspicuously in California.

These escalating prices have occurred in the context of relatively limited abilities for electric customers to respond. Most customers have little choice but to pay whatever price the market demands. In particular, the

Coalition's principal constituents, New York's smaller electric consumers are currently very limited in their ability to protect themselves[1].

In part this is due to an inability of customers to see prices in a timely fashion, thus being deprived of the knowledge to act. In part it is due to the result of customers not being subject to volatile prices, thus having no incentive to react. Finally, it is due in part to the fact that even where customers have the requisite knowledge and incentives, they are often unable to receive appropriate benefits for reducing consumption, thus depriving them of the effective ability to react.

If the summer of 2001 is not to find New York in the unenviable position enjoyed this year by California, Market Participants and regulators alike agree that customers require a significantly improved ability to respond to real-time energy prices by choosing not to consume when the price of consumption exceeds its value.

Active Load Management (ALM) programs such as those adopted in PJM, New England, and California can play an important role in preserving system reliability in the face of severe shortages and should be pursued in New York as well. However, such programs fall short of providing customers with the level of discretion to which they are entitled. For every customer that is willing to be curtailed by the ISO when a system emergency is declared and prices rise to $500/MWh or more, there are many more who would voluntarily reduce consumption in return for reducing their energy costs by or being paid $100/MWh, $200/MWh, or $400/MWh.

Recent studies of the impact of price elasticity in the face of steep supply curves suggest that a relatively small amount of demand reduction during peak load periods can have a vastly disproportionate impact in reducing marginal costs. Thus the actions of a few can provide widespread benefits to many.

In short, giving customers the real ability to respond to price can reduce prices and volatility, as well as reducing load and mitigating the need ever to activate expensive ALM programs.

Receiving Market Value

The single most important factor to the development of significant demand response is the ability of electric consumers to realize the true value of their decisions not to consume electricity.

It is absolutely essential that the New York ISO's Load Serving Entities (LSEs) and aggregators, including end-use customers acting as their own LSEs, be able to reduce their purchases from the hourly markets thereby "selling" the unused power back into the ISO's relevant markets. In the case of resources that agree to interrupt in real time, their LSE must be able to reduce its real time purchases (or increase its real time sales). Those resources that require longer lead times should be able to make day ahead load reduction commitments and receive the day ahead price. The implementation of price-capped load bidding could go far toward addressing this functionality in the Day Ahead Market.

Load reductions during peak load periods provide direct, substantial benefits to the NYISO, both in terms of price mitigation and system security. As such, LSEs should be able to settle verifiable load reductions directly with the NYISO in a timely fashion.

This process should assess the extent to which utility retail access tariffs currently prevent LSE's from realizing the true value of their negawatts. To the extent that LSE's cannot obtainequitable compensation for load reductions, the NYISO should modify its tariff and/or procedures to allow LSEs to sell such reductions back into the NYISO real time market at the appropriate Zonal LBMP price. The Coalition will also pursue appropriate modifications to non-compensatory utility tariffs before the New York State Public Service Commission.

[1] / The Coalition is open to all members of the ISO End-Use Consumers sector. PRLC also welcomes Public Power–Environmental and Other Supplier sector members (without regard to their affiliations with other sectors).

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.

In the longer term, 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.

Instead, since compensation must necessarily be determined after the fact and the NYISO billing system is (or shortly will be) capable of accommodating non-integer settlements, loads should be able to be aggregated by NYISO Zone and compensated in 100 kW increments. To the extent that NYISO system operators need to dispatch such resources in 1 MW increments, LSEs should be able to aggregate dispatchable load resources located at different busses in a zone into 1 MW blocks that would still be paid based on non-integer actual sizes.

Finally, although outside the scope of this process, the PSC should consider increasing the 300 kW threshold for “lightened” interconnection requirements to 1.5 MW. This would facilitate the development of new on-site generation that could be “seen” by the ISO’s current MIS. This recommendation will be advanced in the appropriate PSC context.

Additional Incentives

New York urgently needs to acquire additional responsive demand side resources before next summer. Also demand reductions can have the effect of substantially lowering prices (and hence costs) for all loads, not just those who participate. Accordingly, the NYISO may wish to provide additional incentives (beyond the market reforms advocated herein) to attract demand reduction resources.

Consideration should given to providing incentives, beyond the revenues that would otherwise be obtained through the operation of the market. The feasibility of funding such incentives from the savings that would otherwise be realized by all loads as a result of the demand-reduction in question should also be assessed as part of this investigation.

Ancillary Services

The Coalition recognizes that the most significant incentives for realizing unexploited load reduction potential center around the ability of such resources to participate in the energy and capacity markets. Nevertheless, we believe 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. This process should explore the ability of loads to provide 30-minutes reserves, 10-minute non-spinning reserves, as well as 10-minute spinning reserves. In doing so, it may be that other already recognized concerns about the adequacy of supply in these markets can also be addressed.

We do not recommend immediately accommodating load participation in the ancillary service markets if doing so would delay the adoption of even more critical reforms in the energy and capacity markets. We do believe, however, that the issue should be preserved for future resolution as time and resources permit.

Metering and Verification

Most ALN and price responsive programs proposed to date presume a requirement for interval metering and/or telemetering, both to ensure that load is actually reduced and to accurately record the timing of the reduction. The Coalition recognizes that much of the most economical price responsive demand is of such a size that interval metering and telemetry is either already in place, or is not cost-prohibitive. Accordingly, we do not object to the pursuit of programs in the near term that require such technologies.

However, there is a potentially vast base of load reduction among facilities that are not interval metered and for whom such metering could prove to be a significant disincentive to participation. The PRLC believes that workable cost-effective alternatives to interval metering exist or can be developed and that this issue needs to be preserved for future resolution.

As with ancillary services, we do not wish to see the need to address this issue impair our ability to realize significant demand reductions by next summer, but would like to see the issue addressed as time and resources permit.

Pilot Programs

Pilot programs during the Winter 2000-2001 capability period could provide valuable experience during a time when the system is (hopefully) less stressed, as well as provide valuable experience to assist the parties in fine tuning proposals for next summer.

While it is not prepared to propose any at this time, the PRLC is highly supportive of ALM and price responsive pilot programs. We strongly encourage the ISO to implement and facilitate the third-party implementation of pilot programs this winter, so long as doing so will not interfere with the ability to implement full-scale programs next summer.

Other Barriers

These comments represent the PRLC's initial reaction to the issues raised by the NYISO's process and may not encompass all of the recommendations we may need to make. Accordingly, the Coalition reserves its rights to supplement these comments as the process moves forward. Similarly, to the extent that other barriers exist to the development of demand response resources that are outside the purview of the NYISO, such as retail access rules, utility interconnection requirements, and back-up tariffs, the Coalition will seek relief in the appropriate fora.

Conclusion

The PRLC appreciates this opportunity to offer its views to the NYISO process and looks forward to actively participating in this important effort.

Sincerely,

/Signed/

Aaron Breidenbaugh
Navigant Consulting, Inc. for the
Price Responsive Load Coalition