

**COMMENTS OF THE
ALLIANCE FOR RETAIL ENERGY MARKETS
ON THE MARCH 5, 2009 STRAW PROPOSAL
ON PROXY DEMAND RESOURCE AND
DIRECT PARTICIPATION**

The Alliance for Retail Energy Markets (AReM)¹ is pleased to provide comments regarding the CAISO's "*Straw Proposal for the Design of Proxy Demand Resource (PDR) and Impacts of Direct Participation*," dated March 5, 2009 (Straw Proposal). This straw proposal was also discussed at the joint Market Surveillance Committee (MSC) and stakeholder meeting on March 12, 2009.

General Comments

AReM supports the direction of the CAISO and further development of the PDR concept outlined in the Straw Proposal. 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 LSEs that serve them. AReM believes that the current DR working group has enhanced the process and allowed for faster decision-making by affected parties and urges the CAISO to continue that effort. However, AReM is concerned that the CAISO's proposed schedule is overly ambitious. While we understand the commitment to implement PDR by May 2010, there needs to be ample time to address policy options before they are set in stone by a Board vote. The CAISO should allow more time for an upfront stakeholder process to resolve policy issues and, if needed, consider delaying the Board vote to July.

Proposed Additions to CAISO's Straw Proposal or Stakeholder Process

Agreement with Load-Serving Entity (LSE) as a Pre-Condition – A successful PDR program requires significant coordination among the affected parties. For example, the CAISO will adjust the LSE's financial settlement to account for operation of the PDR. To ensure adequate notice to the LSE, AReM requests that the CAISO require agreement by the LSE as a pre-condition to qualify a DR resource. The Curtailment Service Provider (CSP) would be obligated to submit written agreements with the affected LSEs specifying that the LSE has given approval for the end use customers to participate in the CSP's DR program. AReM proposes adding this requirement to the CAISO's process for qualifying a DR resource discussed in Section 5.2, pp. 27-29.

Consideration of Payment to LSEs for Energy Procured but Not Consumed -- The Straw Proposal notes at several points the issue of whether LSEs should be compensated for procuring energy Day-Ahead energy that is not consumed because a portion of its load

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.

was curtailed through a PDR (e.g., Section 3.4, p. 15, Section 5.7.1, p. 39). AReM would like to discuss this topic further with the affected parties (i.e., LSEs, customers, and CSPs) to ensure that appropriate payments are made to each party in the market when DR programs operate.

Additional Settlement Examples – AReM appreciates the Straw Proposal’s discussion of some limited settlement examples (pp. 9-10, 22). However, additional information and discussion is required. As previously requested, AReM would like the opportunity to review during the stakeholder process additional examples of settlements involving successful DR bids, including all applicable CAISO fees and charges, and identification of which party would be responsible for each.

Specific Comments

Clarify PDR Options, Section 3.1, pp. 9-10 – Please clarify that the PDR model would have the LSE pay for its scheduled Day-Ahead load at the Day-Ahead price, even if it never actually consumed that amount of power because of the operation of the DR resource. Also, clarify that the adjustment to the LSE’s Day-Ahead schedule is only for purposes of real-time settlements of uninstructed deviations.

Addition to “Cons” of PDR-A, Section 3.2, p. 11 – Please 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). This latter issue — separating DR performance — is not listed in Section 5.8 as one of the key issues to resolve and should be added.

Clarify PDR Functionality, Section 3.3, last paragraph, p. 12 — Please clarify that the “meter-to-cash impacts” between LSEs and end users may require negotiations outside of the CAISO, depending on the payment structure adopted by the CAISO, as is mentioned at the end of Section 3.4.1, p.15.

Missing Figure, Section 3.4.1, p. 15 -- Diagram 3 is missing from the document.

Correction, Section 3.4.2, p. 16 -- Delete “service territory” after “LSE” (3rd paragraph). Only investor-owned utilities (IOUs) have “service territories.”

Additional Issue to Address, Table 2, p. 22 — Under “Comment,” you note that the CSP must “inform” the CAISO regarding how to allocate its DR MWs among the LSEs in the PDR. How this is done will be crucial to the LSE’s settlement process, yet this issue is not listed in the later discussion of “notifications” in Section 5.5 and should be added.

Explanation Requested, Section 5.2.3, p. 29 — Please explain why the CSP must “certify” that its DR resource is not “precluded” from participation by the Local Regulatory Authority.

