

**COMMENTS OF ENERNOC, INC. ON
CAISO SCP II STRAW PROPOSAL**

EnerNOC, Inc. (EnerNOC) submits these comments regarding the CAISO SCP II Straw Proposal, issued on January 19, 2010. EnerNOC is concerned that the timeframe to remove the exemption of demand response (DR) from SCP II is too slow and may prevent DR resources from participating more fully in CAISO markets until 2012. EnerNOC believes that a stakeholder process should begin as soon as possible to identify the issues that would need to be resolved, including those that rely upon a CPUC Order. That way, progress will be made on issues in parallel with the CPUC proceeding. This will result in submitting a proposal to FERC and receiving a FERC order more rapidly.

Background and SCP II Straw Proposal Relative to DR:

CAISO received approval from FERC relative to the SCP I on June 28, 2009.¹ The Order granted a temporary exemption for resources whose resource adequacy (RA) capacity is based upon historical output. Solar, wind and other non-dispatchable resources were exempted to avoid potential “double counting” of historical outages. Demand response was also temporarily exempted from SCP I due to on-going CAISO stakeholder processes as well as CPUC proceedings. FERC, however, indicated that the exemptions were temporary and should sunset in a timely manner:

“To that end, we direct the CAISO to work with stakeholders, the CPUC, and local regulatory authorities to determine when the proposed exemptions should ultimately sunset, and the CAISO and stakeholders should diligently work toward a sunset in a timely manner.”²

CAISO observes, in its straw proposal, that outage reporting is not required for DR resources nor has CAISO yet established rules or considered potential modification to its outage reporting system. Further, CAISO wonders if non-availability through forced outages is even the appropriate incentive for DR resources. However, CAISO proposes beginning a stakeholder process but deferring the implementation until 2012, instead of 2011.

EnerNOC’s Position:

EnerNOC agrees that there are operational differences between DR and traditional generating resources that may result in different requirements for RA and SCP purposes. Those differences should be discussed through a stakeholder process. However, EnerNOC is very concerned about the timeframe that the CAISO has established for resolving these issues. In EnerNOC’s opinion, the delay of the incorporation of DR resources into SCP II until 2012, may erect a barrier to DR resource participation in CAISO wholesale markets, namely PDR. The reason is that DR resources would be limited to compensation only from energy and ancillary services transactions

¹ Order 127 FERC ¶ 61,298

² June 28, 2009 FERC Order at pg. 22.

and exempted from receiving capacity payments. Capacity payments are the primary source of revenues for DR resources in the retail programs and in other wholesale markets. Therefore, if DR resources are limited to only receiving energy and/or ancillary services payments, there will be a disincentive for customers to move to third-party DR providers because the compensation opportunity in the wholesale market will be less relative to the compensation they can receive for their participation in retail programs.

Further, it appears as though some relevant CPUC proceedings will be concluded and the CAISO PDR will be implemented well in advance of the proposed timeline to incorporate DR into SCP II.

- A. PDR is supposed to be implemented by May 2010. EnerNOC has worked with other stakeholders and the CAISO toward a summer 2010 implementation date.
- B. The Commission will conclude Phase I of the Direct Implementation Phase of the DR OIR (R.07-01-041) by April 2010. This proceeding will provide a structure around direct participation in CAISO markets. However, it is possible that the CPUC will not resolve all issues around direct participation in time for full participation by IOU DRPs and third-party DRPs for summer 2010. There is an expectation that such issues will be resolved in time for summer 2011. As such, EnerNOC would urge the CAISO to resolve SCP II issues related to DR to coincide with summer 2011 participation.
- C. The Commission will conclude Phase I of the Resource Adequacy Rulemaking (R.09-10-032) by June 2010. DR and SCP are within the scope of this proceeding.

Therefore, a good deal of information about direct participation and resource adequacy relative to DR resources should be available by summer 2010. If SCP II, and therefore the ability to transact DR capacity in the wholesale market, is not implemented until 2012, it is very possible that DR resources from third-party DRPs will not participate in PDR during 2010 or 2011. The recognition of the RA value of DR resources and the ability to transact that capacity in the wholesale market are cornerstones to the success of the direct implementation of DR resources into the wholesale market.

CAISO Has Filed Comments Supporting Rapid Conclusion of DR-Related Capacity Issues

CAISO filed comments in the Direct Participation Phase of DR OIR (R.07-01-041), recognizing the importance of resolving the value of DR capacity in this docket:

“The ISO encourages the Commission to communicate a clear path forward to address how demand response resources that directly participate in the wholesale market can qualify for Resource Adequacy (RA) capacity payments. Resource Adequacy qualification and/or access to RA capacity payments for demand response resources offered by third party demand response providers into the wholesale market *is essential to driving increased participation from demand response resources*. This access is also essential to fulfilling the Commission’s policy mandate that there be greater integration between retail and wholesale demand response.

The ISO is cognizant that this specific proceeding will not address the issue of access to RA capacity payments; however, the ISO encourages the Commission to coordinate and specify a “way forward” on this critical issue in its April decision.”³ (emphasis added)

CAISO also filed comments in R.09-10-032 emphasizing the importance of DR capacity and SCP such that the ALJ included the CAISO’s rationale in its Scoping Ruling issued December 23, 2009.

“...the ISO pointed out that FERC issued an order directing the ISO to end the temporary exemption for demand response resources and various QF resources (wind, solar, non-dispatchable cogeneration, non-dispatchable biomass and non-dispatchable geothermal facilities) and **this needs to occur for 2011** to be in compliance with the FERC directive. It is important to determine the appropriate counting rules for these resources as soon as possible both to comply with FERC directives and to provide clarity to the marketplace. While the issues may be complex, it may be possible to resolve these issues in Phase 1 of this proceeding, and therefore we will include this topic as within the scope of Phase 1 of this proceeding.”⁴ (emphasis added)

Conclusion:

EnerNOC suggests that the stakeholder process commence as soon as possible to identify the issues that will need to be resolved to remove the exemption of DR resources from SCP II. Any progress on these issues may inform the CPUC process. Much of the work can happen in parallel with the CPUC process and therefore, result in an earlier filing to FERC.

EnerNOC is very concerned about losing two full summers of DR participation in CAISO’s market by allowing the issue of SCP and DR to languish for implementation until 2012. Therefore, EnerNOC urges conclusion of the SCP II issues for incorporation of DR resources in time for summer 2011.

³ CAISO Reply Comments, R.07-01-041, pgs. 1-2.

⁴ Scoping Ruling in R.09-10-032, pg 8, issued 12-23-09.