

PUBLIC UTILITIES COMMISSION

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January 11, 2008

Mr. Jason Salmi-Klotz
Public Utilities Regulatory Analyst
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Mr. Chris Villareal
Public Utilities Regulatory Analyst
Policy and Planning Division

Re: DRA Comments on *California Demand Response: A Vision for the Future*

As requested in a memo dated December 19, 2007 by Commission staff members Jason Salmi Klotz and Chris Villarreal, the Division of Ratepayer Advocates (DRA) submits its comments on the joint statement by the California Energy Commission (CEC), California Public Utilities Commission (CPUC), and California Independent System Operator, Inc. (CAISO) titled, "California Demand Response: A Vision for the Future."

DRA commends the CEC, CPUC, and CAISO for laying out a bold vision for demand response as an integral part of customers' daily decision making processes for spending their scarce dollars. With emphasis on customer education and awareness of time-variable nature of electricity costs, this vision should be achievable. While DRA generally supports the draft vision document, DRA respectfully provides following comments on each section.

1. **Vision Statement**

DRA suggests clarifying the vision statement by adding the word "technical" so that it reads: "All California electricity consumers have the opportunity and technical capability to adjust their usage in response to time-varying signals reflecting economic, reliability or environmental conditions." DRA believes although it is feasible to provide "technical" capability to all consumers, other obstacles such as financial capability and physical capability may exist that are beyond the current mandate of the Commission to provide to consumers.

2. **Definition**

Although the draft document correctly states that Demand Response allows end-use electric customers to reduce or shift their usage in response to a price signal, the document is vague as to whether customers will face such time variable prices on a mandatory basis or on a voluntary basis. The vision document should squarely address

this issue. The vision document should take a specific position and define how consumers will be impacted. The level of demand response obtained via mandatory or voluntary time-variable tariffs could be very different, as would be the kind and level of difficulties and rates customers will face under the two regimes. If a voluntary time dependent tariff regime is adopted, the cross subsidy between those customers who participate and those who do not needs to be addressed. If a non-voluntary time dependent tariff regime is adopted, customers who for legitimate reasons cannot or will not reduce or shift their on-peak load may need to be protected from facing high prices.

3. **Demand Response in the Wholesale Markets and IOU Demand Response Programs**

The draft document will allow small load could be aggregated and bid into the wholesale market. It will also allow load serving entities (LSEs) and demand response providers to freely participate and compete directly in the wholesale market. Since the same set of end-use customers ultimately provide demand response reductions, it is not clear from the draft document what would be the basis upon which end-use customers will decide to participate (either individually or through aggregators) in the wholesale market versus enrolling in IOU demand response programs (either individually or through aggregators). This raises a number of questions:

- a. Does the Commission want IOUs to compete through their active marketing efforts with CAISO to solicit the same customers (e.g., customers who currently participate in the Demand Bidding Program (DBP)) who could otherwise participate in CAISO's wholesale markets via third party aggregators?
- b. What is the role for the IOUs' demand response programs and agreements where customers agree to provide long term demand response (e.g., the Capacity Bidding Program (CBP) provides minimum of 1 month of capacity or PG&E and SCE's 5-yr DR agreements) after CAISO's wholesale markets are fully operational? Is there an optimum mix of such long term IOU DR agreements and DR provided by participants in CAISO's wholesale markets?
- c. The IOUs' price-responsive demand response programs are developed on an ex-ante forecast of cost effectiveness. The assumptions used in the ex-ante forecast are likely to be very different than the ex-post performance of programs.¹ The programs may or may not be found cost effective on ex-post basis. In contrast, participants in CAISO's wholesale markets provide, by definition, cost effective demand response products. Should the Commission, therefore, discourage customer participation in IOU price responsive programs in favor of their participation in CAISO's wholesale markets to ensure cost effectiveness?

¹ DRA contrasts price responsive programs from emergency programs that primarily provide insurance against outages.

4. **Vision and Reality**

Finally, DRA would like to urge the Commission to ensure that all future new IOU programs comply with this Demand Response vision document. The Commission is already taking some steps to align existing programs with this vision in Rulemaking 07-01-041. Between now and the next 2009-2011 DR program cycle, the Commission will be considering for approval hundreds of MWs of IOU DR programs applications. DRA urges the Commission to ensure that these programs support Commission's DR vision.

DRA appreciates the opportunity to provide these comments. Please call Sudheer Gokhale at (415) 703-2247 if you have any questions about these comments.

Sincerely,

/s/ Lisa-Marie Salvacion

LISA MARIE SALVACION

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