WORKING DRAFT

ISSUE: SHOULD THE NYISO MAINTAIN THE CURRENT INCENTIVE PAYMENTS FOR THE DAY AHEAD DEMAND RESPONSE PROGRAM (DADRP)

OPTION1: NO CHANGE.
NYISO pays incentives to (and occasionally collects penalties from) DRPs that provide load reductions on request.

OPTION 2: NON-INCENTIVIZED DADRP PROGRAM WITH DRPS.
Eliminate the NYISO payment to the LSE for the scheduled demand reduction and increase the LSE's real time purchases by the amount of achieved demand reduction. NYISO would pay the DRP for the scheduled demand reduction at the DAM LBMP. The DRP would be responsible for purchasing any shortfall between the scheduled and achieved demand reduction at Real Time LBMP.

OPTION 3: NON-INCENTIVIZED DADRP PROGRAM WITHOUT DRPS
Limit the NYISO's interaction to the LSE responsible for the customer's commodity supply. DRPs would be free to either negotiate with LSEs mutually acceptable terms for implementing demand response measures or become an LSE and enter into a combined supply and load management contract with the end-use customer.

EXAMPLES: (SEE ATTACHED SPREADSHEET)

Option 1. The **No Change** case is found on the sheet labeled "PRLWG". This is the agreed-upon case developed by the working group as the basis for the recommendations to BIC in December. The term ESCO is changed to DRP in column H.

Option 2. The **Non-Incentivized DADRP with DRPs** case is demonstrated on the sheet labeled "No Incentive". In this case:

1. The incentive payment is transferred from the LSE to the DRP (row 13).
2. The Payment for Performance is eliminated (row 16).
3. The Nonperformance Penalty is changed so that the DRP makes up any shortfall at Real Time LBMP, and all other penalties are removed (row 17).

OPTION 3. THE **Non-Incentivized DADRP without DRPs** case is demonstrated on the sheet labeled "No DRPs". In this case:

1. The LSE retains the incentive payment (row 13).
2. The Payment for Performance is eliminated (row 16) from the NYISO perspective. The LSE and DRP (if any) negotiate a mutually agreeable arrangement for providing demand response on behalf of the LSE. This agreement is transparent to the NYISO, but may be subject to PSC oversight.

3. The Nonperformance Penalty is changed so that the LSE makes up any shortfall at Real Time LBMP, and all other penalties are removed (row 17).

DISCUSSION POINTS:

The first issue is whether to continue with incentives for load reduction.

Pro – Maintain the incentive payments.	**Con – Eliminate the incentive payments.**
Incentive payments encourage the development and implementation of demand response measures.	Incentive payments create uplift costs that have to be borne by LSEs and their customers.
The program is still in its infancy. It is too soon to tell whether the program is effective.	Performance measurement is inaccurate. There are financial incentives for measurement bias in either direction.
The societal benefits (lower clearing prices, reduced volatility) may justify the direct financial impacts.	LSEs already have significant financial incentive to reduce load in high-cost hours.
Eliminating the incentive would reduce participation in demand response programs.	

The second issue is whether to continue with independent DRPs.

Pro – Maintain independence of DRPs.	**Con – Make DRPs work with/through LSEs.**
DRPs are more likely to develop price-responsive behavior.	LSEs are financially harmed by DRPs.
DRPs create additional competitors that may offer additional choices to end users which may not be available from their LSE.	DRPs can work with LSEs to achieve the same program offerings.
DRPs create an incentive for LSEs to develop competitive price responsive programs.	DRPs interfere with the LSE's relations with its customers.
	LSEs bear the financial risk of selling excess generation into the real time market when customers shed more than their scheduled amounts.

WORKING DRAFT

ISSUE: **SHOULD REVENUE NEUTRALITY BE EXTENDED TO DELIVERY SERVICE REVENUES THAT ARE LOST WHEN THE NYISO ACCEPTS DADRP BIDS AND THE CUSTOMER PERFORMS.**

OPTION1: NO CHANGE.
No compensation is provided to TOs for the impacts of DADRP on delivery service revenues.

OPTION 2: SIMPLE COMPENSATION.
A standard unit delivery price ($/MWh) is set for each TO, based on an approximation or simplification of the energy component of the retail delivery rate. For all achieved DADRP MWH reductions, each TO receives compensation from the NYISO at the standard rate for that TO. The LSE receives the LBMP payment net of the TO compensation for delivery service.

OPTION 3: SPECIFIC COMPENSATION.
The energy component of the retail delivery rate for each DADRP Demand Response Provider will be determined from the applicable TO tariff. For all achieved DADRP MWH reductions, each TO receives compensation from the NYISO at the specific rate for that Demand Response Provider. The LSE receives the LBMP payment net of the TO compensation for delivery service.

EXAMPLES : (SEE ATTACHED SPREADSHEET)

Option 1. The **No Change** case is found on the sheet labeled “PRLWG”. This is the agreed-upon case developed by the working group as the basis for the recommendations to BIC in December. The term ESCO is changed to DRP in column H.

Option 2. The **Simple Compensation** case is demonstrated on the sheet labeled “TO Neutral”. In this case:

1. The Payment for Performance is shared between the DRP and the LDC (row 16).
2. The sharing is based on the assumption that the LDC’s distribution rate is $60/MWh (row 8). This assumed delivery rate could be determined from published tariffs, with possible oversight by the PSC.

Option 3. The **Specific Compensation** case is identical to the Simple Compensation case, with regard to assumptions. In practice, this case would involve different assumed delivery rates for each applicable customer rate class for each LDC. This assumed delivery rate could be determined from published tariffs, with possible oversight by the PSC.

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DISCUSSION POINTS:

Pro – Extend revenue neutrality to delivery service revenue.	**Con – Do not extend revenue neutrality to delivery service revenue.**
NYISO is intervening in the retail markets, thus creating the situation. It becomes the NYISO's responsibility to resolve the situation.	TOs would have to accept this risk if customers curtailed on their own. The DADRP program risk is no different than customers acting on their own.
The intervention was not included in the original rate cases that established the existing rates.	TOs may receive societal benefits as an LSE that could offset lost T&D revenue.
It would resolve a disincentive for TO participation/support.	The PSC (not the NYISO) should determine the rate structure for regulated delivery service.
It will eliminate one of the drivers of future rate hearings.	TOs can always seek revenue relief from the PSC, or through other non-NYISO methods.
It will eliminate a cross-subsidy from TOs to LSEs and/or CSPs, without impacting customers.	Retail customers need the delivery bill savings, plus all of the incentives offered by DADRP, in order to participate/perform.
TOs do not benefit from economic curtailment (DADRP).	It is difficult to measure the revenue loss to TOs if there is load shifting instead of simple load reduction.

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