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

Demand Response Compensation in	)	
Organized Wholesale Energy Markets	)	Docket Nos. RM10-17-000,
	)	EL09-68-000

#### COMMENTS OF THE NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.

The New York Independent System Operator, Inc. ("NYISO") respectfully submits this response to the Commission's March 18, 2010 *Notice of Proposed Rulemaking* ("NOPR") seeking comments on a series of questions and its proposed new regulation concerning demand response compensation in energy markets.<sup>1</sup> As a member of the ISO/RTO Council ("IRC") and a signatory to the joint IRC filing made in this proceeding, the NYISO also fully supports the responses to the NOPR and additional discussion presented in the IRC White Paper entitled *Demand Response Pricing in Organized Wholesale Markets* ("IRC White Paper").<sup>2</sup> The IRC White Paper illustrates the shortcomings of the NOPR proposal to pay LMP for demand response and presents a series of proposals that would avoid those shortcomings while supporting the Commission's goals of just and reasonable rates and encouraging further demand response participation.

Demand response is a valuable resource in the NYISO market for all the reasons the Commission has pointed out – it serves to lower prices by reducing the need to

<sup>&</sup>lt;sup>1</sup> Demand Response Compensation in Organized Wholesale Energy Markets, Federal Energy Regulatory Commission Notice of Proposed Rulemaking, 130 FERC ¶ 61,213, Issued March 18, 2010 (Docket Nos. RM10-17-000, EL09-68-000 ("NOPR").

<sup>&</sup>lt;sup>2</sup> Comments of ISO/RTO Council, White Paper entitled Demand Response Pricing in Organized Wholesale Markets by William W. Hogan, Docket Nos. RM10-17-000, EL09-68-000 (filed May 13, 2010) ("IRC White Paper").

dispatch higher-priced generation, or buy higher priced capacity, it can mitigate generator market power by increasing the risk to generation suppliers that their facilities will not be dispatched if bid at a non-competitive price and it can also support system reliability and address resource adequacy.

Many agree that the most efficient method for encouraging cost-efficient demand reduction by end-users in a market environment is the imposition of dynamic retail pricing (referred to by Professor Hogan as Real-time Pricing Demand Response<sup>3</sup>) whereby retail rates are linked to real-time wholesale market energy prices.<sup>4</sup> Under such pricing designs, loads are exposed to the wholesale cost of power and have sufficient information to make economically rational consumption decisions. That is, retail loads can avoid consuming when the cost of such consumption exceeds the cost of not consuming and the Commission's goals of lower wholesale prices, market power mitigation and system reliability are realized.

In jurisdictions without Real-time Pricing Demand Response, ISOs/RTOs have some ability to encourage economically similar rational demand reduction by paying demand response providers for reducing their load on the system. If the retail jurisdiction has allowed Load Serving Entities ("LSEs") to charge those demand response providers as if they had not reduced their consumption, a payment of LMP for demand response may be appropriate.

<sup>&</sup>lt;sup>3</sup> IRC White Paper, *supra* note 2, at p 2.

<sup>&</sup>lt;sup>4</sup> See Id. at p 6; See also New York Independent System Operator, Inc., Compliance with Order 719, Docket No. ER09-1142-000, at pp 12-13 (filed May 15, 2009); Report on Shortage Pricing of Potomac Economics, LTD. Independent Market Advisor for the New York ISO, Docket No. ER09-1142-000, at pp 4-5 (filed May 15, 2009); Potomac Economics, 2009 State of the Market Report New York ISO Electricity Markets, April 2010, at slide 186, available at http://www.nyiso.com/public/webdocs/documents/market\_advisor\_reports/2009/2009\_NYISO\_SOM\_Fina 1\_4-30-2010.pdf.

In the absence of such a retail payment construct, however, LMP is not the right price for demand response providers. A more appropriate payment for such reduction is what Professor William W. Hogan has referred to as LMP-G or a payment of LMP minus an imputed amount reflecting some (or all) components of the retail rate.<sup>5</sup> Thus, LMP-G is intended to mimic paying LMP to a demand response provider in a jurisdiction that allowed Load Serving Entities ("LSEs") to charge those demand response providers as if they had not reduced their consumption. As such, LMP-G reflects a virtual retail purchase of the commodity being sold at wholesale.

