

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

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October 4, 2002

Honorable Magalie R. Salas,
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Room 1-A209
Washington, D.C. 20426

Re: Docket No. AD02-23-000 - Demand Response
Programs

Dear Secretary Salas:

For filing please find the Notice of Intervention and Comments of the New York State Public Service Commission in the above-entitled proceeding. Should you have any questions, please feel free to contact me at (518) 473-8178.

Very truly yours,

David G. Drexler
Assistant Counsel

Attachments

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

Demand Response Programs) Docket No. AD02-23-000

**NEW YORK STATE PUBLIC SERVICE COMMISSION'S NOTICE OF
INTERVENTION AND COMMENTS ON
DEMAND RESPONSE ISSUES**

Pursuant to the Federal Energy Regulatory Commission's (FERC or Commission) September 20, 2002 "Notice of Presentation on Demand Response Issues and Request for Public Comment" and Rule 214 of the Commission's Rules of Practice and Procedure, the New York State Public Service Commission (NYPSC) hereby submits its Notice of Intervention and Comments.

The NYPSC supports the use of demand response (DR) programs as an effective and economical way to ensure reliability and meet energy service requirements. We believe that demand response is a critical component of competitive energy markets. Both Buyers and Sellers must be able to respond to prices for the market to function efficiently. While incentives are appropriate for economic-related DR programs during the transition to competition, they may not be appropriate in a fully competitive market. To the extent that DR programs are necessary to ensure continued reliability, even in a competitive market, incentives may continue to be necessary.

New York has established several DR initiatives, including a Special Case Resources (SCR)¹ program, an Emergency Demand Response Program (EDRP), and a Day-Ahead Demand Response Program (DADRP). The SCR program operates as part of the Installed Capacity (ICAP) market and provides monthly capacity payments to customers in exchange for mandatory load reductions when called upon by the NYISO during emergencies (e.g., operating reserve deficiencies). Currently, there are 647 MWS of load reduction registered under the SCR program.

The EDRP program is a voluntary load reduction program through which curtailment service providers are called upon by the New York Independent System Operator, Inc. (NYISO) to reduce load during reserve deficiencies or emergency situations. The current registered amount of demand reduction for EDRP is approximately 1,458 MWS.² The DADRP is an economic demand-reduction bidding program in which customers submit load reduction bids in the day-ahead market and are required to curtail in real-time if their bid is accepted.

¹ The NYISO's Market Administration and Control Area Services Tariff (Services Tariff) defines SCR as "[l]oads capable of being interrupted upon demand, and distributed Generators, rated 100 kW or higher, that are not visible to the ISO's Market Information System and that are subject to special rules...in order to facilitate their participation in the Installed Capacity market as Installed Capacity Suppliers."

² Five Hundred Thirteen MWS of load reductions are currently registered in both the EDRP and SCR programs.

In addition, the New York State Energy Research and Development Authority (NYSERDA) is using System Benefit Charge (SBC) funds collected from utility distribution customers to fund the installation of interval meters and a wide range of other technologies for all classes of customers. These combined efforts, including the establishment of a sufficient minimum payment for participation in NYISO's EDRP, have resulted in a DR framework for New York.

I. Incentives For Economic-Related Demand Response Programs Are Appropriate During the Transition to Competition, But Incentives For Reliability-Related Demand Response Programs Would Remain Necessary In A Fully Competitive Market

Question 1 asks: "Do you believe that, in order to promote and maintain fully competitive markets, demand side solutions should provide for long-term incentives (e.g., subsidies on an on-going basis)."

Demand response programs can serve two important, yet different, purposes. Demand response may be used to ensure reliability under emergency conditions, or to mitigate price spikes by reducing demand.

Whether DR programs should include incentives depends on whether they serve drastic needs. Incentives, therefore, are likely to remain a necessary component of reliability-related DR programs. They may only be necessary for economic demand-reduction bidding purposes, however, until markets are fully competitive and customers are receiving correct price signals.

Currently, the NYISO administers the EDRP to ensure reliable operation of the bulk power system under emergency conditions that could cause load shedding. Customers are paid to curtail load during these periods. The EDRP has proven to be a highly effective and low-cost tool to manage emergencies. Given the important role of EDRP in maintaining public health and safety, incentives are likely to be appropriate on an on-going basis.

In a competitive market, customers should receive and be able to respond to appropriate market signals. However, we are still in the early stage of such a market's development, and customers are often not aware of real-time prices or able to respond to them. Interval meters are increasingly being used by large customers, and real-time pricing tariffs are in place for all utility customers with loads greater than 100 kW. Customer education is also on-going and is essential. Incentives should play a role in encouraging economic DR during the transition to competition, but may not be appropriate in a competitive market.

II. Multiple Entities Have Been Promoting Participation in Demand Response Programs

Question 12 asks whether the NYISO is "taking an active role in promoting greater participation in the DR programs in the ISO? If so, how?"

The NYPSC, NYISO, and NYSERDA, have jointly held outreach and education meetings around the State to explain and promote

New York's DR programs to customers. Most significantly, these programs have also been heavily promoted by Curtailment Service Providers (CSPs),³ who sell demand side products and services, and have the financial incentive to bring these programs to market.

III. New York Has Undertaken A Comprehensive Approach To Encourage Competitive Metering

Question 13 asks what plans the NYISO has "in place to support competitive metering?" New York has undertaken a comprehensive approach to encourage competitive metering, including several NYPSC actions to open markets, incentives for interval meters, and targeted research and development efforts.

