

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

Application of Southern California Edison Company (U338-E) for Approval of Demand Response Programs, Goals, and Budgets for 2009-2011	Application 08-06-001 (filed June 2, 2008)
Application of San Diego Gas & Electric Company (U 902M) for Approval of Demand Response Programs, Goals, and Budgets for 2009-2011	Application 08-06-002 (Filed June 2, 2008)
Application of Pacific Gas and Electric Company for Approval of the Demand Response Programs, Goals, and Budgets for 2009-2011 (U 39-E)	Application 08-06-003 (Filed June 2, 2008)

**INITIAL COMMENTS OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION ON THE PROPOSED DECISION
ADOPTING DEMAND RESPONSE ACTIVITIES AND BUDGETS FOR 2009
THROUGH 2011**

The California Independent System Operator Corporation (“ISO”) submits these initial comments to the “Proposed Decision Adopting the Demand Response Activities and Budgets for 2009 through 2011” (“Proposed Decision”).

I. THE ISO GENERALLY SUPPORTS THE PROPOSED DECISION IN ITS ENTIRETY

The ISO is generally supportive of the Proposed Decision in its entirety. In the ISO’s view, the Proposed Decision complements and furthers the Commission’s efforts, which began with the opening of Rulemaking 07-01-041, to move demand response resource policy and development in the right direction, and we appreciate the Proposed Decision’s instruction to the utilities to undertake activities to reformulate programs

with the goal of developing demand resources that directly participate in wholesale electricity markets and that contribute to grid reliability.

Like the Commission, the ISO sees the current 2009-2011 program cycle as a window of opportunity to conduct learning exercises and trial efforts that will help reshape and transform future retail programs into consequential non-generation resources for managing the grid, adding additional ancillary capacity, and, overall, bringing greater efficiency to the wholesale electricity markets.

The ISO has been pleased by the Commission's support for the IOU "MRTU pilot projects," in which these learning exercises are already underway. The ISO sees this effort as especially important as California works to understand how to integrate increasing amounts of intermittent renewable resources on the grid and how demand response resources can provide additional ancillary service capacity on the grid to help mitigate scarcity pricing.

The ISO also appreciates the Proposed Decision's order to cap the size of the IOU emergency triggered demand response programs to their current level of enrolled megawatts, pending a decision in Phase 3 of Rulemaking 07-01-041.¹ Within Rulemaking 07-01-041, the ISO has worked for development of more advanced triggers for many of the reliability-based programs, and we have continually maintained that there is an over-abundance of reliability-based demand response megawatts in the system. The CAISO looks forward to continued Commission analysis of the subject in Phase 3 of the rulemaking.

II. SPECIFIC COMMENTS ON THE PROPOSED DECISION

The ISO offers the following comments, which we organize in a way that tracks the sections of the Proposed Decision.

¹ Proposed Decision, Ordering Paragraph 10, at pp 215-216.

1. Section 15 PG&E's Aggregator Managed Portfolio

This section of the Proposed Decision discusses PG&E's request that the commission authorize PG&E to issue a Request for Proposal (RFP) in late 2010 to replace certain aggregator contracts that will expire in 2011. The Proposed Decision notes that PG&E intends the new RFP to replace current aggregator contracts with contracts that could more closely coordinate with ISO markets and the ISO's scheduled Proxy Demand Resource product. The Proposed Decision denies, without prejudice, PG&E's RFP request, on the grounds that there is sufficient uncertainty as to developing market conditions that it is best to wait.²

While the ISO does not petition in our comments for a different outcome, we offer the following comments pertaining to the Proposed Decision's discussion of uncertainty of market conditions, as the context in which to make the determination.

The discussion in Section 15 of the Proposed Decision conveys a sense that stakeholders are uncertain, from the standpoint of cost efficiency for ratepayers, as to how demand response should be structured to participate in the electricity markets. Specifically, the discussion in the Proposed Decision expresses uncertainty as to what will be the impact of aggregator-controlled demand response resources participating directly in the wholesale electricity markets (referenced in the Proposed Decision as "direct bid-in" and which the ISO generally calls "direct participation"). The Proposed Decision posits that "[u]nder direct bid-in, aggregators would receive payments through the CAISO for the demand response reductions they provide, rather than receiving payment through a utility."³

The ISO believes that some further clarity regarding the types of potential payment streams for demand response resources would further this discussion. In reading the Proposed Decision's statement that aggregators would receive payments through the ISO rather than from the utility under a direct participation scenario, the ISO believes that the Proposed Decision more likely means that the ISO market will provide an energy payment stream for energy, Residual Unit Commitment, and/or ancillary service capacity payments. While this may be so, the ISO believes that a significant

² Section 15 of the Proposed Decision, at pp 106 to 109.