Clarify Registration Requirements, Section 5.3.1, p. 30 — Please clarify the CSP/LSE obligations. We think you mean “PDR” in some cases and “end user providing DR resources” in others. Our understanding is that one end user can be served by one LSE and one CSP on any scheduling day, and that the PDR is served by one CSP and can include customers from one or more LSEs on any such day. The issue of how often the PDR can introduce new LSEs (or change CSPs) and how often an end user can switch CSPs also needs to be discussed. However, we note that the CPUC already has established rules governing switches by end users between LSEs. The CAISO DR protocols should simply reflect those rules, not modify them. Also, please clarify the last bullet regarding the need for “consistent load aggregations” by the LSE and CSP.

Energy Procurement by CSPs, Section 5.3.1, Footnote 14, p. 30 – This footnote seems to suggest that some CSPs could be taking on the role of managing a site’s energy needs, similar to an LSE. AReM would like the CAISO to include this issue as a topic for discussion in the stakeholder process so that all parties can better understand the role of CSPs and their interactions with utilities and electric service providers (ESPs).

Responsibility for Managing Registration/Confirmation of DR Resources (Section 5.3.1, p. 31, last paragraph, Section 5.3.3, p. 32, Footnote 16, p. 32 -- The CAISO proposes that “market participants” manage end-use customer registrations pursuant to rules and protocols established by the CAISO. AReM would like further discussion of this topic. In particular, AReM is concerned that leaving this important activity to “market participants” could lead to misunderstandings, unexpected costs, and, potentially, reliability issues.

Notification Requirements, Section 5.3.3, p. 32 — Adequate upfront notice is crucial for the LSEs. The CAISO must adopt clear and enforceable rules for CSPs. Ideally, CAISO software would automate notification to LSEs regarding customer participation in PDRs, active bidding of load by CSPs, intervals when PDR bids clear, settlement outcomes, and PDR performance. Extensive stakeholder discussions and agreement are required on this point.

Responsibility for Measuring and Verifying Load Reductions and Associated Financial Settlements, Section 5.4.3, p. 34 – AReM would appreciate additional discussion of this topic. We agree that the LSE, CSP and CAISO will all “actively monitor” the load reductions. However, we were expecting the CSP to take the lead in measuring PDR performance, in accordance with the CAISO’s established rules. This measured performance would then be subject to verification by the LSE and CAISO. Therefore, the question of “whose calculations form the basis of the financial settlements” (p. 34) is not clear cut. While AReM agrees that the CAISO should ultimately be responsible for financial settlements, the roles of the CSP and CAISO in this activity need to be thoroughly discussed and clarified.

Further Discussion on Metering/Telemetry/SC Metered Entity, Section 5.6, pp. 36-39 -- Most of the end users providing DR resources are located on the distribution system. The CAISO is requiring that all such customers become “SC Metered Entities” and meet

specified metering/telemetry requirements. AReM would like further discussion of this topic to consider whether location of the DR resource on the distribution system could allow the proposed requirements to be eased to ensure robust participation by end users.

Responsibility for Meter Data Management, Section 5.6.1, last two paragraphs, p. 37 — While the stakeholder process needs to address roles and responsibilities regarding meters and meter data, AReM notes that existing CPUC rules permit ESPs to select their own Meter Data Manager for each direct access customer. Any CAISO DR requirements should reflect, rather than modify, the CPUC rules. AReM would also appreciate more stakeholder discussion on the suggestion that CSPs might install independent meters.

Energy Storage and DR, Section 5.6.3, Footnote 23, p. 38 — We are not convinced that the “technical specifications” for energy storage projects and DR are “the same.” We would like more stakeholder discussion on this point.

Baselines and Load Impact Protocols, Section 5.7.3, last paragraph, p. 43 — We support starting with the CPUC baselines for use in the CAISO DR program rules. However, we do not agree that the CPUC load impact protocols are appropriate for DR programs implemented by ESPs or CSPs. First, the IOUs’ load impact protocols were not designed for the purpose of establishing standard rules for “measuring the impact” of DR programs. Rather, the load impact protocols² were developed by the CPUC to determine the *cost-effectiveness* of IOU DR programs and for long-term resource planning.³ Because the IOU DR programs are funded by ratepayers, it is understandable that a comprehensive and extensive set of protocols is necessary to ensure that program expenditures achieve expected results. However, ESPs and CSPs are situated quite differently from the IOUs. DR programs sponsored by ESPs and CSPs would be independently developed and funded. No ratepayer funding would be used. In addition, CAISO markets will include measurement and verification of DR resources as part of the requirements for participation, so we question why the CPUC load impact protocols would be appropriate for use by the CAISO in its PDR program. AReM urges additional discussion of this topic in the stakeholder process.

Submitted on behalf of AReM by:

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² The load impact protocols, a nearly 150-page document, comprise Attachment A to D.08-04-050.

³ D.08-04-050 at p. 6 and Finding of Fact No. 1 at p. 32.