

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

Order Instituting Rulemaking To Enhance the
Role of Demand Response in Meeting the
State's Resource Planning Needs and
Operational Requirements.

Rulemaking 13-09-011
(Filed September 13, 2013)

**REPLY COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION ON THE PROPOSED DECISION**

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I. INTRODUCTION

In opening comments on the PD, certain parties petition the Commission to preserve the status quo and delay a decision on this important foundational issue. Contrary to this recommendation, deferral and indecision will not help California meet its future clean energy goals. The ISO does not believe that delay is warranted or that bifurcation requires much further evidence and fact finding. In fact, more time may prove counter-productive, and is likely to impede progress in the resource planning and procurement proceedings. The PD sets forth a sound and reasoned policy that clearly aligns demand response with the aspirations of the loading order. As such, the Commission should make this important policy decision with confidence, knowing that California is taking purposeful steps to achieve its energy and environmental policy goals, while paving the way for preferred resources, like demand response, to play a greater role in serving California's future energy needs.

II. COMMENTS

A. More time and more record will not settle the bifurcation policy.

The Joint Parties petition the Commission to withdraw the PD. The Joint Parties' state:

In fact, the changes required in the Proposed Decision support the Joint DR Parties' primary recommendation that the Commission withdraw the Proposed Decision and not issue a decision regarding bifurcation and the categorization of the DR Programs, as either load modifiers or supply-side resources, until needed, underlying analysis of the issues associated with integrating DR resources into the

wholesale market has concluded in Phase Three of this proceeding.¹ (emphasis added)

Other than statements calling for more analysis and time, the Joint Parties offer no compelling evidence for withdrawing the bifurcation decision. In fact, the Joint Parties have had ample opportunity and time to provide their own assessment of the “needed analysis” to integrate demand response into the wholesale market.

Wholesale market integration has been a long-standing stated Commission policy since 2007.² Seven years have passed since the inception of the original DR rulemaking R.07-01-041 that set forth the policy aspiration of wholesale demand response participation. And it will be four years since FERC approved the ISO’s wholesale demand response participation tariff amendments. Yet in all these years, no formal and “needed analysis” has been entered into the record of this proceeding, or any other Commission proceeding, by the third parties.

The only party to commission an independent study of the challenges and barriers of integrating distributed energy resources in the ISO market is the ISO itself. In late 2013, Olivine conducted and published a study for the ISO titled “*Distributed Energy Resources Integration-- Summarizing the Challenges and Barriers.*”³ Given the analysis done by Olivine, there are no showstoppers to demand response participation, as a proxy demand resource, in the ISO market. While there are certain challenges, there is nothing, in the ISO’s opinion, that would prevent the Commission from moving forward with this important decision.

B. Non-ISO integrated supply-side resources are load modifiers by another name.

The Sierra Club’s comments indicate a third-type of demand response, which the ISO clarifies, is simply a load modifier by another name. The Sierra Club states:

Moreover, there may be future supply resources that the CAISO chooses not to pursue in its market, but which utilities may wish to employ outside the CAISO market. Thus, while all dispatchable DR resources should be included in the

¹ Joint Parties’ opening comments at pg. 2

² Findings of Fact #21 in the PD states: “Bidding demand response into the CAISO market has been an objective of the Commission since the initiation of Rulemaking 07-01-041 in 2007.”, the ISO’s proxy demand resource tariff amendment, which allows for wholesale demand response participation, was approved by FERC in 2010, nearly four (4) years ago.

³ Study found here:

http://www.caiso.com/Documents/OlivineReport_DistributedEnergyResourceChallenges_Barriers.pdf

supply resource category, it remains to be seen whether all supply resources can or will, in practice, be bid into and dispatched by the CAISO.⁴

If, as the Sierra Club states, a utility might continue to develop its own dispatchable “supply-side” demand resources that are NOT integrated into the ISO market, then it is the CPUC’s prerogative to allow this; however, these resources would remain load modifying resources per the bifurcation definition, and the load impacts from these non-ISO integrated “supply-side” programs would avoid resource adequacy, for example, like any other load modifying program. In other words, the utility can develop and operate a program like a supply-side demand response resource, but if this program is not integrated into the ISO market, then it will be treated as a load modifier under the bifurcation definition, and, therefore, should receive treatment as a load modifier for load forecasting and resource adequacy purposes.

