

**COMMENTS OF ENERNOC, INC
ON THE AUGUST 5, 2009 DRAFT FINAL PROPOSAL (REVISED) FOR THE
DESIGN OF PROXY DEMAND RESOURCE**

EnerNOC, Inc. (“EnerNOC”) is pleased to provide comments on CAISO’s *Draft Final Proposal for the Design of Proxy Demand Resource (PDR)*, dated August 5, 2009 (PDR Proposal).

General Comments

EnerNOC actively participated in the demand response (DR) working group to facilitate development of protocols that will encourage the direct participation of DR in CAISO markets that PDR is designed to accommodate. PDR will allow Curtailment Service Providers (CSPs) to bid DR directly into CAISO markets and to participate separately from load-serving entities (LSEs), as required by FERC’s Order 719.

CSP Curtailment Bids

While previous drafts of the PDR Proposal included the ability to aggregate customers from multiple LSEs into a single PDR curtailment bid, the August 5, 2009 draft indicates this will now be a future enhancement to PDR. As currently envisioned, a CSP bid to curtail will only include load served by one LSE. EnerNOC recognizes the need to keep each LSE informed of which of its customers are included in a curtailment bid, but the restriction to only allow a bid to include load served by one LSE may result in having a number of small PDRs within a SubLap and decrease the benefits of resource aggregation. The increased granularity may also have the unintended consequence of making it more difficult for non-IOU customers to participate in PDR if they do not aggregate to a 1 MW minimum.

EnerNOC would like to remind the CAISO that the aggregation pools for DR will already be small due to the requirement to bid DR at the Sub-LAP level. Further, reducing the bid requirements at a Sub-LAP to an LSE basis will further reduce the pool of customers that can participate in aggregate. EnerNOC is then concerned that the benefits of aggregation, which are to offset over- and under-performers within an aggregation pool will be essentially eliminated. EnerNOC also believes that the measurement of the performance of the aggregator should be at the Sub-LAP level and not at the LSE level. EnerNOC fully appreciates the need to be able to inform the LSE of accepted bids and actual performance for settlement purposes, however, that information can be provided to CAISO through the bid and settlement process. Therefore, EnerNOC recommends that the CAISO require DR aggregators to provide information to the CAISO with the bid for curtailment that identifies the amount of the bid that is related to each LSE and the amount of performance under the program by LSE for settlement purposes. However, EnerNOC recommends that the CAISO revise its proposal that bids for curtailment at the Sub-LAP be submitted by LSE as that proposal significantly undercuts the value of aggregation at the Sub-LAP.

Settlement Between CSPs and LSEs

EnerNOC supports settlement by CAISO directly with the CSP for the curtailed portion of the load at the specified Custom-LAP of the PDR. However, we continue to have concerns about the lack of visibility into the appropriate compensation between the CSP and the LSE for energy the LSE procured and scheduled which was then curtailed by the CSP. The current PDR design envisions that this financial settlement would be outside of the CAISO settlement process as a negotiation between CSPs and LSEs. This is highly problematic as there is no visibility into the appropriate settlement price and it requires separate, potentially quite dissimilar, contracts with each LSE. This results in a lack of conformity and a burdensome administrative process for CSPs.

CAISO correctly points out that some market participants support a “hybrid settlement approach” where CAISO would “settle with both the CSP and the LSE based on an agreed to price and/or method.”¹ EnerNOC does not support this approach because while this type of formalized settlement may provide more transparency into the settlement, it increases the administrative burden on CAISO.

Instead, EnerNOC supports maintaining the existing framework of PDR, wherein CSPs and LSEs settle outside of the CAISO settlement process, but agree as to what the appropriate compensation should be. The upfront agreement as to the appropriate compensation would eliminate the need to negotiate that critical item with each LSE. There was some discussion during the DR working group process around deferring this compensation issue to the CPUC, which may make sense for the IOUs, however, there is no process in place to facilitate this issue and it needs to be resolved in advance of CSP participation in PDR. It is untenable to suggest that a CSP have a separate, dissimilar contract with each LSE.