Paying demand response LMP-G will facilitate the entry of economic demand response resources into real-time Energy markets while maintaining the integrity of Locational Marginal Price ("LMP") based, two-settlement Energy Markets. It will provide an efficient incentive for demand resources to participate in wholesale markets while providing a settlement for wholesale customers that is comparable to being supplied by a generation resource. The NYISO suggests that the ISO/RTO develop the details of LMP-G in individual proceedings, working with their stakeholders, rather than develop such a price generally.

The approach to the payment for demand response providers that is set forth in the NOPR, requiring ISOs/RTOs to pay LMP without reflecting the virtual retail purchase of the commodity being sold at wholesale, will impose unnecessary costs on non-participating retail customers, create perverse incentives and slow the introduction of other innovative clean technologies by uneconomically suppressing real-time prices without any guarantee that the overpayment inherent in such a rate will foster further investment rather than act as a mere windfall.

<sup>&</sup>lt;sup>5</sup> IRC White Paper, *supra* note 2, at p 7-8.

To the extent that the Commission concludes that a single payment rule for demand reduction in the organized energy markets is necessary, it should adopt Professor Hogan's proposed LMP-G methodology. If the Commission cannot support LMP-G as the appropriate demand response compensation scheme, the Commission should allow individual ISO/RTOs to develop the appropriate rate to pay for demand response in the energy markets of their individual jurisdictions, in proceedings that involve all stakeholders.

#### I. COMMUNICATIONS AND CORRESPONDENCE

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### II. BACKGROUND AND SUMMARY RESPONSE

The Commission has long been directing ISOs and RTOs to open their electricity

markets to demand response providers by reducing barriers and revising market rules that

may have unnecessarily prevented their entry. The NYISO has responded by providing

opportunities for wholesale demand response resources to participate in its markets.

Wholesale demand response resources may participate in the NYISO's Day-

Ahead Energy market through the Day-Ahead Demand Response Program ("DADRP"),

and in the Day-Ahead and real-time Ancillary Services markets through the Demand-Side Ancillary Services Program ("DSASP"). They may also participate as suppliers of Installed Capacity ("ICAP") when they agree to participate as Special Case Resources ("SCR") in the emergency reliability services program described below.

In the DSASP and ICAP programs, demand response providers and generators are paid on an equal footing -- both are eligible for clearing prices associated with the services they are chosen to provide.<sup>6</sup> In the DADRP program, wholesale demand response providers are also paid for their scheduled demand reduction in the same way that Generators are paid for Day-Ahead scheduled Energy.<sup>7</sup>

As well, demand response is the only resource eligible to offer emergency reliability services when the NYISO forecasts an operating reserve shortage.<sup>8</sup> With a best efforts 21-hour-ahead advisory, and a two-hour ahead notice, these resources receive the greater of \$500/MWh or the real-time LBMP, or the real-time LBMP, <sup>9</sup> for every

<sup>&</sup>lt;sup>6</sup> ICAP is awarded for a month at a time; Ancillary Services are scheduled daily. ICAP can be awarded through an NYISO auction or bilaterally with a Load Serving Entity.

<sup>&</sup>lt;sup>7</sup>Demand response providers and generators in the ICAP and DSASP programs are paid the clearing price for the availability of energy when required by the ISO and compensation comparability in these programs is appropriate. An identical \$ / MW paid for either demand response or generation availability in these programs imposes the identical impact on loads.

Day-Ahead-scheduled DADRP compensation is also comparable to Day-Ahead scheduled generation compensation. The NYISO developed DADRP nine years ago when demand response was in its infancy and may review this design depending on the outcome of this proceeding. As noted in the NYISO's Sept. 7, 2004 DADRP filing, "In the event that [the NYISO] determines that Market Participants have sufficient incentives to pursue economic demand reductions as a result of being subject to real-time prices or other initiatives, the NYISO will reconsider the continued need for an incentivized DADRP." (*New York Independent System Operator, Inc.*, Docket No. ER04-1188-000, Filing of Services Tariff Revisions to Extend and Modify Its Incentivized Day-Ahead Economic Load Curtailment Program (filed Sept. 7, 2004).

<sup>&</sup>lt;sup>8</sup> See Services Tariff, Section 5.12.11 (a) and Services Tariff Attachment G.

<sup>&</sup>lt;sup>9</sup> Payments vary by program and by the number of hours included in the specific request to respond. *See* Services Tariff Section 5.12.11 (a) and Services Tariff Attachment G.

MWh of demand reduction provided, with a guaranteed minimum number of hours over which they are eligible for this compensation.