C. The Joint Parties conflate dual participation with double counting

The Joint Parties state:

In this regard, the recently adopted Resolution E-4630 (Electric Rule 24), to which the utilities have submitted compliance advice letters, contains several protections against dual participation of resources, which would lead to a double counting concern. The Commission also prohibits customers from dual participating in a utility, event-based program while participating in the wholesale market.⁵

The Joint Parties appear to mistakenly conflate the double counting concern expressed by the ISO with the concept of dual participation. Dual participation- the ability of a customer to participate in two or more retail demand response programs simultaneously- is unrelated to the foundational issue of bifurcation and double counting.

The double counting concern has to do with how the CEC treats load-modifying and supply-side demand response load impacts in the state’s load forecasts, and the impact this “treatment” has on resource adequacy procurement requirements. Thus, the ISO is unclear what the Joint Parties are attempting to convey about bifurcation and the double counting concern as it relates to dual participation.

⁴ Sierra Club at p. 3

⁵ Joint Parties’ opening comments at pg. 9.

D. PG&E’s bifurcation definition is overly specific and not durable.

PG&E’s proposed bifurcation definition should be rejected. It is overly specific, identifying wholesale products by specific names in the definition, meaning over time it is unlikely to be durable as products and market models change. Also, stating that load modifiers “are not required to participate in whole or in part, in the ISO markets as supply” means that load modifiers are not supply. In other words, PG&E’s load modifier definition simply states the load-modifiers are not supply. Again, this is a non-definition, whereas preserving the phrase “reshape or reduce the net load curve” in the load modifying definition has stand- alone meaning.⁶ The load modifying definition should remain unchanged.

E. The Commission should look forward, not backward, when setting new and important policy issues like bifurcation.

In its opening comments, PG&E states:

Yet the CAISO indicated in its December 13 response to the ACR, that there currently is no double counting issue because the CEC continues to add back the load impacts of DR programs. Hence other parties did not need to dispute the CAISO’s statement since the CAISO essentially negated the statement with the CEC discussion. The Commission should not adopt this assertion about a very important issue, but should develop an evidentiary record. There has been no factual showing of DR being double counted and therefore, the PD errs in assuming that a problem exists. (PGE at p. 11)

PG&E continues to look backwards to set (or not set, in this case) clear policy directions going forward. In contrast, the ISO is looking forward, making arguments for policy positions that prepare and anticipate the future. In this particular case, contrary to PG&E’s assertion, the ISO did not negate its own policy position concerning the need for a clear bifurcation definition to help eliminate any potential resource adequacy double-counting concerns in the future. A clear bifurcation definition ensures that all parties, most importantly the CEC, CPUC, IOUs and ISO, clearly know how each and every demand response program is classified, or is to be classified, and therefore, treated for load forecasting purposes, because load forecasting implicates all planning and procurement functions, including resource adequacy and long-term procurement plans.

⁶ See PG&E’s revisions to Order Paragraphs (OP) #2 and #3 at p. 9 in PG&E’s opening comments.

As a case in point, just this past year, the CEC had historically been treating CPP and PTR as supply-side resources, adding back their load impact into its demand forecast. In 2013, the CEC appropriately reclassified these rate programs as load modifiers and no longer added-back the load impacts from these tariff-based programs into the load forecast. Without clear demand response program categorization, oversights can occur, resulting in double counting, and other “lack of coordination” problems among parties, such as the ISO, CPUC, IOUs, ESPs, DRMEC, etc. It is essential that the Commission look forward when setting new and important policies like bifurcation, anticipating the future and not assuming that tomorrow will be just like today. For these reasons, PG&E’s recommendation that the Commission modify or eliminate Conclusion of Law #6 or Findings of Fact #8 should be rejected.

III. CONCLUSION

The ISO implores the Commission to uphold this decision and ensure that the foundational issue of bifurcation is decided conclusively so that other follow-on policies, especially those related the planning and procurement of demand response can be settled in a principled and expeditious manner. The ISO looks forward to working with the Commission and parties in the next phases of this proceeding.

Respectfully submitted,
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