

**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 19, 2013)

**COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR  
CORPORATION ON PROPOSED AND ALTERNATE PROPOSED DECISIONS**

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), the California Independent System Operator Corporation (CAISO) files these reply comments regarding the proposed and alternate proposed *Decision Adopting Steps for Implementing the Competitive Neutrality Cost Causation Principle, Declining to Hold an Auction in 2018 for the Demand Response Auction Mechanism, and Establishing a Working Group for the Creation of New Models of Demand Response.*

**I. The CAISO Supports Commissioner Guzman-Aceves’ Alternate Proposed Decision.**

The CAISO supports Commissioner Guzman Aceves’ Alternate Proposed Decision (APD), which orders Southern California Edison Company (SCE) and San Diego Gas & Electric Company (SDG&E) to conduct a 2018 demand response auction mechanism (DRAM) Pilot for deliveries in 2019 and adopts a budget for the DRAM Pilot programs at SCE, SDG&E and Pacific Gas & Electric Company (PG&E). The CAISO asserts that a 2018 DRAM pilot is necessary to ensure that the competitive market for demand response resources continues to thrive.

The Proposed Decision (PD) does not direct SCE and SDG&E to conduct a 2018 DRAM Pilot and does not allocate additional funding. The CAISO notes that the Commission has not yet established a formal competitive solicitation process for demand response resources. If the Commission terminates the DRAM without a clear competitive solicitation path going forward, the CAISO is concerned that the nascent competitive demand response market could wither. The Commission should continue the

DRAM for another year while establishing a clear policy on how demand response capacity will be procured in the future.

By rejecting a 2018 DRAM solicitation, the PD is not entirely consistent with the principles set forth in the PD findings of fact. Specifically, Finding of Fact No. 13 states “[t]he Commission wants to ensure that third-party entities (e.g. demand response providers and aggregators) have a level playing field in order to increase customer choice and competition.”<sup>1</sup> However, the PD rejects the 2018 DRAM auction, which is a key building block for developing strong third-party demand response capability and presence. Eliminating the DRAM will limit choice and competition and harm third-parties’ abilities to compete on a level playing field.

The PD rejects the 2018 DRAM solicitation, based in part on arguments that (1) there are multiple opportunities for demand response providers to bid on procurement contracts<sup>2</sup> and (2) there is no need for additional resource adequacy capacity in certain areas, such as PG&E’s service territory. Finding of Fact No. 21 specifically states “[t]here is no need for additional resource adequacy in PG&E’s service territory in 2019.”<sup>3</sup> However, this policy rationale is not applied consistently to competitively-solicited demand response and utility-run demand response programs. Rejecting the 2018 DRAM solicitation while simultaneously leaving in place policies that continue to fund non-competitively procured, utility-run demand response programs is inconsistent with limiting procurement in areas where there is excess capacity. The Commission should carefully consider the policies it adopts here and consider the broader implications and potential inconsistencies this rationale introduces by continuing to sustain utility-offered demand response programs while failing to continue the DRAM.

## **II. The CAISO Supports Establishing the Supply Side and Load Consumption Working Groups.**

Section 2.3 of the PD and APD establish two working groups: the Supply Side Working Group and the Load Consumptions Working Group. The CAISO supports establishing these new working groups and the set of tasks associated with each. The

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<sup>1</sup> PD at p. 58.

<sup>2</sup> PD at p. 36.

<sup>3</sup> PD at p. 59.

CAISO looks forward to participating in the working groups and providing input to increase demand response integration into the CAISO market while developing foundational elements of new models of demand response.

**III. The Proposed Decisions Should Be Modified to Reflect CAISO Board of Governors Approval of New Baseline Methodologies.**

The CAISO recommends that the Commission update the proposed decisions to reflect that the CAISO Board of Governors approved new baseline methodologies on July 26, 2017 as part of its Energy Storage and Distributed Energy Resources (ESDER) Phase II initiative. Currently, the proposed decisions note that the CAISO “will seek approval from its Board of Governors on July 26, 2017 to file new demand response settlement baselines.”<sup>4</sup> As a result, the CAISO is now developing the specific tariff language to be filed with the Federal Energy Regulatory Commission (FERC) to adopt three new baseline methodologies. The CAISO recommends that the Commission update Section 2.3.2.1 to reflect the current status of the baseline methodology update.

