

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

Demand Response Compensation in *
Organized Wholesale Energy Markets *

Docket No. RM10-17-000

**TECHNICAL CONFERENCE COMMENTS OF KENNETH D. SCHISLER ON
BEHALF OF ENERNOC IN RESPONSE TO SUPPLEMENTAL NOTICE OF
PROPOSED RULEMAKING**

Thank you for the opportunity to testify today at this FERC Technical Conference to consider the issues surrounding cost allocation of demand response compensation as proposed in the Demand Response Compensation NOPR. EnerNOC appreciates FERC's desire for a complete record upon which to base its Final Rule in RM-10-17, and welcomes the opportunity to submit additional comments to that end.

My opening comments today are focused on two specific points. First, we do not believe that the Final Rule needs to make specific determinations regarding cost allocation. While we recognize the importance of the issue, we believe that cost allocation issues can and should be considered in the stakeholder processes at each RTO and ISO following issuance of the Final Rule, and that each RTO and ISO should have the opportunity to address cost allocation issues in the compliance filing process that is appropriate under the market design for each RTO and ISO. Second, though it is not necessary to address cost allocation in a Final Rule, we respectfully suggest that FERC offer guidance in its order accompanying a Final Rule. EnerNOC agrees with numerous commenters in this rulemaking that suggest that cost-allocation principles should be broad-based and premised upon a "beneficiary pays" approach. Specifically, we submit that cost allocation must be broader than the load-serving entity of record, as such an approach would put

the load-serving entity of of record in a position of opposing demand response efforts and create a persist barrier to demand response

A. FERC does not need to and should not codify a specific cost-allocation mechanism in a Final Rule.

EnerNOC recognizes that cost allocation issues and demand response compensation issues are linked. That is to say that implementing a full LMP pricing regime for Demand Response will necessarily cause the RTOs and ISOs to consider whether existing cost allocation methodologies are workable or will require changes. However, while there is a linkage, it does not follow therefore that FERC needs to include both issues as part of its Final Rule on Demand Response compensation. Nor does it follow that cost allocation necessarily needs to be applied in the same way everywhere.

Recognizing the differences in market designs amongst the RTOs and ISOs, it is entirely reasonable for FERC to adopt a Final Rule addressed to Demand Response compensation only, as is currently proposed. Instead of expanding this NOPR to in order to codify cost allocation principles in federal regulation, FERC should instead offer whatever policy guidance on cost allocation it may deem necessary in the Order adopting a Final Rule, and direct the RTOs and ISOs to propose any necessary changes to cost allocation policies in compliance filings and tariff revisions that will be filed subsequently pursuant to the Final Rule. This approach would afford the RTOs and ISOs the opportunity to consider the means to implement the provisions of the Final Rule consistent with FERC policy, and in a manner that is conducive to the particular market design.

B. FERC should offer policy guidance that cost allocation methods deployed should follow broad-based “beneficiary pays” principles.

While we do not believe that FERC needs to codify a specific approach to cost allocation in a Final Rule, we do believe general policy guidance from FERC will be helpful for stakeholders in the RTOs and ISOs in considering whether current cost allocation policies need revisions.

To this end, we suggest that FERC should offer guidance that any cost allocation method adopted should not work in conflict with the Final Rule or otherwise erect new barriers to demand response. As an example, it has been suggested that among the options for allocating costs are those that would charge the LSE of record for part or all of the costs of demand response. We believe that these approaches would work at cross-purposes with the Final Rule and should be avoided. As was described by the PJM comments in this docket listing various options for cost allocation, allocating part or all of the costs of demand response to the LSE of record would leave the LSE of record in a position to absorb a disproportionate share of the costs of demand response, and may even create situations in which the LSE of record is financially worse off. Such a model would not be sustainable, and would, as PJM acknowledges, perpetuate and even worsen problems that persists today under this type of cost allocation method. Today there are sometimes disputes between the ARC and the LSE over interpretations of the value of “G” – the supply component of customers’ retail rates. Moreover, because the LSE of record may be financially worse off under such a cost allocation mechanism, the LSE is placed in an adversarial position vis-à-vis the ARC and its customer participating in demand response. As PJM officials can attest, disputes over economic load response settlements between LSEs and ARCs occur frequently.

When Demand Response participates in electricity markets, the benefits extend beyond the customers of the LSE of record. Accordingly, FERC should provide guidance to the RTOs and ISOs that cost allocation methodologies should allocate costs more broadly as well. There

are several methods of allocating costs of demand response. Some may work better than others in various markets. Others may have problems under the market design of one RTO, but not another.

Beyond offering guidance on the fundamental principle of broad-based “beneficiary pays” cost allocation, FERC should leave it to the RTO/ISO stakeholder process to initially consider cost allocation principles in light of the Final Rule. The RTOs and ISOs should have the opportunity to explore cost allocation and address the matter, if necessary, in the compliance filing process. At that time, affected interests and FERC will have the opportunity to consider cost allocation in the proper context specific to the relevant RTO or ISO.

That concludes my opening remarks, and I look forward to your questions.