

# Multiple Intervenors

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## VIA E-MAIL

To: Members of the Price Responsive Load Working Group

Re: Customer Participation in NYISO's Demand Response Programs

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Multiple Intervenors is providing these comments in anticipation of upcoming meetings to address potential changes to two of the NYISO's Demand Response Programs ("DRPs"), namely the Emergency Demand Response Program ("EDRP") and the Special Case Resource ("SCR") category under the UCAP program. Without addressing the threshold issue of whether any such are warranted, these comments will highlight the significant costs that customers incur to participate in the DRPs as a means of demonstrating why the fragile success of the existing SCR and EDRP programs should not be disturbed.

Currently, the DRPs encourage participation by providing customers with flexible options and meaningful payments. In turn, customer participation in the DRPs assist in reducing overall market costs to all customers by: (i) displacing more costly supply options, and avoiding system-wide failures; (ii) providing the NYISO with options to deal with emergencies; and (iii) introducing additional competitors into the Day-Ahead Market ("DAM"), thereby lowering the DAM clearing prices for electricity. However, it is important to emphasize that customers participating in the DRPs incur significant, incremental business costs. Thus, their commitment to the DRPs is directly related to their ability to achieve meaningful compensation and to administer the curtailment. Accordingly, proposals that would decrease the level of compensation (e.g., severing the link between the SCR and EDRP programs) or impose a new set of participation requirements (e.g., requiring bid prices for the EDRP) are likely to have a dramatic effect on customer willingness to participate in the DRPs.

### **I. Benefits to the Market Resulting From a Load's Participation in the Demand Response Programs**

The participation of customers in the NYISO wholesale markets is critical, particularly during the transition to a workably competitive market. Customers are capable of providing installed capacity and other ancillary services, as well as energy (in the form of curtailment) in the day-ahead and hour-ahead energy markets. Such

participation not only contributes to reliable service in the State, but it also helps to ensure more competitive prices by reducing load during critical periods. If customer loads are not curtailed during peak periods, when supplies are insufficient, the price of electricity rises.

According to the study performed by Neenan Associates, LLC<sup>1</sup> in January, 2002, the EDRP provided over 425MWs of emergency resources during 2001 when system reserves were needed to prevent forced load shedding, thereby generating reliability benefits well in excess of payments to EDRP participants. The collateral benefits resulting from customer participation in the EDRP included lower real-time prices during events and pressure on real-time market prices that affect bilateral market clearing prices. Similarly, during 2001, the DADRP provided 25 MWs of load reductions at the peak price hour and contributed to lower DAM clearing prices and price volatility.

The importance of customer participation in the DRPs for the entire electricity market cannot be overstated. By reducing consumption, customers provide the market with various benefits including, but not limited to, load reduction during emergency events, lower electricity prices for all customers and less price volatility in the market. Thus, customers should be compensated accordingly by remaining eligible for capacity and energy payments under the SCR/EDRP programs.

## **II. Costs Incurred By Loads Resulting From Participation in the Demand Response Programs**

As a result of participating in the NYISO's DRPs, customers incur opportunity costs and start-up and shutdown costs that must be recognized. If the NYISO DRPs do not adequately compensate customers for costs associated with curtailing consumption, they will have no incentive to continue participating in the DRPs. As a result, the market will no doubt lose the valuable benefit it receives from customer participation in the DRPs. Therefore, the DRPs should encourage participation by continuing to provide customers with flexible options and meaningful payments.

Participation in the DRPs imposes significant additional costs and administrative burdens on customers whose primary focus is manufacturing a product or providing a service. The process of shutting down or curtailing a customer's load in order to participate in the DRPs is multifaceted and requires advanced planning. As such, the costs a customer incurs as a result of interrupting or curtailing its load can be substantial.

For instance, curtailing energy consumption often requires a customer to schedule and pay its employees overtime. On a daily basis, a customer's standard shift is staffed with a certain number of personnel responsible for running the plant and keeping operations safe and reliable. The personnel are not responsible for any additional procedures, such as shutting down the plant and/or its equipment. Thus, in order for the customer to be interrupted or curtailed, staffing must include additional personnel to monitor temperatures and pressures inside the control room, as well as personnel outside the control room responsible for turning valves and activating the proper switches. These staffing increases - to ensure the plant or a part thereof is shutdown in a safe and environmentally secure fashion - necessitate the scheduling and payment of overtime to a customer employees.

Customers participating in the DRPs also incur other operational cost increases during a curtailment. Materials in production have to be preserved or stored. For example, a metal fabricator may have to keep hot metal at a holding temperature if it shuts down its rolling equipment in response to an EDRP event. This results in significant incremental operational costs. In addition, the customer may have to pay the employees who would have operated the rolling equipment during the curtailment.

Moreover, during a customer curtailment or shutdown, the customer is producing less (or not producing any) of its product. Every hour of down time is an hour of lost production. This loss in production (and potentially lost profits) must be recovered in order for customers to benefit from participation in the DRPs. Importantly, these costs cannot be effectively recovered through the savings the customer achieves by not having to purchase the energy it would have consumed had it run at full capacity.

A customer also incurs incremental costs in re-starting its equipment. Again, there are certain procedures and guidelines that must be followed to bring the plant and/or the equipment back up safely. As a result of these procedures, a customer incurs additional labor costs associated with scheduling personnel to facilitate the start-up

process.

Finally, every time the customer's equipment is shutdown and re-started, there is additional stress placed on the equipment. The equipment requires additional maintenance as a result of the heating and cooling expansion and contraction caused by the additional start-ups and shutdowns. Consequently, the expected lifetime of the load's equipment is reduced with every start-up and shutdown.

Based on the benefits the market receives as a result of a customer's participation in the DRPs and the costs incurred by a customer resulting from its participation in the DRPs, it is appropriate to compensate customers with meaningful payments. The current DRPs do that and should not be changed.

### **III. Conclusion**

As the NYISO working groups meet to consider potential changes to the DRPs, the impact of those changes on participation levels must be a primary concern. For the reasons set forth above, customer commitment to the DRPs is dependent on their ability to administer the programs and receive adequate compensation to offset costs. The relative success of the current programs is directly tied to the levels of compensation available and the relative stability of the programs. Changes that modify the compensation levels or impose new rules for participation are sure to erode customer participation. It would be ironic if we "celebrate" the NYISO's recent announcement of achieving a commitment of more than 1,000 MWs to the EDRP (see attached) by taking steps that drive customers from the EDRP and other DRP programs. If that happens, all New Yorkers could be affected adversely.

RML/slg

Attachment

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"NYISO Price Responsive Load Program Evaluation," Neenan Associates, LLC, (January 8, 2002,) at E-29-E-31.