**DRA**

*Division of Ratepayer Advocates*
*California Public Utilities Commission*

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

Re: DRA Comments on *California Demand Response: A Vision for the Future (May 2, 2008 Updated Draft)*

As requested in a memo dated May 2, 2008 by Commission staff members Jason Salmi-Klotz and Chris Villarreal, the Division of Ratepayer Advocates (DRA) submits its comments on the May 2, 2008 updated 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" ("Joint Statement").

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 an emphasis on customer education and awareness of the time-variable nature of electricity costs, this vision should be achievable. While DRA generally supports the draft vision document, DRA respectfully provides the following comments on the Joint Statement.

1. ***Reduce the Environmental Impact Caused by Electricity Usage***
    a. DRA believes GHG benefits beyond those considered in meeting environmental regulations and reflected in avoided capacity costs of DR could be minimal. Many large customers respond by shifting on-peak load to cheaper off-peak generation which could encourage more consumption. Some DR could also be provided by Back-up Generators (BUGs) which could be environmentally less desirable than a CT.
    b. DR provided by Permanent Load Shifting (PLS) technologies may be less cost effective and reliable than PLS provided by an insulation program.

2. ***Ability to Participate in Dynamic Pricing and Dispatchable Programs***

   a. DRA is opposed to customer participation in dynamic tariffs on an "opt-out" basis until Advanced Metering Infrastructure (AMI) is fully deployed (i.e., installed for all customers) and issues surrounding bill impacts during the transition from "opt-in" to "opt-out" are worked out. Some customers on an "opt-out" tariff might see significant bill increases. Such customers may not be ready or willing to take measures required to avoid such effects. Though they can opt-out, they may not initially be aware of the fact that they can do so. Therefore equity requires that if dynamic tariffs are adopted on an "opt-out" basis, <u>all</u> customers should be on such tariffs (which would require full AMI deployment). DRA believes that it would be better to introduce dynamic tariffs on an "opt-in" basis initially to increase customer awareness of such tariffs before transitioning to an "opt-out" basis when AMI is fully deployed.

3. ***Technologies and Infrastructure***

   a. It is not clear who will provide the "remotely controlled devices" to residential customers. The IOUs' AMI system cannot be used to remotely control devices in a customer's Home Area Network ("HAN"). If a utility is required to provide such devices, the cost (and benefits) of such a program must first be evaluated. DRA believes that the non-utility private market needs to step up in providing remotely controllable devices.

   b. If the goal is to obtain real-time information at points along the electric transmission and the distribution network to increase the efficiency of the electricity grid, there are any number of communications technologies currently available to utilities (cable broadband, phone line DSL, WiFi, WiMax, fiber-optic lines, 2.5 G wireless cell networks, etc.) that can serve that purpose. DRA, however, has concerns whether BPL can provide a cost-effective high data-rate transmission, because of BPL's high fixed costs. As Peter Svensson summarized in a May 7, 2008 article in the Associated Press titled <u>Broadband Service Over Power Lines in Texas to Shut Down</u>, "Goodbye, broadband over power lines. We hardly knew you. Once touted as a possible third option for home broadband that could compete with phone and cable companies, the idea of providing Internet service over power lines now looks like it has died in infancy. "

      Just as with any capital investment by a regulated monopoly, utilities should present the incremental benefits and the costs of any smart grid technologies required to achieve those incremental benefits. Furthermore, should the utilities wish to build out their own massive high-speed-communications data networks, they should be required to prove that such a system would be more cost effective than renting bandwidth from the many public and private companies whose sole business is providing communications service to companies and individuals.[1]

4. ***Demand Response Participation in the Wholesale Electricity Markets***

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[1] In similar fashion, communications companies could make their own electricity, but know it is better to focus on the business that they know best.

The May 2, 2008 updated draft does not address the issues raised regarding this topic in DRA's January 11, 2008 comments on the earlier December 19, 2007 draft. The Joint Statement, similar to the previous draft, will allow small load to be aggregated and bid into the wholesale market. It will also permit 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 either the wholesale market or in the in IOU demand response programs. 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. After CAISO's wholesale markets are fully operational, what is the continuing role of the IOUs' demand response programs and agreements where customers agree to provide a long-term demand response (e.g., the Capacity Bidding Program (CBP) of a minimum of one month of capacity for PG&E and 5-yr DR agreements for SCE)? Is there an optimum mix of such long-term DR agreements with IOUs and DR from participants in CAISO's wholesale markets?

c. The IOUs' price-responsive demand response programs are developed based on an ex-ante forecast of cost effectiveness. The assumptions used in the ex-ante forecast are likely to be very different from those used in the ex-post performance of programs.[2] The programs may or may not be found cost effective on an 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?

**5. *Coordination between the CPUC, CEC and CAISO***

a. Although there could be consultation with CEC and CAISO, DRA believes the CPUC should have the final say on rate design.

b. DRA opposes state agency attempts to obtain legislative changes that modify rate protection afforded to residential and small commercial customers under AB1X.

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

[2] DRA contrasts price responsive programs from emergency programs that primarily provide insurance against outages.

Sincerely,

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CHRISTOPHER CLAY

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/s/ Sudheer Gokhale
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