

**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**

I. Introduction

Pursuant to Rule 14.3 of the Commission’s Rules of Practice and Procedure, the California Independent System Operator Corporation (CAISO) files these reply comments on Administrative Law Judge Hymes’ Proposed Decision Adopting Guidance for Future Demand Response Portfolios and Modifying Decision 14-12-024 (Proposed Decision). In these comments, the CAISO replies to issues raised in the opening comments filed by the following: the California Large Energy Consumers Association (CLECA), the Joint Demand Response Parties (Joint DR Parties), SolarCity Corporation (SolarCity), and Southern California Edison Company (SCE).

II. Discussion

The CAISO’s comments focus on the following issues raised in opening comments: (1) the structure of demand response auction mechanism (DRAM) resource adequacy (RA) contracts, (2) demand response participation rules for net-energy metering (NEM) customers, and (3) concerns regarding integration of demand response into the CAISO’s wholesale electricity market. These issues are discussed in detail below.

A. The Commission Should Ensure DRAM Agreements Are Structured to Deliver the Contracted RA Capacity notwithstanding CAISO Backstop or Penalty Provisions.

SCE’s opening comments recommend that the Commission adopt DRAM RA contracts that contain “firm” rather than “contingent” replacement obligations. This means that the DRAM Seller would be obligated to procure replacement RA capacity in the event of its non-performance. SCE states that “that most contingent RA agreements [like DRAM] do not have a penalty structure for failing to provide capacity, but rather sellers that do not provide their

contracted resources are penalized by the CAISO.”¹ Under this arrangement, the load-serving entity (in this case SCE) is required to manage its RA showings to assure compliance. As DRAM RA becomes a larger portion of total RA resources, this will impose an increasing burden on LSEs to manage replacement capacity. SCE recommends addressing this situation by adopting a DRAM RA contract provision which places an affirmative replacement obligation on the DRAM Seller in the event it cannot deliver the capacity under the contract.

The CAISO supports SCE’s position and encourages the Commission to ensure the DRAM contract clearly requires DRAM providers to show, deliver, and replace, as necessary, their contracted RA capacity and not leave to the CAISO to resolve through backstop and penalty provisions.

B. The Commission Should Not Modify its Decision to Include Rules for NEM Customers to Participate in Demand Response Programs in 2018 and Beyond.

The CAISO opposes SolarCity’s recommendation to direct the utilities to include rules for NEM customers to participate in demand response programs.² As the CAISO has stated in prior filings, customers that sell their excess energy under a NEM tariff should not be allowed to sell that same energy again to the CAISO. NEM customers are allowed to bank excess energy for later withdrawal, meaning the excess energy production is fully compensated. In rare circumstances in which NEM customers have excess energy at the end of their netting period, those customers are eligible to receive an avoided cost payment for that excess energy. If a NEM customer provides proactive demand response this will result in additional excess energy in its balancing account, which will be available for withdrawal at a later time. For example, if a customer with a solar photovoltaic system wishes to bank excess energy for winter, when solar irradiance is less intense, thereby lowering winter energy purchases, it will have the proper incentive to do so by reducing energy demand in the summer to store up for winter. The CAISO cannot determine through its market whether a customer is enrolled in a NEM tariff. As a result,

¹ SCE Comments, p. 8.

² SolarCity Comments, p. 5. (“SolarCity urges the Commission in its final decision to direct the utilities in their December 31, 2016 Applications to include rules for NEM customers to participate in DR when designing programs for 2018 and beyond. Evaluating how to enable NEM customers to participate in a reasonable manner in DR programs and reflecting the additional value these customers can bring to the grid will help guide the utilities’ programs moving forward.”)

the Commission must set clear rules for NEM customer participation in demand response programs to avoid double payments and market inefficiencies.

The CAISO notes that it has been proactive in setting rules to avoid the risk of “double payment” that can be accounted for in the CAISO market. For instance, the CAISO has established that any export of energy (*i.e.*, excess energy under a NEM tariff) must be set to zero if a negative load value is recorded in a metering interval, meaning exported energy, *i.e.*, energy generated, does not qualify as demand response; only load modification qualifies as demand response.³ For these sound reasons, the Commission should not allow excess energy from NEM customers to participate and be sold as demand response.

C. CAISO’s Demand Response Market Enhancement Will Help Integrate Additional Demand Response into the Wholesale Electricity Market.

CLECA continues to raise false alarms about the status of demand response integration into the CAISO market. These concerns are undercut by the significant amounts of demand response already integrated into the market and participating today.

CLECA’s comments give an impression that there is a “finish line” when all market changes, rules, and refinements will be complete and the system will reach a stasis point. CLECA suggests that only at that point will the market be prepared to integrate demand response resources.⁴ To the contrary, the CAISO, and the industry in general, will continue to tweak and refine demand response products and the role demand response and distributed energy resources will play in the wholesale electricity markets (and in the industry at large). There should not be an expectation of a “finish line,” or completion date when all demand response integration issues, policies, and regulations will be resolved. The market will continue to evolve as resources evolve, but integration can confidently move forward and progress as these changes occur.

³ Business Practice Manual for Metering, Version 14, revised May 25, 2016, states on page 59: “Meter data intervals in which there is a net export of energy, at any underlying PDR or RDRR location, must be set to zero (0). This must be performed prior to summing individual location meter data in the development of the aggregated SQMD to the CAISO for that PDR or RDRR resource.”

⁴ CLECA Comments, p. 1. (“Demand response remains in a state of flux and transition.”) (“The California Independent System Operator’s (CAISO) wholesale market rules applicable to supply-side demand response continue to change, as do the Commission’s regulatory policies applicable to all resources, including demand response (*e.g.*, resource adequacy).”)

The open issues CLECA raises in its comments are largely refinements that the CAISO is undertaking based on market participant feedback and lessons learned to date.⁵ For instance, the CAISO is (1) making enhancements to its Demand Response Registration System to help demand response providers more effectively and efficiently manage their resources; (2) reviewing alternative baseline methods to add to the CAISO tariff to expand available performance evaluation methods; (3) aligning sub-LAP boundaries with the local capacity areas to enhance the resource adequacy value of demand response resources; and (4) adding an opportunity cost to a resource's commitment costs to provide demand response providers with another tool to manage the value and dispatch of their resources. The CAISO notes that all of these enhancements will be completed prior to the mandated 2018 bifurcation cut-over date, contrary to what is implied in CLECA's comments. In any event, there is already significant demand response participation in the CAISO markets and these enhancements will further advance and ease efforts to integrate more demand response into the CAISO market.

III. Conclusion

The CAISO recommends that the Commission adopt the Proposed Decision with the limited modification to DRAM RA contracts discussed above.

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⁵ Id, p. 7. ("The PD requires the utilities to 'complete the efforts of bifurcation and CAISO integration.' The utilities, and many other parties including CLECA, have worked very hard to meet the Commission's bifurcation deadline; however, the January 1, 2018 deadline was rightly conditioned on CAISO integration being feasible and all necessary market changes being made. As stated above, we are not there yet and it is not just the utilities that have further work to do. Numerous issues at the CAISO have arisen with the integration effort that has occurred to date.") (footnotes omitted).

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September 26, 2016