Most recently, as the Commission notes, Order No. 719 implemented a series of reforms to improve the competitiveness of organized electric markets. In particular, the NYISO was directed in its Order No. 719 compliance proceeding to:

[M]odify its tariff to allow technically capable demand response resources to participate in the real-time energy market.<sup>10</sup>

The NYISO has begun this effort with stakeholder discussions of the concept for real-time market participation by demand response to continue for the balance of 2010.<sup>11</sup> The NYISO expects that these stakeholder proceedings will provide market designs that not only include appropriate compensation but also address other design issues such as the need for minimum run times that may differ from those default times currently included for generation resources, aggregation opportunities not necessary for generation resources, bid protections, and new scheduling options (*i.e.* 5 or 15 minute flexible schedules).

In this NOPR, the Commission has turned its attention to compensation for demand reduction in the energy markets. The NYISO provides brief answers to the questions asked by the Commission below. Further descriptions of the NYISO position on the issues raised by the Commission's questions can be found in the balance of this response.

[Whether] current compensation for demand response providers acting as a resource in the organized wholesale energy markets is adequately procuring demand response

<sup>10</sup> New York Independent System Operator, Inc., 129 FERC ¶ 61,164, at P 34 (2009).

<sup>&</sup>lt;sup>11</sup> New York Independent System Operator, Inc., Docket No. ER09-1142-006, Order No. 719 Demand Response Compliance Filing, Letter Order (filed April 23, 2010).

Because the NYISO has no criteria by which to measure the Commission's conception of "adequate" procurement, it is difficult to answer this question. As Professor Hogan indicates, however, it is likely that in the absence of dynamic retail pricing, direct compensation from the ISO/RTO may be a useful market signal to encourage more economically efficient demand response. It is vitally important, however, as the Professor also asserts, that such direct compensation not impose a net loss on the ISO/RTO or create perverse incentives that would hinder economically appropriate behavior in other areas of the market.

[W]hether a reduction in consumption is comparable to an increase in electricity production for purposes of balancing supply and demand, and whether, therefore, demand response providers and generators should receive comparable compensation; [and]

[W]hether paying LMP to demand response resources is comparable compensation or is more or less than comparable to compensation paid to generation in the ISO and RTO energy markets

An increment of consumption, in an LMP-based, two-settlement energy market, has the same value as an increment of generation. This does not translate, however, to a conclusion that compensating an increment of demand reduction the same as an increment of electricity production is appropriate for purposes of balancing supply and demand. LMP is not comparable compensation for both demand reduction and generation supply.<sup>12</sup> To the extent LMP rather than LMP-G is paid, the ISO/RTO would be over-compensating demand reduction at the expense of non-participating customers and other competing technologies not eligible for the subsidy inherent in paying demand response providers LMP. Moreover, such a payment scheme could uneconomically

<sup>&</sup>lt;sup>12</sup> As the NYISO will demonstrate in Part II, however, compensation for demand reduction at LMP-G is comparable to compensating generation supply at LMP.

reduce real-time prices thereby hindering the introduction of other technologies that could also further the Commission's goals of lowering wholesale energy costs, mitigating market power and supporting system reliability.

[W]hether payment of LMP should apply to all hours, and, if not, the criteria that should be used for establishing the hours when LMP should apply;

Provided that demand reduction is properly compensated, either through LMP-G or some variant thereof, there is no reason not to schedule such reductions whenever the energy bid provided by the demand reduction provider is economic. It will be critically important, however, to develop criteria, baselines, and measures of actual performance to ensure that realized demand reductions would not have happened but for the provider's response to the compensation opportunity.

[W]hether requiring payment of LMP is appropriate across all ISOs and RTOs, or whether variations among ISOs and RTOs justify varying levels of demand response resource compensation . . . ; [and]

[W]hether the Commission should allow regional variations for an ISO or RTO that does not seek to compensate demand response resources participating in the organized wholesale energy market.

Implementation of LMP-G as the appropriate demand response compensation will require regional variations, including the development by individual ISO/RTOs of the "G" in LMP-G – that is the portion of the retail rate (or proxy thereof) to be reflected in the rate paid for demand response.

As well, demand response compensation needs to be integrated with these existing rules and designs to avoid unintended consequences. As a general matter, market rules have evolved based upon specific ISO/RTO needs (e.g., prevalence of combustion turbine technology, penetration of wind-power, interest of alternative supply resources such as limited energy storage devices). Specific rules act together in market designs to simultaneously address these needs. If, the Commission cannot support LMP-

G, it should instead require each ISO/RTO to address the issue of appropriate

compensation individually.