³ Proposed Decision at p 108, emphasis added.

contribution to the ‘revenue adequacy’ concern for demand response resources may continue to be required, coming directly from the utilities and other load-serving entities, in the form of resource adequacy capacity payments. Just as the utilities (and other load-serving entities under Commission jurisdiction) are able to contract to satisfy all or part of their resource adequacy capacity requirements from supply-side resources, the ISO would hope that the Commission would consider moving in a direction of allowing direct bid-in demand response resources to qualify for resource adequacy capacity payments. This approach would be consistent with articulated state and national policy for comparable treatment between supply-side and demand-side resources, and would allow the aggregators that will manage the ‘direct bid-in’ demand response resources to have comparable opportunities to offer their non-generation resource to retail service entities which must meet resource adequacy resource requirements.

Given that California operates under a capacity paradigm versus an ‘energy-only’ paradigm, the Commission should be cognizant of the likelihood that demand-side resources will face the same ‘revenue adequacy’ concerns that generation resources have faced in the wholesale supply market. Therefore, the Commission must ensure that future direct bid-in demand response resources have access to, and the ability to earn, resource adequacy capacity payments.

2. Section 16 Program Transition to Function Under MRTU

16.1 Background

The Proposed Decision makes a point that, initially, the ISO “will recognize two types of demand response in MRTU: Non-participating load and Participating Load” and further states that “[n]on-participating load has very limited functionality and will only be permitted to participate in the Day-Ahead Energy Market.”⁴ The ISO would like to clarify for the Commission that Non-participating load is merely the scheduling of load in the Day-Ahead Market. A Scheduling Coordinator who schedules load in the Day-Ahead Market has the ability to place a price-curve on its desired load purchase, such that it can forego the purchase of energy at a price that it deems to be uneconomic. Thus, Non-

⁴ Proposed Decision at p 109.

participating load is nothing more than the scheduling of load in the Day-Ahead Market; it is not a special resource or program operated by the ISO.

Further down in this section, the Proposed Decision states that “[o]n the other hand, to qualify as Participating Load, a demand response provider must have signed a Participating Load Agreement with the ISO for a particular activity or program, and must abide by stringent telemetry and metering requirements.”⁵ The ISO wishes to clarify that the requirement for telemetry only applies if a Participating Load is offering ancillary services to the ISO. There are no telemetry requirements if the Participating Load is participating only in the Day-ahead or Real-time energy markets. Moreover, there is some flexibility in the ISO’s metering requirements for settlement purposes. For example, the ISO is willing to accept 15-minute interval meter data that is divided into three equal 5-minute intervals when it is submitted to the ISO for settlement purposes. Fifteen minute interval data is ubiquitously available from customers over 200 kW. Therefore, the ISO would submit that the telemetry and metering requirement for Participating Load are not as onerous as may be suggested in the Proposed Decision.

The Proposed Decision further states that “[a]fter the Markets and Performance update, participating load will be split into two products: Dispatchable Demand Resource, which will be essentially the same as participating load, and Proxy Demand Resource, which the ISO is currently developing through its stakeholder process.”⁶ Although it is a fine point, the ISO found that the term ‘Dispatchable Demand Resource’ caused confusion with its stakeholders and, therefore, has abandoned the use of the term. In later stakeholder activities, the ISO has clarified that, under the Market and Performance enhancements that will be made to the ISO market design, the ISO is merely refining the existing Participating Load model, rather than fashioning a new product. Accordingly, the ISO has abandoned the term “Dispatchable Demand Resource” in favor of the term “Participating Load Refinements.” These refinements to the Participating Load design are scheduled for implementation by February 2011. In addition, because the Proxy Demand Resource is a new and unique product that is scheduled, bid and settled differently than Participating Load, and , the ISO would not portray the ISO’s

⁵ Proposed Decision at p 109.

⁶ Proposed Decision at p 110.

action as ‘splitting’ the Participating Load product. In this regard, either of the ISO’s demand response products, Participating Load and Proxy Demand Resource, will enable a demand response resource to offer ancillary services, like non-spinning reserves, to the ISO.

