

**COMMENTS OF THE ALLIANCE FOR RETAIL ENERGY MARKETS ON THE
10/30/08 DRAFT FINAL PROPOSAL ON POST-RELEASE 1 MRTU
FUNCTIONALITY FOR DEMAND RESPONSE**

The Alliance for Retail Energy Markets (AReM)¹ is pleased to provide comments on the CAISO's "Draft Final Proposal on Post-Release 1 MRTU Functionality for Demand Response," which was issued on October 30, 2008 and discussed at the stakeholder meeting held November 5, 2008. AReM strongly supports adding functionality to MRTU to allow demand response (DR) resources to participate more fully in the CAISO markets. However, AReM continues to be concerned that some of the utilities claim that so-called "technical issues" will prevent Electric Service Providers (ESPs) and their direct access customers from providing DR resources. AReM urges the CAISO to eliminate any real technical barriers that would hinder full participation of direct access customers in DR.

DR Participation by Direct Access Customers

AReM is disappointed that "technical sessions" held in Summer 2008 to discuss implementation of DR programs did not include either ESPs or direct access customers, yet issues involving direct access participation were raised by the utilities and discussed during those meetings. This omission clearly caused the meetings to be less productive than might otherwise have occurred, since the absence of ESPs and customers meant there was no voice for direct access at the technical sessions. This is particularly troublesome because many large-scale and sophisticated energy users are currently direct access customers and can be important to making demand response programs successful. The CAISO should not support program designs that require customers to give up their right to retail choice in order to provide demand response services.

Therefore, AReM disagrees with claims made by PG&E and SCE that direct access customers should not participate in the MRTU pilots planned for Summer 2009, because the perceived technical issues are too difficult to resolve. AReM notes that neither the ESPs nor, to its knowledge, the customers themselves or their representatives have been consulted on the details of these supposed "technical issues." Consequently, there have been no formal or informal discussions about the accuracy or scope of issues or how to resolve them. Further, when so-called technical issues involving direct access were mentioned at the November 5th meeting, the CAISO responded that these are "implementation details" that will be resolved in the yet-to-be-developed DR "User Guide." Clearly, if real technical issues exist, they need to be discussed and resolved by the affected parties, and not dismissed as issues that can be resolved in the writing of a "User Guide."

Moving forward, AReM strongly supports, as an important first step, the technical meeting with the CAISO, the utilities and the DR Aggregators scheduled for November

¹ AReM is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members with respect to the issues addressed herein.

17, 2008 to discuss DR participation by ESPs and their direct access customers. AReM believes that, to the extent any technical issues are identified, they can best be resolved in face-to-face meetings with the affected parties. AReM would also support additional such meetings to continue to work through and resolve any issues that could hinder full participation by ESPs and their customers. Finally, AReM agrees that FERC Order 719 and its requirement for direct participation by those providing DR resources² must lead us all to work to tear down any remaining “technical” or administrative barriers and allow DR Aggregators, ESPs and direct access customers to participate directly in the CAISO’s markets if they so choose.

Customer Issues with Use of Custom LAPs for DR Bidding and Settlements

At the November 5 stakeholder meeting, Carolyn Kehrein of Energy Users Forum raised a number of issues concerning the use of Custom Load Aggregation Points (LAPs) for bidding and settlements of customers in DR programs. In particular, she noted that customers will be reluctant to participate, if they are located in high-priced areas, because they will be disadvantaged in the price they pay for power for the majority of their load. AReM agrees that this Custom LAP requirement has the potential to dissuade customers from participating and encourages the CAISO to discuss potential approaches for resolving or mitigating these concerns in its DR Integration Working Group.

Moreover, AReM disagrees with the CAISO’s response that Congestion Revenue Rights (CRRs) could be obtained to offset the high-priced power the customer would have to buy. CRRs alone will not “solve” this problem. In particular, AReM notes that: (1) CRRs only hedge congestion and not the marginal losses, which can be significant; (2) CRRs are allocated to the load-serving entities (LSEs) who serve the customer’s energy needs and not necessarily to the one providing the DR service for the customer; (3) LSEs must *request* the needed CRRs and have no guarantee that they will obtain what they request; (4) the CRR allocation is by “Sub-LAP” which is not the same as the “Custom LAP” used for bidding and settling DR; and (5) requests for allocations of CRRs by Sub-LAP are not allowed until the last Tier of the allocation process,³ which reduces the likelihood that the requested CRRs will be obtained. AReM recommends that this issue be explored in the DR Integration Working Group.

Another option to consider might be to allow customers to limit their exposure to the Custom LAP, by allowing them to revert to Default LAP scheduling and billing for any months in which they do not plan to offer their loads as a DR resource. Although this option would probably not apply to any DR resource obtaining Resource Adequacy (RA) credit, other non-RA DR resources may wish to avail themselves of this option.

Submitted on behalf of AReM by:

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² See, for example, Order 719 at ¶154.

³ Tier 3 for the annual process and Tier 2 for the monthly process.