# III. IN ORGANIZED MARKETS, THE VALUE OF DEMAND REDUCTION FOR COMPENSATION PURPOSES IS NOT EQUIVALENT TO THE VALUE OF INCREMENTAL GENERATION

The Commission defends the use of LMP as appropriate compensation for

demand response by stating that it:

[R]eflects the marginal effect of each demand response resource in the hour; just as LMP reflects the marginal effect of generation resources in each hour. (NOPR at  $\P19$ )

As Professor Hogan points out in his White Paper, LMP does reflect the marginal value of demand and generation in some cases.<sup>13</sup> Under economic dispatch, the marginal cost of *meeting* an increment of load is LMP; load pays LMP for what it takes off the system and generation receives LMP for what it puts into the system. When a demand response provider is responding to economic dispatch signals, it will reduce its consumption when LMP is greater than its cost of consuming (as reflected in its bid) a response that is equivalent to a generator responding to economic dispatch by increasing its output when LMP is greater than its cost of producing (as reflected in its bid). For purposes of balancing supply and demand, economic dispatch reflects the equivalent values of demand response and generation when, for any given LMP, it either directs a demand response provider to reduce its MWh load or directs a generator to add MWh to the system.

<sup>&</sup>lt;sup>13</sup> IRC White Paper, *supra* note 2, at 3.

This equivalency does not extend, however, to justifying an LMP *payment* for demand reduction as the NOPR envisions it. The NOPR's conclusion that LMP reflects the marginal effect of demand response just as LMP reflects the marginal value of generation resources in each hour<sup>14</sup> is flawed. As Professor Hogan explains, if the marginal effect of the two resource types (demand response and generation) were equal, the net change in costs and revenues to the ISO, when deploying one or the other, would also be the same.<sup>15</sup> But the two do not produce an equal net change in costs and revenues when one or the other is deployed.

Professor Hogan's example at p. 3-4 of his paper explains that an ISO/RTO will incur a net loss when paying demand response providers LMP for its megawatts of demand response, whereas it will break even when paying LMP for generation megawatts. Professor Hogan's illustration explains that the marginal effect of two resource types on the system cannot be the same because the net change in costs to the ISO/RTO is not the same.

Professor Hogan also provides an example of the different revenue streams available to a customer connecting a distributed generator ("DG") depending on which side of its meter it chooses as the interconnection point.<sup>16</sup> Installed on the customer's side of the meter, in Professor Hogan's example, DG can act as a load modifier and its output can be sold as demand response. If located on the ISO/RTO side of the meter, DG can act as a generation resource for the ISO/RTO. Professor Hogan uses this example to further illustrate the different marginal effects that demand response and generation (as

<sup>&</sup>lt;sup>14</sup> See NOPR at P 19.

<sup>&</sup>lt;sup>15</sup> See IRC White Paper, supra note 2, at pp 3-4.

<sup>&</sup>lt;sup>16</sup> *Id.* at pp 5-6.

represented by the DG) have on the system by explaining how their differing impacts influence a customer's decision as to which side of the meter to install its DG. As Professor Hogan explains, the fact that customer is not indifferent as to whether its DG acts as a resource in the market or as supporting an offer of demand response further indicates the two resources are not equivalent in their marginal effects.<sup>17</sup>

### IV. PAYING LMP FOR DEMAND REDUCTIONS WILL INAPPROPRIATELY IMPOSE COSTS AND CREATE PERVERSE INCENTIVES

Professor Hogan's example<sup>18</sup> that an ISO/RTO does not experience the same net change in costs and revenues when paying LMP to either demand response or generation also illustrates that paying LMP to demand response providers imposes costs on the ISO/RTO that will need to be recovered from the LSE whose customer provided demand response or from all LSEs though a socialized uplift charge. As the NYISO demonstrates in Part V, paying the demand response provider LMP-G, instead, leaves the LSE indifferent as to whether the costs imposed by incremental load are met through demand response or generation. Paying LMP imposes greater costs on LSEs when the ISO/RTO dispatches demand response than when it dispatches generation.

Professor Hogan's second example, describing the different market effects that distributed generation can create for a customer depending on which side of the meter the DG is located,<sup>19</sup> also serves to explain a potentially significant, perverse incentive to

<sup>&</sup>lt;sup>17</sup> As the NYISO will demonstrate in Part V, however, compensation for demand reduction at LMP-G <u>is comparable</u> to compensating generation supply at LMP.

