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**COMMENTS OF CPOWER INC.
ON THE APRIL 8, 2009 PRESENTATION
ON DEMAND RESPONSE BARRIERS**

CPower, Inc. ("CPower") is pleased to provide comments on the **California Background and Demand Response Barriers** presentation, dated April 8, 2009 ("DR Barrier Study").

Before moving to direct comments, CPower would like to commend CAISO on their effort to comply with the FERC Order 719 directive and to capture in a succinct and easy-to-understand form the issues and barriers preventing greater demand response participation in the CAISO markets. CPower appreciates the collaborative approach taken by CAISO to incorporate stakeholders' perceived barriers to direct participation, and we intend to continue to work with CAISO as this initiative moves ahead.

Overarching Comment

CPower would like to note that the sheer quantity of issues and barriers identified on the slides might lead a reader to conclude that progress to a properly demand-responsive market in California is either impossible or will take many years to implement. While all of the information is valuable and requires consideration, CPower believes that many items identified as "barriers" are in fact issues that can be readily overcome, or are currently managed in other organized markets or by standard CSP business practices. CPower has identified some specific items later in this response.

Barriers That Are Not Included

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CPower believes that there are two major barriers that have not been included or are not called out (and so can be dealt with) in a sufficiently isolated way.

The first is that in a energy market, where the only reward for load curtailment is the avoided cost of energy at that moment, significantly undervalues the service provided and will never create any meaningful participation except in situations of extreme energy costs. This issue is identified in various forms and in various places (bullet 3 on slide 18 and bullet 3 on slide 19, slide 20 etc.), but CPower believes it is of sufficient importance that it requires a separate section. An energy-only compensation approach would lose the significant benefit of generally reduced energy prices to all electricity consumers in the state if the true value of demand response is not included in the rewards for demand-side participation at the wholesale level. This value includes the avoided capacity costs of replacement generation. This is recognized by many of the current programs in the state operated by the utilities, but even here, as Slide 12 shows, DR value is generally far below replacement capacity cost. Underpayment for provided service will be the primary barrier to further DR participation, and CPower does not believe that the current wholesale market design must preclude full compensation.

The second major barrier that CPower believes is not adequately addressed is direct discussion of the barriers to meeting the requirement (shown in item 5 on Slide 2, FERC order 719) which states “Permit a DR aggregator to bid demand response on behalf of retail customers directly into the organized energy market”. The primary barrier here, and as shown on slides 9 and 10, is the difficulty of the scheduling, settlements and cash flows created by the overly complex hierarchy that exists in the management of electricity supply in the state. In other states, the ISOs manage, at little additional expense, to enable a more uniform treatment of LSEs and CSPs which flattens and simplifies this structure and eliminates many of the problems. In California, CSPs are essentially denied access to direct DR participation in the wholesale markets by the current market structure. Again, while several slides allude to this item, CPower believes that the barriers to meeting this FERC requirement should be addressed directly.

Issues Improperly Defined as Barriers

Slide 22 – *Regulation and Spinning reserve Markets... precluded by WECC rules.* It is not clear to CPower why this is a barrier and not an issue. With the correct equipment and call ability, DR resources can meet the WECC requirements for reserves. This equipment may be expensive, but at the correct price signals this is not a barrier. ERCOT and other ISOs currently manage this.

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Slide 23 - *Gaming and cost-shifting issues posed with nodal pricing of generation vs. aggregated pricing of load.* Again, CAISO in common with all ISOs, has extensive market surveillance capability, and techniques exist to eliminate these concerns on the generation side, for instance in load pockets. CPower believes this to be an implementation issue and is overstated as a barrier.

Slide 26—*Political resistance to reflecting dynamic or locational pricing in retail rates.* Since it is not a requirement to have dynamic pricing in retail rates for direct wholesale participation of demand response services (and DR may be viewed at the wholesale level simply as negative generation), this does not appear to be a barrier.

Slide 28—*Mixed signals from 5% DR goal, EAP loading order and cost-effectiveness protocols.* These are policy issues that can be resolved by the appropriate authorities, and so should not be a barrier to direct participation.

Slide 29—*Multiple initiatives overwhelming capacity of stakeholders and market participants.* It would seem that the stakeholders involved need to find a way to prevent this from becoming a barrier to direct participation at CAISO (and this is not something that would seem appropriate in a response to FERC).

Slides 30 and 31—*Utilities and regulators fundamentally underestimate challenge of changing customer behavior. Complexity of market from customers' perspective.* It is the entire business model of CSPs to simplify and manage these challenges on behalf of the customers and other stakeholders, and so this is not a barrier.

Slide 37—*Inherent compromises in balancing multiple objectives of baseline methodology.* This is an issue inherent in all DR programs, both as managed by utilities and in IOU programs nationwide. There has been, and continues to be progress toward a common framework to form the foundation for any particular implementation. Again, CPower considers this overstated as a “barrier”.

Yours Truly,

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