**IV. The Proposed Decisions Correctly Note that “Dual Participation” Issues Require Further Clarification through the Supply Side Working Group.**

As noted in the proposed decisions, some parties contend that “dual participation” rules create barriers to integration.<sup>5</sup> The CAISO looks forward to further clarification from parties about the meaning of “dual participation” in the context of the CAISO market, and how this purported “rule” creates a barrier to integration. It is unclear what the meaning of “dual participation rules” is as it relates to the CAISO. The CAISO agrees with proposed decisions’ determination that interested persons use the Supply Side Working Group to develop any recommendations related to this topic for further consideration in the CAISO stakeholder process.

**V. The Proposed Decisions Should be Modified to Reflect that Issues Related to Valuing Un-Integrated Demand Response Are Not Solely the Product of CAISO Requirements.**

During the course of this proceeding, several parties asserted that the issue of incorporating or valuing un-integrated demand response megawatts should be an issue for

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<sup>4</sup> PD at p. 44; APD at p. 55.

<sup>5</sup> PD at p. 47; APD at 58.

the Commission. The proposed decisions quote PG&E in noting that “there are CAISO requirements that preclude certain customers from being included in a resource and while these requirements do not prevent integration, it may result in less megawatts being integrated.”<sup>6</sup> The proposed decisions follow this with a conclusory statement “[r]ecognizing that the barrier is related to CAISO requirements” (emphasis added).<sup>7</sup> The Proposed decisions go on to note that “PG&E recommends a different process for each of the three barriers it identifies: 1) a stakeholder process at the CAISO to address minimum size requirements; 2) a stakeholder proposal to the CAISO to require new participants to register in order to address the problem of load serving entities not registered; and 3) a Commission-facilitated working group to investigate less costly technologies to address the expensive telemetry requirement for resources greater than 10 megawatts.”<sup>8</sup> The CAISO supports investigating these issues and developing solutions to lower barriers and costs to demand response integration. The CAISO takes issue with the conclusion that barriers are solely related to CAISO requirements. This is incorrect and should be removed from the proposed decisions.

There is a shared responsibility for the existence of barriers and their resolution. For instance, PG&E’s first contention is that the CAISO’s minimum size requirement for resources in its market is a barrier to integration. However, the investor-owned utilities also bear some responsibility to the extent they are unable or unwilling to combine multiple and distinct utility demand response “programs” into single CAISO proxy demand resources to help meet minimum resource size requirements. Combining utility “programs” into a single CAISO resource would minimize stranded customers, capture synergies and enhanced resource attributes. The inability to combine utility-programs into a single CAISO resources is not a barrier due to CAISO requirements, but is barrier due to program design and inflexibility. Third-party demand response providers demonstrate flexibility by assembling contracted megawatts from different customer types, customer classes, and end-uses. Third-party demand response programs thereby provide much greater flexibility and are not limited to a one-size fits all “program” to

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<sup>6</sup> PD at p. 45; APD at 56.

<sup>7</sup> PD at p. 45; APD at 56.

<sup>8</sup> PD at pp. 45-46; APD at 56-57.

deliver program megawatts. One-size fits all utility programs can result in stranded megawatts and the inability to meet minimum resource size requirements given rigid program designs and their application to specific end-uses (e.g. air conditioning) or to a specific customers classes. To help mitigate this barrier, utilities could assemble customers from different utility programs into demand response resources, creating more robust and diverse resources, similar to how third-parties are able to blend customer and end-uses together to ensure they can deliver their contracted megawatts.

PG&E's second identified barrier is based on the understanding that the CAISO has the authority to require new participants to register directly with the CAISO even when the participant's load-serving entity has not expressly sanctioned market participation by its customers.<sup>9</sup> This issue is not resolvable by the CAISO because the CAISO has limited authority to compel a load serving entity to allow its customers to participate in the wholesale electricity market. Again, this is not a CAISO requirement barrier, but is a barrier appropriately resolved by the relevant electric retail regulatory authority.

For these reasons, the CAISO requests these statements in the proposed decisions be modified to remove the language implying that this integration barrier is solely related to CAISO requirements. Appendix A provides the CAISO-recommended modifications.

