

**COMMENTS OF THE
ALLIANCE FOR RETAIL ENERGY MARKETS
ON THE APRIL 26, 2009 DRAFT FINAL PROPOSAL (REVISED) FOR THE
DESIGN OF PROXY DEMAND RESOURCE (PDR)**

The Alliance for Retail Energy Markets (AReM)¹ is pleased to provide comments regarding the CAISO's "*Draft Final Proposal for the Design of Proxy Demand Resource (PDR)*," dated April 26, 2009 (PDR Proposal).² On April 15, 2009, the CAISO released a second document, *Straw Proposal for Direct Participation of Proxy Demand Response* (Straw Proposal). However, during the stakeholder conference call on April 22, 2009, the CAISO staff asked that stakeholders focus their comments on the PDR Proposal. AReM expects that the CAISO will entertain comments on the Straw Proposal at a later date.

GENERAL COMMENTS

General Support -- AReM continues to support the concept outlined in the PDR Proposal. Some proposed details have the potential to be problematic, however, such as requiring financial settlements outside of the CAISO markets and imposing unreasonable rules on electric service providers (ESPs) or their end use customers connected at distribution-level voltages. AReM intends to work closely with CAISO staff and stakeholders to ensure that the final CAISO rules and protocols are flexible and workable for both end use customers and the load-serving entities (LSEs) that serve them.

PDR Proposal and Straw Proposal – Documents released by the CAISO and discussion at several stakeholder meetings have created confusion. For example, the two documents released by the CAISO on April 15th, the PDR Proposal and Straw Proposal, had significant overlap, with the Straw Proposal including more details in certain areas, such as the CAISO's view of the principles it would follow to implement "Direct Participation" of demand response (DR). The purpose of the Straw Proposal is unclear, and stakeholders were asked to focus their DR comments on the PDR Proposal instead. AReM has comments on many aspects of the Straw Proposal, however, and requests significant stakeholder discussion of its content.

Use of Term "Direct Participation" – Occasionally, the use of the term "Direct Participation" in CAISO documents and discussions is confusing and seems to imply that the effort to implement "Direct Participation" in compliance with FERC Order 719 is separate and distinct from PDR. However, PDR is an *example* of Direct Participation, in which the Curtailment Service Provider (CSP) bids directly into CAISO markets. AReM requests that the CAISO be clear that PDR is a type of Direct Participation.

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.

² This document was first released on April 15, 2009 and revised on April 26, 2009.

Dispatchable Demand Resource (DDR) – AReM notes continuing confusion and concern about the CAISO’s DDR proposal. During the stakeholder conference call on March 20, 2009, several stakeholders registered concern about moving ahead with DDR as currently constituted. In fact, AReM has previously raised issues about the design of DDR, which could discourage DR expansion at high-priced nodes.³ At a minimum, stakeholders suggested that the CAISO change the name of the proposal and clarify that it represents “enhancements” to the existing rules for the California Department of Water Resources’ (DWR) program for Participating Load to improve compatibility with MRTU. In general, information about DDR and the CAISO’s intentions going forward has been lacking. AReM requests that the CAISO provide stakeholders with its plan to address stakeholder concerns on DDR.

SPECIFIC COMMENTS

Registration Requirements and Affect on Direct Access — AReM notes that the CAISO has modified the section on registration requirements of DR resources to be more specific about when it is referring to the PDR versus the LSE.⁴ However, the clarified language raises additional issues. The section uses the term “CSP/LSE,” which is not defined. If the CAISO means a CSP that is also an LSE, the requirements may be acceptable. However, if the CAISO means the CSP *or* the LSE, AReM has significant concerns. For example, the CAISO’s proposal to require an end use customer to “affirmatively confirm” the switch of its LSE,⁵ if this is intended, seems over-reaching, may impede direct access, and may interfere with well-established rules at the CPUC regarding switching of LSEs by end use customers.⁶ The CPUC rules governing switches by end users between LSEs already include communication and confirmation of those switches. Similarly, the PDR Proposal includes a principle that the end use customer enrolled in a PDR must be “aware” that they are “registered with a specific CSP/LSE.”⁷ While we understand the need for the CAISO to know *which LSEs* have customers in the PDR, we also see no need to reinvent or replace the existing CPUC switching rules or to insert the CAISO into the CPUC’s process. The CAISO DR protocols should simply reflect the CPUC’s rules, not modify them.

