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TO: **directparticipation@caiso.com**

FROM: California Public Utilities Commission (CPUC)
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RE: Comments on Straw Proposal For the Design of Proxy Demand Resource (PDR) and Impacts of Direct Participation

DATE: 3/24/2009

Introduction

The CPUC staff appreciates the time and effort that CAISO staff and stakeholders have put into developing the Proxy Demand Resource (PDR) Straw Proposal. As noted on page 26 of the Straw Proposal, CPUC staff views the PDR proposal as a conceptual design and by no means a finished product. With that understanding, the CPUC staff generally supports the concept of the PDR product as envisioned in the Straw Proposal. The CPUC staff also believes that the PDR product, as it is currently proposed, is consistent with FERC Order 719. There are, however, still many specific issues that need to be resolved to make PDR fully functional. The CPUC staff also understands the importance of the jurisdictional and/or coordinated efforts that must be resolved in order to appropriately integrate CPUC and CAISO DR products and processes, and looks forward to working with CAISO staff and management and other stakeholders to resolve them. With this in mind, the CPUC staff here offers comments on selected portions of the current PDR proposal.

CPUC Staff Discussion of Section 2: Development of Demand Response Enhancements

On page 8 of the Straw Proposal, CAISO writes, "the ISO will allow market participants to designate their DR resources as located in an ISO defined Sub-LAP and the ISO will use standard distribution factors as an alternative to maintaining CLAPs, for the purpose of dispatching DR resources." The CPUC staff does not understand what is meant by standard distribution factors. Additionally, is CAISO offering the standard distribution factors as an option to reduce the burden of tracking all load migration for CSPs, or will the standard distribution factors be used for all CSPs and determined by CAISO?

CPUC Staff Discussion of Section 3: Proposal for Proxy Demand Resource (PDR)

The CPUC staff supports the PDR-A Option (hereafter, PDR). Though the "money machine" gaming concern is a legitimate concern, CPUC staff agrees with CAISO that this matter should be subject to resolution through product design. The "money machine", explained on page 23 of the Straw Proposal, is of far less concern to CPUC staff than having DR resources in low-cost and/or uncongested locations where DR participation may not have the most desired affect.

On page 12 of the Straw Proposal CAISO writes that the current PDR proposal does not support PDR submitting a RUC availability bid. If the PDR is able to provide bids in the RTM and be dispatched in the RTM, then CPUC staff questions why PDR resources would be unable to submit RUC availability bids? Such treatment would more fully treat PDR resources analogously to generation resources.

The CPUC staff requests additional explanation regarding the proposed settlement of PDR as uninstructed deviations to the SC's DA schedule. The CPUC staff currently understands that PDR resources that clear the DAM should be paid at the day ahead price, and PDRs that are called in the RTM market should be paid the real time price. If this is the intention of the ISO than then this point should be made explicit. If this is still a settlement issue that needs to be resolved, than it should be addressed in Section 5.7.

The CPUC Staff is concerned about the "meter-to-cash" impacts between the LSE and the retail participants, and the bilateral agreements that may occur between the CSP, LSE, and end use customer. The CPUC staff understands that a CPUC process will soon be initiated to determine what role the CPUC should have in these interactions, including what consumer protection measures may be called for, and how to assure that payments for DR services are sufficient to incent and/or maximize customer participation in appropriate DR programs.

As noted above, CPUC believes that the "money machine" gaming concern may be solved through product design. Though concepts such as use limits or minimum bids may mitigate "money machine" games, they may also limit legitimate demand response. CPUC staff urges CAISO and stakeholders to remain flexible about the limitations that are placed on PDR so that units that can provide PDR frequently and with demonstrable performance are not unnecessarily restricted from doing so by these limitations.

The CPUC staff agrees that a sound baseline methodology may also help to mitigate the gaming potential for PDR. The CPUC currently has a variety of baselines methodologies that are used for DR measurement and verification, and is considering other baseline methodologies for retail settlement purposes. These methodologies can be used as a starting part for further analysis. The CPUC staff believes that it is critical for the CAISO and CPUC to coordinate efforts to find a baseline methodology that is not in conflict with the methods currently in use by the CPUC and does not permit gaming between the wholesale and retail baselines.

CPUC Discussion of Section 5: Impact of Direct Participation on Demand Response Products

The CPUC staff agrees that CAISO should maintain a narrow scope with regards to the problems they are able to solve and should restrict their efforts to only fixes that are required to make PDR operate. Fixes that are not essential to PDR can detract from limited staff resources, cause parties to lose sight of the critical core issues, cause additional delays, or all of the above.

Some of the issues listed on Section 5.2.2. are, at least in part, CPUC jurisdictional issues (i.e. RA credits, and eligibility to participate in more than one program). The CPUC staff welcomes all comments and concerns regarding qualification issues that fall within the CPUC's jurisdiction both within the CAISO's current and CPUC's upcoming stakeholder processes in order to have the fullest discussion possible. Additionally, CPUC staff understands that the Investor Owned Utilities may seek tariff changes to allow them to act as CSPs, allowing LSEs to bid their own DR into the markets. This matter will likely be addressed in a CPUC proceeding.