The ISO recognizes that the Commission is concerned about having a robust demand response capability before the ISO puts in place its scarcity pricing mechanism. The ISO sees its demand response product offering, with embedded Ancillary Service capability, as largely satisfying the Commission’s concern in this area. However, the ISO sees a potential deficiency in the applications put before the Commission, in that no ancillary service capable demand response products, i.e. those that are 10-minute responsive, appear to be proposed by the utilities that would be available during this program cycle. The CAISO recognizes that the focus of the Proposed Decision is to consider and approve the budgets of the proposed programs in the current program cycle. However, given the Commission’s expressed concern about scarcity pricing, the CAISO believes that the Commission may want to consider this issue now and ensure that programs are under consideration or are in development at the utilities that could begin to participate in the ancillary service market and, therefore, help address the Commission’s often expressed concern about having robust, ancillary service capable demand response before scarcity pricing is implemented by the ISO.

16.4 Discussion

The ISO strongly supports the Proposed Decision’s requirement that each utility prepare two reports over the next two years that evaluate both (1) the Participating Load Pilots from 2009 and (2) the transition of DR programs into MRTU by January 2011. The ISO has a shared interest in this deliverable and its outcome and looks forward to collaborating with the Commission and utilities to successfully meet this requirement.

3. Section 17 Settlement Baseline for Utility Programs

17.4.4 Baseline Recommendations

The ISO supports the recommended baseline methodology set forth in the Proposed Decision. The baseline methodology in the Proposed Decision and the baseline

that the ISO is proposing for use in its Proxy Demand Resource product are nearly identical. The ISO sees this as a very positive outcome and believes that, where possible, performance evaluation methodologies between the ISO and Commission-approved demand response programs should be tightly aligned, so that understanding results requires no, or very limited, translation.

The ISO also concurs that “no baseline will provide accurate settlement calculations for all customers.”⁷ The ISO believes that the baseline specified in the Proposed Decision is reasonable and, based on study results, will work well for many customer types and load aggregations. However, like the Commission, the ISO is struggling with how to handle those customers that do not fit well under the proposed baseline, such as customers that have highly variable loads, or aggregations of only a small number of customers. The ISO agrees with the statement in the Proposed Decision and with TURN “that in the long term, utilities should attempt to steer customers with highly variable loads away from demand response programs that require baselines, and towards programs that do not require baseline calculations such as Critical Peak Pricing.”⁸ Such programs might include pricing programs that convey critical peak or real-time price signals to these customers and permit them to act in their own economic interest, outside of any participation in a demand response program.

The ISO would encourage the Commission to continue to pursue and develop a clear policy around this issue and how customers that don’t easily fit under the approved baseline are treated and where they fit under the demand response umbrella.

In fact, in future proceedings, the Commission may wish to reconsider the fundamental ‘pay-to-curtail’ paradigm that exists today in California, and much of the country, which requires compensating demand response resources based on the resources performance relative to a baseline. The ISO’s Market Surveillance Committee (“MSC”) recently issued its opinion on the ISO’s Demand Response Barriers Study⁹ that

⁷ Proposed Decision at p 127.

⁸ Proposed Decision at p 129.

⁹ The ISO’s Demand Response Barriers Study was developed by the ISO and submitted to FERC in compliance with FERC Order 719. The MSC Opinion to the ISO’s Barriers Study, entitled “Comments on Barriers to Demand Response and the Symmetric Treatment of Supply and Demand Resources,” can be found at: <http://www.caiso.com/23de/23dea1db21b0.pdf>.

fundamentally questions the effectiveness of ‘pay-to-curtail’ type of demand response. The MSC petitions for ubiquitous dynamic pricing where customers ‘buy their baseline’ and then sell back if they choose not to consume, a choice that customers would make based on their own economic interests. This concept addresses the baseline issue, but does introduce some other unique challenges. As the Commission moves forward with developing this issue and other fundamental policies around demand response, the Commission should be cognizant of the MSC opinion and the concepts and issue it raises.

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Respectfully submitted,

CALIFORNIA INDEPENDENT
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CERTIFICATE OF SERVICE

I hereby certify that on July 20, 2009, I served, on the Service List for Consolidated Proceedings A08-06-001, A08-06-002 and A08-06-003, by electronic mail and United States mail, a copy of the foregoing

INITIAL COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION ON THE PROPOSED DECISION ADOPTING DEMAND RESPONSE ACTIVITIES AND BUDGETS FOR 2009 THROUGH 2011

Executed on July 20, 2009 at Folsom,
California

(s/ Anna Pascuzzo)

Anna Pascuzzo,
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Independent System Operator