

CDWR-SWP Comments to CAISO regarding Draft Final Proposal for the design of Proxy Demand Resource

Submitted August 13, 2009

On August 5, 2009 the California Independent System Operator (CAISO) released their Draft Final Proposal for a new Demand Response (DR) product called Proxy Demand Resource (PDR) which is intended to allow retail DR to participate in the wholesale markets. The California Department of Water Resources State Water Project (CDWR-SWP) appreciates the opportunity to comment and submits the following:

CAISO falls short with this proposal for several reasons:

Lack of comparable treatment of resources; low LMP resources are not encouraged to participate in PDR due to the disparate settlement location between underlying Demand and performing PDR. Also, additional Customer Baseline Load (CBL) methodology options have not been offered which could allow additional resources to participate in PDR, i.e. an additional baseline option for highly variable loads.

The market gaming potential; indicated numerous times by the CAISO's Market Surveillance Committee (MSC) as well as CDWR-SWP, is not adequately addressed in this proposal and leaves Market Participants exposed to increased costs. Please refer to the following dates for some of these comments submitted by CDWR-SWP; 12/26/2009, 1/22/2009, 3/20/2009, 4/29/2009, and 5/4/2009. This "initial step" into PDR should include measures to address these design concerns rather than listing unsubstantiated rebuttals.

This proposal creates incentive to curtail demand solely for the price difference between CLAP and DLAP, even if it is not needed. An "event day" is assumedly any day in which a PDR bid clears a market. The proposal does not clearly explain how the cost is allocated to pay a CSP for their PDR performance. Where do the monies come from to pay the CSP relative to the example in Section 11.4? Does demand that is not in the relative DLAP of the performing PDR have to pay?

In Section 4.3 to 4.5 of the proposal the CAISO's excuse for not addressing several gaming concerns is that there is too much information and it is too hard to design for, yet the proposed reactive techniques to curb gaming in Section 4.6 indicate yet undefined metrics and data analysis will be performed. This shows the CAISO recognizes the complexity of the PDR design but up to this point has been unable to develop complete mechanisms to mitigate market manipulation. It is concerning that with the amount of time spent during the stakeholder process for program design real solutions to prevent market gaming are not fully vetted. CAISO relies on too many "perfect" scenarios for the design of PDR, causing suspicion of its practicality. Unfortunately this proposal requires more development and analysis.