

**COMMENTS OF ENERNOC, INC. TO
CALIFORNIA ISO STANDARD CAPACITY PRODUCT (SCP)
PHASE 2 ISSUE PAPER**

EnerNOC appreciates the efforts of CAISO to identify the challenges associated with integrating demand response (DR) into the CAISO's wholesale market as it relates to providing resource adequacy (RA)-eligible capacity, as part of the Standard Capacity Product (SCP). EnerNOC understands and appreciates the value of SCP in facilitating RA-eligible capacity transactions through bilateral arrangements. SCP makes it much easier for parties to transact RA-eligible capacity because the product is uniform and well-defined. Integration of renewable resources and DR resources into the SCP has been postponed because it is not clear that these resources will "fit" into the parameters established for traditional generation. Further, the CPUC has not defined the criteria under which DR qualifies for RA as a supply resource.

EnerNOC believes that the rules under which DR resources qualify for RA is a first-line consideration. This must be determined first before determining whether or not DR can be included within SCP or another vehicle. For the most part, EnerNOC is agnostic as to the vehicle through which DR capacity may be transacted, SCP or otherwise, so long as the vehicle is recognized as a legitimate means for transacting RA-eligible capacity.

CPUC COUNTING CONVENTIONS:

To date, the CPUC RA counting conventions for demand response resources, are different than supply-side resources. The CPUC deducts the resource adequacy value of demand response resources from the total demand associated with the load serving entity (LSE), thereby lowering the amount of supply-side resource adequacy that the LSE needs to procure. Before DR resources can participate in wholesale market transactions, it will be necessary for the CPUC and the CAISO to determine the criteria under which DR qualifies as an RA-eligible resource for capacity. Then, the CPUC can modify its counting conventions to include DR resources as supply-side resources. It is also likely that for some period of time, the CPUC may have two conventions for treating DR for purposes of RA: some DR resources will be deducted from an LSE's demand forecast and some DR resources will be treated as a supply-side resource. The DR resources that participate through the utilities' programs that are not directly integrated into the CAISO, will be counted as demand-side resources by the CPUC. DR resources that directly participate in CAISO wholesale market transactions will be counted as supply-side resources.

COMPARABLE COMPENSATION:

Through Order 719, FERC established a policy whereby demand resources would be afforded the same opportunity to participate in and receive comparable compensation from wholesale electricity markets as traditional generation. CAISO and stakeholders have been developing a product, Proxy Demand Resource ("PDR"), that will accommodate direct participation of demand resources for purposes of providing energy

and, subsequently, ancillary services. There is no current opportunity for a DR resource to receive a capacity payment through wholesale transactions.

The primary means by which RA-eligible generation receives capacity payments is through bilateral transactions with LSEs. SCP is the vehicle to facilitate those transactions and to facilitate counting resources for RA purposes. However, to date, there has not been a process to determine the criteria under which DR resources would qualify as a supply-side RA resource and there is no vehicle, such as SCP, through which to transact DR resource capacity. Therefore, there currently is no means by which DR resources can receive a capacity payment through wholesale transactions. Without the opportunity for demand resources to obtain a capacity payment through wholesale market transactions, demand response will not be comparably compensated as wholesale generators. Such a deficiency is likely to severely limit demand response participation in PDR.

AVAILABILITY REQUIREMENTS:

One of the concerns raised by generators relative to incorporating demand response into SCP is that DR resources may not have the same availability requirements as base-load generation. EnerNOC would agree that DR resources will not be able to perform 8,760 hours per year, but they could be available. As the CAISO's paper indicated, 12% of generation is exempted from availability based upon their resource type.¹

Aggregators provide DR resources under contract to utilities today. These contracts call for the resource to be available either during a summer season or over the course of the year; however, the resource will only be dispatched up to a certain maximum hours per year. Therefore, the resource is available to be dispatched, at the discretion of the utility, anytime during the defined period, but only for a certain number of hours.

EnerNOC believes a similar structure could be set up through the SCP such that the resource is available during a summer, winter or annual period, but can only be dispatched for a certain number of hours or only under certain conditions, based upon economics, system load, temperature or some other metric. In other words, the requirement to be available may not be problematic; however, the requirement to perform in all hours, like a base-load generation facility, would be problematic for most DR resources.

Not all generation is base-load generation, and yet the different types of generation serve different purposes in filling out the resource stack for the system. EnerNOC knows that peaking and intermediate resources count toward RA. Therefore, demand response could be included to look like a peaking resource.

EnerNOC would also note that the CPUC has established Maximum Cumulative Capacity (MCC) buckets for RA whereby certain percentages of the RA requirement can

¹ Footnote 3 on page 6.

be filled by peaking, intermediate and base-load resources. Therefore, DR resources could clearly be included as a peaking resource.

OTHER MARKETS:

Other ISOs are paying DR, or are establishing rules by which DR resources can be paid, as a capacity resource that is counted toward a planning reserve margin.

In NY, the ISO has a separate category of resources, which include demand resources, called Special Case Resources (SCR). These resources receive capacity payments, for availability, and energy payments, upon dispatch. Section 4-12 (pg.4-40) of the NYISO Installed Capacity Manual describes Special Case Resources.

http://www.nyiso.com/public/webdocs/products/icap/icap_manual/icap_mnl.pdf

In MISO, the only proposed limitation to capacity treatment, and eligibility as a planning resource, is a MISO determination of aggregate deliverability.² With that determination, the resource can participate in the voluntary capacity market or bilateral transactions and count toward the planning reserve margin.

In PJM, demand resources have already participated in the forward capacity market and demand resources are expected to participate fully in ISO-NE's forward capacity market in 2010.

In PJM's Reliability Pricing Model capacity market, both demand-response resources and energy efficiency resources have the opportunity to participate. They can receive payments for being ready to reduce their electricity demand or for implementing energy-efficiency measures. More than 2,000 megawatts (MW) of demand resources are committed as capacity resources for the 2011/2012 delivery year.³

ISO-NE intends to roll-out its forward capacity market design in 2010 in which demand resources will also compete for providing capacity.

CONCLUSION:

EnerNOC believes that stakeholders can work to resolve the concerns around demand response capacity transactions in the wholesale market and eligibility for RA as a supply-side resource, just as other markets have done.

² This position has not been submitted to FERC. If it is, EnerNOC will likely oppose the requirement that a determination of aggregate deliverability is a pre-condition for counting the demand resource as planning reserve capacity.

³ <http://www.pjm.com/~media/about-pjm/newsroom/downloads/demand-response-fact-sheet.ashx>

EnerNOC is agnostic as to whether or not SCP is the appropriate vehicle to facilitate those market transactions, so long as there is comparability in the ability to transact capacity.