## **VI. The Load Consumption Working Group Should Not Develop a Proposal Regarding Capacity Value for Ramping.**

The proposed decisions establish and identify tasks for the Load Consumption Working Group in Section 2.3.2.2. The proposed decisions specifically states that one of the tasks will be the “[d]evelopment of a proposal of whether and how to pay a capacity

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<sup>9</sup> See FERC Order No. 719-A at PP 51-52 (“We direct RTOs and ISOs to amend their market rules as necessary to accept bids from ARC aggregate the demand response of: (1) the customers of utilities that distributed more than 4 million MWh in the previous fiscal year, and (2) the customers of utilities that distributed 4 million MWh or less in the previous fiscal year, where the relevant electric retail regulatory authority permits such customers’ demand response to be bid into organized markets by an ARC. RTOs and ISOs may not accept bids from ARCs that aggregate the demand response of: (1) the customers of utilities that distributed more than 4 million MWh in the previous fiscal year, where the relevant electric retail regulatory authority prohibits such customers’ demand response to be bid into organized markets by an ARC, or (2) the customers of utilities that distributed 4 million MWh or less in the previous fiscal year, unless the relevant electric retail regulatory authority permits such customers’ demand response to be bid into organized markets by an ARC.”)

value for ramping to provide to the resource adequacy proceeding.”<sup>10</sup> The CAISO reiterates its previous comments in this proceeding, noting that demand response is currently capable of receiving flexible resource adequacy credit and value for ramping during CAISO-identified periods of need; therefore, there is no need to create an additional revenue stream to provide ramping.<sup>11</sup> The CAISO continues to assert that the value of a resource’s ramping characteristics are captured through the procurement process of flexible resource adequacy and in the CAISO’s flexible ramping product. A capacity payment for ramping would be duplicative with flexible resource adequacy capacity and would have to be applied equally to all resource types, which would require a much broader stakeholder initiative. The CAISO does not support including this as a task for the Load Consumption Working Group and recommends that the Commission delete this task from the scope of the working group’s efforts.

Respectfully submitted,

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<sup>10</sup> PD at p. 56; APD at p. 67.

<sup>11</sup>

[http://www.caiso.com/Documents/Jul6\\_2017\\_Response\\_Questions\\_NewModels\\_DemandResponse\\_R13-09-011.pdf](http://www.caiso.com/Documents/Jul6_2017_Response_Questions_NewModels_DemandResponse_R13-09-011.pdf)

## Appendix A

### CAISO Recommended Changes to the Proposed Decisions

Additions in bold and underlined

Deletions in red strikethrough

Proposed Decision at p. 46; Alternate Proposed Decision at p. 56.

~~Recognizing that the barrier is related to CAISO requirements,~~ PG&E recommends a different process for each of the three barriers it identifies: 1) a stakeholder process at the CAISO to address minimum size requirements; 2) a stakeholder proposal to the CAISO to require new participants to register in order to address the problem of load serving entities not registered; and 3) a Commission-facilitated working group to investigate less costly technologies to address the expensive telemetry requirement for resources greater than 10 megawatts.”

As highlighted by PG&E, these technical barriers relate, **in-part**, to CAISO requirements and therefore should be resolved through a CAISO-led working group.

Proposed Decision at p. 56, Table 1; Alternate Proposed Decision at p. 66, Table 1

Provide status report of work with the CAISO to address technical barriers to integration: i) minimum size requirements, ii) ~~registration of new market participants,~~ **iii)** less expensive telemetry requirements.

Proposed Decision at p. 54; Alternate Proposed Decision at p. 64

In regard to the identification of the value of new products and consideration of a policy that pays capacity value for ramping, some parties argued that the working group should be in the resource adequacy proceeding. As discussed previously, all resource adequacy-related issues will be determined in the resource adequacy proceeding. ~~However, given the importance of these issues, this Decision finds it appropriate for the Load Consumption Working Group to develop a proposal on these issues and submit the final proposal simultaneously to the service list of this proceeding and the resource adequacy proceeding.~~

Proposed Decision at p. 56, Table 2; Alternate Proposed Decision at p. 67, Table 2

~~Development of a proposal of whether and how to pay a capacity value for ramping to provide to the resource adequacy proceeding prior to January 31, 2019.~~