Consideration of Payment to LSEs for Energy Procured but Not Consumed – AReM appreciates the CAISO’s agreement to hold stakeholder discussion on what it terms “meter-to-cash impacts” of the PDR proposal.⁸ The current PDR Proposal would result in an LSE procuring and paying for energy in the Day-Ahead Market that is not ultimately consumed because a portion of its load was curtailed through a PDR. AReM supports discussing this topic further with the affected parties (i.e., LSEs, customers, and

³ See, for example, *Comments of the Alliance for Retail Energy Markets on Proposals Discussed at the December 12, 2008 DR Integration Working Group Meeting*, December 12, 2008, p. 1.

⁴ PDR Proposal at 27-28.

⁵ PDR Proposal at 27.

⁶ These rules are incorporated into each utility’s Rule 22 and the requirements for the Direct Access Service Requests (DASR).

⁷ PDR Proposal at 27.

⁸ PDR Proposal at 14-15.

CSPs) to ensure that appropriate payments are made to each party in the market when DR programs operate.

Addition to “Negatives” of PDR-A – AReM reiterates its request⁹ to correct the “negatives” listed for PDR-A¹⁰ to clarify that: (1) negotiations outside of the CAISO may be required to resolve payments to LSEs for energy procured but not consumed by the LSE; and (2) this model requires separating the CSP performance Day-Ahead from Real-Time (if the CSP clears bids in both markets).

“Certify” the DR Resource — AReM again requests¹¹ that the CAISO justify the requirement that the CSP “certify” that its DR resource is not “precluded” from participation by the Local Regulatory Authority.¹²

Mitigation Measures for Potential Gaming – AReM understands the need to propose mitigation measures to reduce the potential for gaming. However, the CAISO’s proposals¹³ have not been adequately discussed by stakeholders and should not be specifically approved by the CAISO Board until they are. In particular, the proposal for the minimum bid price deserves additional discussion. The use of a Default LAP price from the previous year could cause unintended consequences simply because it would not reflect current energy market conditions.

PREVIOUS COMMENTS

A number of AReM’s previous comments do not appear to have been addressed by the draft final proposal or the straw proposal.¹⁴ Rather than revisiting them here, AReM reiterates its request for additional stakeholder discussion on the following:

- Identifying requirements for communication with LSEs before an end use customer can participate in a PDR, including considering software that would automate the process.
- Additional settlement examples involving successful DR bids, including all applicable CAISO fees and charges, and identification of which party would be responsible for each.
- Determining whether the CAISO or “market participants” should be responsible for managing the “registration and confirmation process” for DR Resources.¹⁵
- Specifying the roles of the CSP and CAISO in measuring and verifying load reductions and associated financial settlements.

⁹ *Comments of the Alliance for Retail Energy Markets on the March 5, 2009 Straw Proposal on Proxy Demand Resource and Direct Participation*, March 19, 2009, p. 2.

¹⁰ PDR Proposal, Table 1, pp. 12-13.

¹¹ AReM’s March 19th Comments at 2.

¹² PDR Proposal at 26.

¹³ PDR Proposal at 26.

¹⁴ AReM’s March 19th Comments.

¹⁵ PDR Proposal at 27.

- Evaluating the proposed requirements for metering/telemetry and SC Metered Entity, considering that most of the end users providing DR resources are located on the distribution system.
- Determining responsibility for meter data management, considering that existing CPUC rules permit ESPs to select their own Meter Data Manager and meter provider for each direct access customer.
- Determining whether the technical specifications for energy storage projects and DR are applicable to DR.
- Determining whether the CPUC's load impact protocols should apply to ESPs and CSPs.

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April 29, 2009*