<sup>&</sup>lt;sup>18</sup> See IRC White Paper, supra note 2, at pp 3-4.

<sup>&</sup>lt;sup>19</sup> *Id.* at pp 5-6.

paying LMP for demand response if the Commission were to adopt the NOPR's approach. As Professor Hogan explains, a customer locating its DG on its side of the meter could use the output of the generator to reduce its consumption (perhaps by switching load from the grid to its DG) and could also sell the MWh of demand reduction (metered as the output of its DG) to the ISO/RTO as a demand response resource. This would allow the customer essentially to use the output of its DG <u>both</u> to continue processing at its previous level <u>and</u> to sell the 6 MWh of "demand response" to the grid.

On the other hand, a customer selling its demand response (*i.e.* DG output) for LMP-G would experience net charges similar (depending on the size of the proxy) to those it would have experienced had it received LMP for its demand response (metered as the output of its DG) but also been charged the retail rate for the "demand response" it provided the ISO/RTO. The market effects of locating the meter on either side of the demarcation between retail and wholesale entities would be far less pronounced, if present at all, if the customer was paid LMP-G for its demand response.

Finally, again as Professor Hogan also noted, paying demand response providers full LMP may create an incentive for such customers to avoid moving to retail dynamic pricing – the preferable rate structure for recognizing the economic value of load vis a vis generation.<sup>20</sup>

## V. A MORE APPROPRIATE PAYMENT FOR DEMAND RESPONSE IN THE ENERGY MARKET IS LMP-G

If the Commission determines that retail rates (in areas without dynamic retail pricing) fail to provide efficient incentives for demand response and that wholesale market incentives are necessary to encourage more demand response investment, a more

**<sup>20</sup>** *Id.* at p 7.

appropriate compensation mechanism than the one proposed in the NOPR should be adopted. The NYISO agrees with Professor Hogan's determination that a more appropriate design would avoid the "unintended consequences of upsetting the principle of equal treatment of equivalent resources" that paying full LMP would entail.

A compensation mechanism built around LMP-G, or the payment of LMP minus the generation component of the retail rate (or a proxy thereof), would result in more economically efficient outcomes, avoid the incremental revenue losses that need to be recovered through uplift that are inherent in paying LMP, and leave LSEs indifferent as to whether increments of load are met with demand response or additional generation. <sup>21</sup> As Commissioner Moeller noted in his dissent to this NOPR, the concept of paying LMP-G received considerable support and "conservatively could be said to have garnered at least a three-quarters majority approval" in a recent PJM proceeding.<sup>22</sup>

Professor Hogan demonstrates that only a design that pays LMP-G for demand response remains faithful to the efficiency and equal treatment principles of organized markets and sends the correct incentives to market participants.<sup>23</sup> He explains that only by paying LMP-G for demand response will the ISO/RTOs be able to approximate the efficient outcome otherwise produced when dynamic retail pricing exposes all customers to the marginal cost of generation.<sup>24</sup> The NYISO agrees with Professor Hogan that

<sup>&</sup>lt;sup>21</sup>As is discussed more completely in Part VII, below, the choice of which retail costs to include in "G" should be made in individual ISO/RTO proceedings where retail rate structures can be identified and proxy charges developed. Those rate structures that include periodic adjustment clauses for distribution and transmission costs so that the rate structure does not act at cross-purposes with demand response investments may allow the "G" to reflect only the generation component of the retail rate.

<sup>&</sup>lt;sup>22</sup> NOPR at dissent p 4 n. 11 (Moeller, Comm'r., *concurring in part, dissenting in part)*, *quoting PJM Interconnection, L.L.C.*, Docket No. EL09-68-000, Supplemental Report and Submittal of PJM Interconnection, L.L.C. In Support of Further Commission Action on Rehearing, at 24-25 (filed August 26, 2009).

<sup>&</sup>lt;sup>23</sup> IRC White Paper, *supra* note 2, at p 6.

**<sup>24</sup>** *Id.* at pp 6-7.

*requiring* ISO/RTOs to pay LMP sends the wrong incentive and is inconsistent with the principles of the organized markets.

