

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

Application of Pacific Gas and Electric Company (U39E) for Approval of Demand Response Programs, Pilots, and Budgets for 2012-2014	Application 11-03-001 (Filed: March 1, 2011)
and Related Matters	Application 11-03-002 Application 11-03-003

**REPLY COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION ON THE
ALTERNATE PROPOSED DECISION ADOPTING DEMAND RESPONSE
ACTIVITIES AND BUDGETS FOR 2012 THROUGH 2014**

The California Independent System Operator Corporation (“ISO”) submits these reply comments regarding the Alternate Proposed Decision of Commissioner Ferron (“APD”) adopting demand response activities and budgets for 2012 through 2014.¹ The ISO submits its comments pursuant to Rule 14.3 of the Commission’s Rules of Practice and Procedure.

I. The Commission Should Support SDG&E’s Marketing Budget and Spending Flexibility Request to Increase Customer Awareness and Program Participation Resulting from the Potential Loss of SONGS

The Commission should facilitate additional and flexible budgeting for demand response program awareness, education, and marketing with the potential reliability impacts that San Diego Gas & Electric Company (“SDG&E”) and Southern California Edison Company (“SCE”) will face should the San Onofre Nuclear Generating Station (“SONGS”) be unavailable this summer. Specifically, SDG&E has asked the Commission to closely review the APD so that it “provides the required program flexibility to address situations such as th[os]e presented by

¹ *[Alternate Proposed] Decision Adopting Demand Response Activities and Budgets for 2012 Through 2014*, issued on March 20, 2012, accessible on the Commission’s website at <http://docs.cpuc.ca.gov/efile/ALT/162146.pdf>. The APD is an alternate proposed decision to the *[Proposed] Decision Adopting Demand Response Activities and Budgets for 2012 Through 2014*, issued on October 28, 2011 (“PD”), accessible on the Commission’s website at http://docs.cpuc.ca.gov/word_pdf/AGENDA_DECISION/155437.pdf.

SONGS.”² The ISO, likewise, encourages this Commission to consider minor modifications to the APD that will provide flexibility for SDG&E and SCE to more readily direct and target their marketing, education, and outreach budgets for summer 2012.

II. The Commission Should Dismiss PG&E’s Ongoing Opposition to Integrating Demand Response into the ISO Market

The Commission should dismiss the ongoing arguments of Pacific Gas and Electric Company (“PG&E”) against integrating demand response into the ISO market as a generation-substitutable resource. Furthermore, the Commission should dismiss PG&E’s attempt to significantly dilute important Commission demand response policy expressed in the APD. Specifically, the Commission should reject the following modification that PG&E proposed to make to the APD:

*Over the last five years, as part of its Market Redesign and Technology Upgrade (MRTU), CAISO has engaged stakeholders in designing procedures and market products where capacity represented by DR can be bid properly accounted for in the wholesale markets just as traditional generation can be done today.*³ ...

PG&E has long argued in its pleadings against bidding demand response into the ISO market, except in the limited context of ancillary services. PG&E’s proposed alternative is to continue with the manual, emailed spreadsheet of demand response (“DR”) program activity that PG&E refers to in its comments as ISO “processes and procedures”.⁴ However, PG&E fails to recognize that the spreadsheet was implemented solely as a temporary, stopgap measure until actual bid-in demand response was feasible; the spreadsheet was never envisioned as a long-term solution. Further, exchanging information manually via a spreadsheet is inefficient and prone to inaccuracy, as demonstrated by the “corrected” spreadsheets that the investor-owned utilities (“IOUs”) have been compelled to send the ISO from time to time. Most importantly, manual exchange of information only permits modification to the ISO’s residual unit commitment procurement target, which cannot capture the total benefits of demand response such as the ability to efficiently target and resolve constraints in the system, reducing the wholesale

² SDG&E comments at p. 2.

³ PG&E comments at p. 13 (proposal to modify APD at p. 13).

⁴ PG&E states, “The CAISO currently has processes and procedures to properly reflect DR in its markets without bidding as a generation-like resource.” PG&E comments at p. 13. PG&E make this same proposal on page 37 of its September 9, 2011 reply brief regarding the 2012-14 DR applications.

locational marginal prices. The Commission should dismiss PG&E’s comments regarding ISO Market Integration Issues on page 13-14, because they are unaligned with Commission policy and would be ineffective as a demand response solution for satisfying California’s future energy needs.

III. The APD Should Be Modified to Align with DRA’s Correct Assertion that There is no Clear Evidence to Determine the Most Accurate Day-of Adjustment that Should be Used for All Utilities

The Division of Ratepayer Advocates (“DRA”) correctly states that there is no factual evidence for findings of fact #21 and #22 in the APD, *i.e.*, the findings that (1) the 20 percent cap for both the day-ahead and the day-of adjustment for the 10-in-10 baseline understates load reduction and underpays customers for their actions, and (2) the 40 percent cap for both the day-ahead and the day-of adjustment for the 10-in-10 baseline provides a fair balance for all customers as an interim solution. As DRA accurately notes, altering the day-of baseline cap is not grounded in fact, and, therefore, cannot be justified on the factual merits, as the APD acknowledges.⁵ As such, findings of fact #21 and #22 should be omitted from the final decision.