Recognizing that "[t]he introduction of competition into metering services can lower long term costs, increase customer choices, encourage economic growth, stimulate innovation, and shift more of the risks of investments to providers," the NYPSC directed that electricity metering may be furnished by non-utility meter service providers as an option for large customers.⁴ This Order allows customers to "procure meters and

³ The NYISO's Services Tariff defines CSPs as qualified entities that can "produce real-time, verified reduction in [New York Control Area] load of at least 100 KW in single Load Zone, pursuant to the [EDRP] and related ISO procedures."

⁴ Case 94-E-0952, In the Matter of Competitive Opportunities Regarding Electric Service, Order Providing For Competitive Metering, (issued June 16, 1999), p. 7.

various metering services, such as meter installation and meter reading, from competitive entities, instead of only from the utilities."⁵ Moreover, a series of Working Group Reports on competitive metering issues and a manual entitled "New York Practices and Procedures for the Provision of Electric Metering in a Competitive Environment" were developed.⁶ Several New York utilities are also beginning to explore, through pilot programs, the potential benefits to customers and utilities from the widespread installation of enhanced automatic meter reading (AMR) systems.

To support participation in demand response programs, NYSERDA is providing funding to customers for the purchase and installation of interval meters. Approximately 800 meters have been installed with these incentives for large customers and they have played a prominent role in the success of the NYISO's EDRP program. In addition, NYSERDA's Residential Comprehensive Energy Management Services Program provides funding for residential advanced metering and direct load control

⁵ Id. Our Order also required the development of "rules establishing the responsibilities of parties providing metering services and the methods for transferring and sharing meter data among authorized parties," as well as a "procedure...to determine the eligibility of those companies." Id.

⁶ These reports and manual are available on the internet at http://www.dps.state.ny.us/esco_metering.html.

installations. These programs allow for remote, interval meter reading, and peak load curtailment to help consumers take advantage of variable electricity pricing and load aggregation.

NYSERDA has also undertaken a variety of research and development efforts targeting different technologies and sectors, including:

- redirecting a large portion of the SBC program funds (budgeted at \$150 million per year) for peak demand reduction programs;
- providing \$1.85 million for innovative metering technologies, such as state-of-the-art communications and networking systems;
- initiating a new program designed to demonstrate and evaluate innovative time-sensitive electricity rates, including advance meters;
- providing technical and regulatory assistance to help promote electric submetering and energy efficiency measures in the multi-family and low-income housing sectors;
- designing and installing a secure real-time internet based network among New York City Housing Authority buildings to allow remote monitoring and/or control of boilers, temperature sensors, and interval electricity meters; and
- supporting the development of devices that identify building end-use loads without entering the dwelling, in order to allow consumers to make more informed energy purchase and consumption decisions.

IV. The New York Independent System Operator, Inc.'s Emergency Demand Response Program Minimum Payment of \$500 Per MWh Is Designed to Attract Participation And Ensure Adequate Payment

Question 30 states that: "[i]n NYISO's Emergency Demand Response program, payment is based on the higher of \$500 per MWh or the zonal real time locational price per MWh of demand reduced. What is the support/basis for the \$500 per MWh payment, i.e., how was it arrived at and how does it compare to alternatives other than DR at the margin?"

The \$500 per MWh payment was intended to attract sufficient participation. Given prior experience with a Consolidated Edison Company of New York, Inc. (Con Edison) local reliability DR program that attracted only one customer with a \$300 per MWh payment, market participants argued that an increased incentive was necessary and \$500 would be appropriate. Participation in the Con Edison local reliability DR program has increased from one to 117 customers after the incentive was raised from \$300 to \$500. Under the EDRP program, the \$500 per MWh has attracted 1,458 MWh of participating DR as of September 2002. Moreover, it was recognized that this amount was consistent with a \$500 per MWh minimum payment for performance under PJM's emergency DR program.

The NYISO will soon be implementing changes to EDRP and SCR whereby SCR customers will be required to bid in their load

curtailment up to a maximum price of \$500 per MWh. The EDRP customers will then be called on only after SCR DR has been fully utilized, and will continue to receive the higher of \$500 per MWh or the zonal real-time locational price per MWh of demand reduced. This refinement will allow the NYISO to select DR resources, if necessary, in smaller increments and in a least-cost manner. Under the revisions, the payments made to SCR and EDRP customers for performance will set the real-time market price during those periods when their load reductions are necessary to meet operating reserve deficiencies. As a result, real-time prices should more accurately reflect the value of resources needed to meet load under scarcity conditions.

CONCLUSION

Demand response is a critical component of competitive energy markets. NYPSC continues to support the development and implementation of DR programs.

Respectfully submitted,

Lawrence G. Malone
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By: David G. Drexler
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Public Service Commission
of the State of New York
3 Empire State Plaza
Albany, NY 12223-1305
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Dated: October 4, 2002
Albany, New York

CERTIFICATE OF SERVICE

I, Naomi Tague, do hereby certify that I will serve on October 4, 2002, the foregoing Notice of Intervention and Comments of the Public Service Commission of the State of New York by depositing a copy thereof, first class postage prepaid, in the United States mail, properly addressed to each of the parties of record, indicated on the official service list compiled by the Secretary in this proceeding.

Date: October 4, 2002
Albany, New York

Naomi Tague