The MSC Committee has suggested that CSPs be paid the difference between the relevant LMP and the generation portion of retail rates.² This may be an acceptable reimbursement for the IOUs and CSPs and is the basic model that PJM currently uses.

Development of Baseline for PDR

CAISO’s PDR Proposal initially supports a 10-in-10 baseline methodology that appears to include weekends and holidays, calculates aggregated rather than individual baselines, and caps the day-of adjustment at +/- 20% to “reduce the number of [gaming] incidents through reduced gains.”³ EnerNOC supports measuring performance against a baseline, but believes the methodology briefly outlined in the PDR Proposal requires additional clarification.

The PDR Proposal seems to indicate that the 10-in-10 baseline methodology “supports” weekends and holidays, with a target of 4 weekend/holidays per period.⁴ This is

¹ PDR Proposal at 10

² MSC Opinion at 5

³ PDR Proposal at 14

⁴ PDR Proposal at 36

confusing and seems inconsistent with traditional baseline methodologies. It would be helpful if CAISO could clarify this portion of its proposal.

EnerNOC objects to the CAISO's declaration that it will use an aggregated baseline for measuring performance. No other ISO in the country uses aggregate baselines for measuring performance. Further, the CPUC just issued a Proposed Decision on June 30, 2009 in the IOUs' 3-year DR planning proceeding that requires an individual baseline be used for customers enrolled in a utility DR program directly through a utility and for customers enrolled by an aggregators.⁵ Using this method, the hourly loads for each of an aggregator's customers are used separately to identify that customer's highest 10-in-10 days. The average loads over those 10 days are calculated, and then the individual customer baseline loads are summed up to produce the total aggregator baseline load for each event type day. The resulting sum of individual baselines is then compared to the actual sum of the usage of those same customers.

EnerNOC also has concerns about the decision to cap the day of adjustment "at both a 20% increase and a 20% decrease."⁶ Since a 10-in-10 methodology is merely the average of the customer's performance in the last 10 days, if within, or at the end of the 10-day period, temperatures rise significantly relative to the remainder of the 10-day period, a customer's actual consumption on the event day relative to the previous 10 days may be significantly understated, such that the 20% adjustment may still not adequately capture actual performance. Since the 10-in-10 baseline dramatically flattens the load shape, the day of adjustment range needs to be greater than +/- 20%, and we have suggested 35-40% might be more appropriate.

Registration Requirements for Direct Participation

CAISO's PDR Proposal includes a section outlining the registration requirements for new PDR resources. EnerNOC continues to object to the language that requires the LSE and UDC entities for the resource to "approve the Registration before it can become active and participate in the wholesale markets."⁷ "Approval" suggests that the LSEs and UDCs are able to block CSP registrations, which does not seem consistent with CAISO's intent or the majority opinion of stakeholders in this process. EnerNOC encourages CAISO to clarify that the corresponding LSE and UDC for the resource must have a requirement to confirm that certain details in the Registration are correct before the Registration can become active and participate in the wholesale market, but they are not required to approve the Registration.

The workflow chart on page 20 should be amended to say: "Does LSE/UDC Confirm Registration?" In addition, the bulleted items describing the registration process, on pages 21-22, need to be revised to eliminate the language that indicates the LSE or UDC can reject a registration or that a registration must be approved by both the LSE and UDC. Instead CAISO should clarify these entities have the responsibility to confirm data in a Registration; they do not have the ability to reject or approve a Registration. Any

⁵ CPUC Proceeding A.08-06-001 etal, June 30, 2009 Proposed Decision of ALJ Hecht at 141

⁶ PDR Proposal at 37

⁷ Id at p. 19

language that allows the LSEs and UDCs to use the confirmation process to block registration is unacceptable.