The CAISO, on page 29, discusses its use of the IOUs emergency based DR products. The CPUC, in Phase III of the DR OIR, is in the process of discussing potential changes to some of the IOUs emergency triggered DR programs.

The CAISO, on page 29, suggests that the ISO may allow only one CSP to represent an end-user. The CPUC staff requests additional clarification regarding this point. CPUC staff understands this statement to mean that an end use customer can enroll with only one CSP, but may participate in multiple programs within the CSP (i.e., participating in multiple DR programs within an IOU DR portfolio. If this understanding is correct, then the CPUC staff supports this recommendation for the initial roll-out of PDR, in order to minimize initial complications. Allowing more than one CSP per end-user creates too much potential for miscommunications that may lead to double payments, payments for non-performance, payment to entities that are not responsible for the subject load reduction, and consumer confusion regarding what actions/curtailments must be made and when. Once all parties have experience with the communications and market operations needed for PDR then this issue may appropriately be revisited.

The CPUC staff agrees that LSEs should be informed of DR enrollments by CSPs. Additionally, it is important that the CPUC be informed of customer migration. This information is important to allow the CPUC to track the retail based DR programs enrollment and performance. CPUC needs this information to determine the appropriate funding levels for retail DR programs and long-term resource planning purposes. It will also allow the CPUC and CAISO to coordinate actions to prevent DR resources from receiving both wholesale and retail DR incentives for a single action (i.e. double payment).

Though the CPUC staff agrees that CAISO run settlements will provide the most transparent settlements procedure, the issue of who is responsible for measurement and verification still remains (i.e., CAISO, LSE, or CSP, other entity). Regardless of which party provides measurement, baseline methodologies and response measurements should be subject to audit by CAISO and/or CPUC/Local Regulatory Authorities (LRA). This will allow the CPUC/LRAs to verify that end use consumers are being justly compensated and/or performing as reported by the CSP.

The notification of schedules, on page 35, raises an interesting question regarding information availability. LSEs need to know how much load they will be expected to serve to generate accurate forecasts; however, informing LSE's of CSPs' DR schedules may provide the LSE with information that allows them to adversely affect the CSP within the ISO market. Even without prices or undispatched DR information included in the information exchange, it is important that the information provided to LSEs not be so detailed as to allow them to determine a single CSP's behavior (i.e., aggregated data may be necessary). The CPUC staff wishes to further pursue this matter through the stakeholder forum. Furthermore, some CSP's may wish to operate as a direct participant in CAISO markets and still administer IOU run DR programs. The manner in which these entities receive information or are required to provide information to LSEs should also be discussed in greater detail to determine if there are any potential problems.

On page 36 of the Straw Proposal, CAISO states that "the ISO tariff does not fundamentally prohibit the situation where one SC schedules demand while another SC submits demand curtailment bids, particularly when the end-use customer is a SC Metered Entity." It is worth noting here that the CPUC will soon be considering, per FERC Order 719,[1] whether there are current laws or rules in place that restricts direct participation or multiple SC's per meter, and whether/how such rules may be changed to facilitate direct participation.

The CPUC staff agrees that the metering issues CAISO discussed in the Straw Proposal are important issues to resolve. The CPUC staff believes that the upcoming installation of AMI meters will help provide information that will resolve some of the problems discussed in the Straw Proposal (more than one meter per user, sufficient information for settlements, etc.). Metering concerns are another issue where coordination between the CPUC and CAISO would benefit PDR effectiveness. The CPUC staff does not expect that AMI will provide sufficient information regarding telemetry, but is optimistic that some of the PL Pilots will provide adequate proxies for telemetry that will allow telemetry costs to be minimized.

On page 38 of the Straw Proposal, CAISO proposes allowing "the CSP to provide either telemetry-based data or revenue quality meter-based data to support settlements of DR response." The CPUC staff does not oppose this approach, but as noted above, these measurements should be subject to audit.

At this time, the CPUC staff is evaluating many options to resolve the settlement issues detailed by CAISO on pages 39 through 40. The CPUC staff sees settlement issues as a topic for further discussion at stakeholder meetings. CPUC staff agrees with the Straw Proposal that baseline methodology is extremely important to the creation of a successful PDR product. Therefore, the CPUC staff proposes that CAISO begin its analysis with the CPUC baseline methodologies, but may consider alterations that do not create conflict with the CPUC established methodologies.

Summary

The CPUC staff supports the conceptual PDR product laid out in the Straw Proposal. CPUC staff also supports CAISO using the CPUC baseline methodologies as a starting point for further analysis, but believes that that this is an issue that requires additional stakeholder discussion before making a final determination. Many of the issues raised in the Straw Proposal are either issues that are CPUC jurisdictional and/or would greatly benefit from coordinated efforts across the CPUC and CAISO. Therefore, CPUC staff will work with CAISO staff to resolve issues so that PDR can be used effectively and will not conflict with CPUC authorized retail based DR programs.

[1] FERC Order RM07-19, p 27, Paragraph 47, 10/17/2008. Orders ISOs "to amend their market rules as necessary to permit [DR aggregators] to bid demand response on behalf of retail customers directly into the . . . ISO's organized [wholesale] markets, unless the laws or regulations of the relevant electric retail regulatory authority do not permit a retail customer to participate."