IV. The ISO supports AReM’s Statement that DR Program Costs Must Be Included as a Policy Matter in the Next DR Rulemaking and Not Left to Be Determined in Each IOU General Rate Case

The ISO has stated in this proceeding that before a viable competitive demand response market can take root, the Commission must first address how demand response costs are to be allocated equitably amongst engaged parties. In other words, cost allocation is a first priority, not a last priority that is left to be determined after the fact – or worse, to be lost in the complex shuffle of a general rate case. As such, the ISO encourages the Commission to strongly consider the statements of AReM on this issue⁶ and give priority to this issue. On the other hand, the Commission should disregard PG&E’s customary call to take up the issue for future consideration.⁷

At minimum, as the ISO explained in its comments, the Commission should reinstate the original language from the PD within **Section 10 [Cost Recovery]**, in the second paragraph at

⁵ DRA comments at pp. 4-5 (citing APD at p. 63).

⁶ See AReM comments at p. 4.

⁷ See PG&E comments at p. 14.

page 203 that reads: “However, we agree that these issues should be considered in a consistent manner across all three utilities and thus are best handled in one proceeding, the DR Rulemaking, 07-01-041 or its successor.”⁸

V. The Commission Should Require that Renegotiated Contracts with Third-Party Demand Response Providers can be Integrated into the ISO Market

To fulfill the Commission’s vision for the integration into and direct participation of DR resources in the ISO market and the ISO DR procurement model, the Commission should direct that renegotiated Aggregator Management Program (“AMP”) contracts and other third-party demand response procurement contracts be integrated into the ISO market as proxy demand resources in 2013 and beyond.⁹ DRA correctly points out that:

Second, in the Ordering Paragraph #12, the Commission directs Investor Owned Utilities (“IOUs”) to work with the Commission Staff, the California Independent System Operator (“CAISO”) and the Procurement Review Groups to develop the Request for Proposals (“RFP”) requirements to meet future system needs, notably integration of DR with renewable resources. The DR aggregators as a group are more likely the most competent party to configure and prepare DR resources to meet these future needs.¹⁰

The APD requires the IOUs to renegotiate new contracts or extensions within 90 days. The ISO proposes that the APD language be modified to provide flexibility and additional time, if necessary, beyond the 90 days, to ensure that any new or renegotiated third-party contracts are both cost-effective and can be integrated into the ISO market, in fulfillment of the Commission’s own policy vision. This is an opportunity that should not be missed. For instance, since PG&E is renegotiating extensions to its AMP contracts for 2013-14, missing this opportunity would mean no integration of third-party AMP contracts in the ISO market until at least 2015, *i.e.*, more than three years from now. That time should not be lost.

⁸ ISO comments at pp. 8-9 and Appendix A.

⁹ The Commission has clearly stated a policy vision that supports the integration into and direct participation of DR resources in the ISO market. APD at p. 187. In this regard, the Commission has also explained that it is “now working to facilitate the next phase of DR wholesale integration – direct participation in CAISO whole[sale] electricity markets.” *Id.* at p. 15. Further, “[a]cting expeditiously to allow end-use customers or aggregators to bid DR resources directly in [CAISO’s] markets . . . is consistent with our identification of DR as one of the state’s preferred means of meeting growing energy needs.” *Id.* (citation omitted).

¹⁰ DRA comments at 6-7.

VI. The Commission Should Vigorously Pursue Demand Response Integration

The Commission should vigorously pursue the integration of demand response that qualifies as resource adequacy capacity into the ISO market. The ISO market can accept and settle proxy demand resources today. In fact, proxy demand resources have previously participated in the ISO market. Furthermore, the ISO has complied with Federal Energy Regulatory Commission (“FERC”) DR compensation rules as set forth in FERC Order No. 745.¹¹ Thus, the Commission should dismiss misstatements that the ISO wholesale demand response market is not ready.¹²

The Commission should expeditiously move to finalize Rule 24 direct participation rules so that all customers can directly participate in the ISO market, which is prepared to accept proxy demand resource registrations and participation.

VII. Conclusion

The ISO respectfully requests that the Commission consider the reply comments provided above in its determinations regarding the APD.

Respectfully submitted,

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¹¹ See the ISO’s compliance filing in FERC Docket Nos. ER11-3616 and ER11-4100, submitted on March 14, 2012 and corrected on March 15, 2012.

¹² See comments of Demand Response Aggregators at p. 3; comments of California Large Energy Consumers Association at p. 2.