

Consumer Power Advocates

Montefiore Medical Center
Continuum Health Partners
Fordham University
Memorial Sloan Kettering Cancer Center

Mount Sinai Medical Center
New York University
NYU Langone Medical Center
Luthin Associates, Inc.

May 13, 2010

VIA ELECTRONIC FILING

Ms. Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
Office of the Secretary
888 First Street, N.E.
Washington, D.C. 20426

**RE: Demand Response Compensation in Organized Wholesale Markets,
RM10-17-000**

Dear Ms. Bose:

Enclosed please find for electronic filing the Comments of Consumer Power Advocates (CPA) in the above captioned proceeding.

Thank you for your attention to this matter.

Regards,

//SS Catherine M. Luthin

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**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

**Demand Response Compensation in Organized Wholesale
Energy Markets**

Docket No. RM10-17-000

COMMENTS OF CONSUMER POWER ADVOCATES

Consumer Power Advocates (CPA) hereby submits these comments in response to the March 18, 2010 Notice of Proposed Rulemaking (“NOPR”) issued in the above captioned docket.

I. DESCRIPTION OF CONSUMER POWER ADVOCATES

Founded in 2002, Consumer Power Advocates is an association of large, not-for-profit and cultural institutions in the greater New York area that represents its members in energy related regulatory and legislative proceedings. Several of its members participate actively in the NYISO governance committees. All of our members have actively participated in competitive energy and demand response since its inception within the New York marketplace. Therefore, CPA has an interest in this case. Consumer Power Advocates membership includes:

- Memorial Sloan Kettering Cancer Center
- New York University
- Montefiore Medical Center
- Fordham University
- NYU Langone Medical Center
- Continuum Health Partners
- Mount Sinai Medical Center

II. COMMENTS.

CPA supports the Commission’s Proposed Rule on Demand Response Compensation in organized Wholesale Electricity Markets. CPA supports the development of a robust demand response market. Active and robust demand response is essential to an efficient energy market. In addition to being the cleanest source of supply, demand response is the key moderating influence on price in any market. Without the meaningful capability to reject high prices, consumers will suffer excess costs caused by wasteful production.

Economic theory informs us that the correct price signal will elicit the precisely efficient amount of demand response in an efficient market, but experience shows us that retail energy markets are far from perfectly efficient. Presently, no retail customer is exposed to the real time locational marginal price (LMP). Some retail customers may be subject to hourly pricing at the day-ahead market price, but that price is not typically subject to the extreme prices experienced during peak hours in the real time market. Retail rate tariffs and typical competitive energy supply contracts distort the real time price signal made to end-users of energy. Consumers who might prefer alternatives to peak period priced at LMP instead are offered the opportunity to purchase power at some price that may be only a fraction of the real time LMP.¹

In that kind of market environment, it is reasonable for the ISO or RTO to make a supplemental payment to insure that DR resources receive the full benefit of the savings available to the system. In the case of NYISO, DR resources receive a payment equal to the LMP. This system was developed through NYISO shared governance, and has proven successful. DR registration and response in NY continues to grow, and is expected to provide 2,251 MW of capacity for the NYISO in 2010 and thereafter, an increase of 315 MW from 2009.² This growth could only have occurred with the consistent application of market rules that provide adequate compensation to DR resources and their aggregators.

The NOPR on this case notes that DR in the PJM system declined when payments were reduced by a proxy value for retail energy price. CPA expects some commenter's will propose that same approach for all RTOs and ISOs, but we urge caution before that approach is adopted. First, that would harm existing DR providers who have committed to a business model that includes the expectation of the payment of the full LMP. More importantly, we are unconvinced that reducing the energy payment for DR by any proxy results in a more accurate or correct price signal. While the reduction of DR registration observed in the PJM system may not prove that the price signal is incorrect, neither does it prove the reduced correct. There is an obvious danger that an incorrect proxy price would suppress DR far below the economically efficient level. At the very least, some DR resources would find the LMP minus proxy price unattractive. The actual energy price paid by most DR resources is a proprietary matter, and thus the proxy price must necessarily be based upon some estimate of average energy prices. Any DR resource which enjoyed an energy price lower than that proxy estimate would receive for its load curtailment an energy price less than the avoided cost to the system. If the proxy price were subject to constant revision, lack of predictability and transparency might become an entry barrier.

CPA expects that some commenter's will insist that DR must be treated exactly as generation, but the fact is DR is not generation. DR requires specific market rules that recognize the operating characteristics of DR providers, just as market rules reflect the operating

¹ Supply choices offered to consumers in the marketplace include, but are not limited to, a fixed price contract (allowing for energy budget certainty), a block and index contract (a portion of the energy load is contracted at a fixed price while the residual load floats on the real time/ day ahead NYISO index), a floating product (total energy load floats on the real time/ day ahead NYISO index), and a Heat Rate Product (Price of electricity is linked to the price of natural gas).

² 2010 Load & Capacity Data "Gold Book," NYISO, p 6.
http://www.nyiso.com/public/webdocs/services/planning/planning_data_reference_documents/2010_GoldBook_Public_Final_033110.pdf

characteristics of generators. To slavishly apply rules that are perfectly reasonable for generators to DR resources will only create entry barriers that prevent consumers from enjoying the full benefit of efficient markets.

For all these reasons, CPA supports the Commission's efforts to implement LMP energy payments for all DR resources.

Respectfully submitted,

//SS Catherine M. Luthin

Catherine M. Luthin

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Consumer Power Advocates