Paying LMP-G for demand response leaves the LSEs relatively indifferent as to whether demand response or generation is dispatched to meet their load. The LSE is able to recover from its customers the cost of one MWh of generation, at LMP, or one MWh of demand response, priced at LMP-G, by imposing approximately the same unit rate per megawatt consumed.<sup>25</sup> That is, when the LSE collects the cost of the LMP paid for the additional generation its customers used, it has the metered load of all its customers from which to recover this amount. When collecting the cost of paying LMP-G for the demand response its customers used, the amount it is recovering is net of approximately what the demand response customer would have contributed to the recovery (*e.g.* an amount that is net of the contribution of a virtual retail purchase). An LMP-G payment to demand response providers leaves LSEs and their customers relatively indifferent to whether they are charged for generation or for demand response.

### VI. PAYING FULL LMP TO DEMAND RESPONSE PROVIDERS IS AN INAPPROPRIATE SUBSIDY THAT MAY NOT FURTHER THE COMMISSION'S POLICY GOALS, INCLUDING HAVING MARKETS THAT PRODUCE LOWER WHOLESALE POWER COSTS.

LMP-supporters that acknowledge that a payment for demand response of full LMP leaves other customers with additional costs have characterized this [extra payment] as a subsidy or a "short-term incentive . . . viewed as a form of start-up cost that is needed to help institute [further demand reduction] . . . to provide(s) significant benefits to the

<sup>&</sup>lt;sup>25</sup> As noted earlier, in retail jurisdictions where the LSE is permitted to charge demand response providers as if they had not reduced their load, a payment of LMP would be appropriate. In those jurisdictions, reflecting in the price paid, the virtual retail purchase of the commodity being sold at wholesale, inherent in LMP-G, is not necessary.

entire . . . market.<sup>26</sup> Market-based rates that ostensibly include an uneconomic 'additional payment' as a mechanism to subsidize a favorite technology may be result in preferential treatment and unjust compensation. Subsidies may well be appropriate in some circumstances, but they should be openly described as such and justified.

With respect to this proceeding, paying demand response an LMP-based payment because it is thought that demand response participation will reduce LMPs for all customers is not a sufficient rationale for justifying an 'additional payment' for a favored technology. Demand response is not the only resource able to provide such benefits. Other technologies, with lower costs than traditional generation, can offer LMP-lowering new supply in the same way as can additional demand response. However, such new technologies may be kept out of the market by demand response that would be uneconomic at LMP-G but participates when subsidized at full LMP. Without adequate justification, paying LMP to demand response providers may discriminate against other technology providers, or less expensive resources, that are not eligible for the "additional" compensation inherent in LMP. The NYISO agrees with Commissioner Moeller's concern that the Commission has not put forward a "sustainable rationale" to support its conclusion that such a rule [paying demand response an LMP-based payment] would be just and reasonable and that all other existing compensation mechanisms, approved by the Commission, are no longer just and reasonable.<sup>27</sup>

**<sup>26</sup>** *PJM Interconnection, LLC,* 99 FERC ¶ 61,227 at 61,935-36, n.15 (2002).

<sup>27</sup> See NOPR at dissent p 3-4 (Moeller, Comm'r., concurring in part, dissenting in part).

#### VII. THE COMMISSION SHOULD ALLOW EACH ISO/RTO TO DEVELOP THE DETAILS NECESSARY TO IMPLEMENT AN LMP-G COMPENSATION PLAN FOR DEMAND RESPONSE PROVIDERS.

If the Commission supports a compensation scheme based on a payment for demand response of LMP-G, it should leave the details of the compensation to individual ISO/RTOs. The NYISO's experience in all of the market areas in which it has integrated demand response reveals that details matter. Programs to promote demand response in wholesale energy markets must incorporate properly calculated compensation in a manner that creates or maintains an integrated and cohesive set of market rules. Indeed, a menu of market design solutions for real-time demand response, created ISO by ISO, may be more productive in influencing demand response providers to enter the energy market than a single ISO/RTO-wide compensation mechanism. Some of the program designs that can provide value in addition to proper compensation include minimum run times, aggregation opportunities, bid protections, new communication opportunities built around smart grid options and scheduling options (*i.e.* 5 or 15 minute flexible schedules).

If the Commission cannot support LMP-G, it should instead require ISO/RTOs to address barriers in their current market designs that hinder further demand response including the design of compensation appropriate for their jurisdiction.

# VIII. CONCLUSION

The New York Independent System Operator, Inc. respectfully requests that the Commission consider the comments above and act or elect not to take action in accordance with them and the IRC White Paper, which was submitted under separate cover as a joint filing of IRC members in this proceeding and is incorporated herein by reference.

Respectfully submitted,

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