

# Comments on Demand and Distributed Energy Market Integration Track 1 Revised Straw Proposal

Department of Market Monitoring

July 1, 2026

## Summary

The Department of Market Monitoring (DMM) appreciates the opportunity to comment on the *Demand and Distributed Energy Market Integration - Track 1 Revised Straw Proposal: End-User Customer Exports in Demand Response Performance Measurement* dated June 11, 2026.<sup>1</sup>

For Track 1, DMM continues to support removing the lower limit for individual customers in demand response (DR) aggregations so that individual customers can better reflect their physical capability, while maintaining the aggregate lower-limit of zero to maintain reliability.<sup>2</sup> The non-negative aggregation constraint for DR resources may create an incentive to add non-responsive load to an aggregation, which could further exacerbate the issue of DR underperformance if the non-responsive load exceeds the net export capability of other resources in the aggregation.

DMM continues to recommend the ISO work with partner agencies such as local regulatory authorities and the California Energy Commission to collect additional resource meta data to improve DR monitoring, and consider improving the estimation methodologies of baselines as the stakeholder process continues.

## Comments

***DMM supports the proposal to remove the lower limit of zero for individual customers in a demand response aggregation to better reflect load flexibility, while maintaining an aggregate resource limit of zero for reliability***

DMM continues to support the ISO's proposal to improve modeling of DR resources by recognizing that some customers are currently approved to export onto the distribution system from their utility distribution company (UDC).<sup>3</sup> However, DMM continues to recommend the ISO ensure the rules and agreements for exporting resources do not allow customers to circumvent the interconnection queue process for generating technologies.

The straw proposal would remove the minimum demand reduction limit of zero for all performance evaluation methodologies and customer load baseline calculations. The removal of the zero bound is for

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<sup>1</sup> *Demand and Distributed Energy Market Integration Track 1 Revised Straw Proposal: End-User Customer Exports in Demand Response Performance Measurement*, California ISO, June 11, 2026: <https://stakeholdercenter.caiso.com/InitiativeDocuments/Revised-Straw-Proposal-Demand-and-Distributed-Energy-Market-Integration-2026-06-11.pdf>

<sup>2</sup> *Comments on Demand and Distributed Energy Market Integration Straw Proposal and Issue Paper*, Department of Market Monitoring, March 27, 2026: <https://www.caiso.com/documents/dmm-comments-on-demand-and-distributed-energy-market-integration-mar-13-2026-straw-proposal-and-issue-paper-mar-27-2026.pdf>

<sup>3</sup> The interconnection agreements would be analogous to a Rule 21 export agreement for California Public Utilities Commission jurisdictional utilities.

individual customers, while the proposal limits the aggregated DR resource from exporting (or having negative energy market awards) to preserve local and system reliability. DMM supports this element of the proposal to ensure system reliability is preserved, while facilitating customers and resources to best reflect their capabilities to the market.

***The non-negative aggregate constraint may incentivize customer aggregations that exceed the performance capability of the resource***

Some stakeholders have expressed concern that the non-negative aggregate constraint may incentivize demand response providers to include customers in their resources that may have little or no demand flexibility to facilitate exporting customers' ability to maximally export without being zeroed out.

DMM has long raised concerns with baseline manipulation, such as a resource inflating their baseline to improve measured dispatch performance when compared against their counterfactual. The incentive to include poor or non-performing resources into the aggregate resource will not influence the baseline of the resource and allow for improved performance. The general concern is that resources backed by customers that have little or no expectation to be responsive to market signals will allow the aggregated resource to export in excess of a *status quo*. This concern should be scrutinized by the UDC and the ISO for local and system reliability, but does not appear to impact the measurement of performance by the aggregate resource.

While the inclusion of additional non-flexible load does not appear to impact the measurement of performance of an aggregate resource, DMM notes the proposal may lead to greater amounts of demand response resource adequacy that is unable to perform when called upon. The qualifying capacity (QC) of the resource historically provides the majority of revenue for DR resources and therefore, when the proposed ability for some portion of a demand response aggregation to net export is introduced, resources may be incentivized to add non-flexible load to be offset by the net export of another part of the aggregation. If the amount of added non-flexible load is not able to be fully offset by the net export, this may result in a QC level that exceeds the performance capability of the aggregate demand response resource. The determination of a resource's QC is out of the purview of ISO. However, DMM continues to recommend the ISO work with local regulatory authorities to ensure the QC valuation of the demand response resources is a true reflection of the capability of the resources to provide load flexibility.

***DMM recommends the ISO work with the local regulatory authorities to collect additional data to improve the monitoring capabilities of demand response aggregations and the supporting portfolio***

DMM continues to recommend the ISO work with partner agencies to provide information on each customer's expected load flexibility and additional meta data for continued monitoring.<sup>4</sup> As noted in previous comments, insight into the customer's type, end-use equipment, and control strategy would be valuable for DMM monitoring. For this proposal, information on whether the customers are capable of export to the distribution system would additionally assist monitoring.

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<sup>4</sup> *Comments on Demand and Distributed Energy Market Integration Straw Proposal and Issue Paper*, Department of Market Monitoring, March 27, 2026: <https://www.aiso.com/documents/dmm-comments-on-demand-and-distributed-energy-market-integration-mar-13-2026-straw-proposal-and-issue-paper-mar-27-2026.pdf>

***DMM continues to recommend the ISO improve the counterfactual estimates in baseline calculations to improve performance accuracy***

DMM has previously recommended the ISO consider enhancements to the counterfactual of existing baselines, and will continue to monitor resource behavior if the straw proposal in Track 1 is implemented. There are additional improvements to the calculation of DR baselines that would improve the accuracy of estimating the demand response to an ISO energy schedule. DMM's leading recommendation is the use of control group methodologies.<sup>5</sup> DMM hopes the ISO will consider improving the baseline calculation methodologies as this stakeholder process continues.

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<sup>5</sup> *Comments on Demand and Distributed Energy Market Integration Working Group*, Department of Market Monitoring, November 6, 2025: <https://www.caiso.com/documents/dmm-comments-on-demand-and-distributed-energy-market-integration-working-group-nov-06-2025.pdf>