

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

Order Instituting Rulemaking Regarding
Policies and Protocols for Demand Response,
Load Impact Estimates, Cost-Effectiveness
Methodologies, Megawatt Goals and
Alignment with California Independent System
Operator Market Design Protocols

Rulemaking 07-01-041
(January 25, 2007)

**COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR ON WORKSHOP
REPORT FOR DECEMBER 16-18 WORKSHOPS
RE: DIRECT PARTICIPATION OF RETAIL DEMAND RESPONSE IN ISO
ELECTRICITY MARKETS**

The California Independent System Operator Corporation (ISO) submits the following comments to the Workshop Report¹ for the workshops held December 16 through 18 for the Direct Participation Phase of this Proceeding.

1. The Commission should prioritize issues to ensure PDR can be offered summer 2010

Given the timeframe of this proceeding, with a scheduled decision proposed by April 2010, the ISO believes it is important that the Commission prioritize its efforts and specify what steps are necessary to enable Commission-approved direct participation, at some level, by summer 2010, and then expand on what needs to be accomplished thereafter, through 2011 and beyond. This comports with “Option A” as discussed by CPUC Energy Division on workshop day three, wherein two possible approaches were mentioned: an Option A that would include interim activities in 2010 leading to full

¹ Compliance Filing Of Southern California Edison Company (U 338-E)– Report On Direct Participation Phase Workshops, filed January 8, 2010, posted to the CPUC Web site at <http://docs.cpuc.ca.gov/efile/REPORT/112361.pdf>.

implementation in 2011 and an Option B that would take a slower approach (without interim direct participation in 2010) with full implementation in 2011.²

As a first and immediate priority, the ISO believes that the Commission should have the utilities propose modifications to their tariffs, procedures, and electric rules, as necessary, to enable the direct participation of demand response resources. At minimum, load-serving entities (including electric service providers)³, acting as demand response providers for their own customers, should have the opportunity to begin offering Proxy Demand Resources into the ISO markets during summer 2010. The ISO also encourages the Commission to evaluate, as a first priority, the ability of ESPs to establish a DRP relationship with third party entities.

The ISO believes other important issues such as the contractual arrangement between the Demand Response Provider and the Load-serving Entity, data exchange concerns, and any other jurisdictional issues are the follow-on priorities.

Contrary to certain opinions expressed at the direct participation workshops, the ISO does not believe that all policy and technical issues must be resolved before any demand response resources can directly participate in the wholesale market. The rational approach of dealing first with tariffs and electric rules would enable the load-serving entities to begin direct participation. The parties could then take the additional time to work through other high priority issues to enable third-party demand response providers, in addition to LSEs, to directly offer demand resources into the wholesale market thereafter.

Prioritizing the issues and moving forward in this manner will enable load-serving entities to offer Proxy Demand Resources into the wholesale market sooner, rather than later, and enable load-serving entities to gain experience with the development, implementation and execution of Proxy Demand Resources in ISO markets.

² Workshop Report at p C-2, See also Draft Final Proposal for the Design of Proxy Demand Resource (PDR), Revised on August 28, 2009, which can be accessed on the ISO Web site at <http://www.caiso.com/241d/241da56c5950.pdf>.

³ In this filing, the ISO uses the term load-serving entity to refer to both Investor Owned Utilities and Electric Service Providers that serve end-use customer load.

2. The Commission should enable the conversion of Participating Load Pilots to Proxy Demand Resources for summer 2010

Where possible, the Commission should enable the Participating Load Pilots to function as Proxy Demand Resources for summer 2010. As was the case with Participating Load Pilot activity in 2009, a further phase of pilot activity in 2010 would create an excellent opportunity for the utilities to configure and implement Proxy Demand Resources so that, again, those key “lessons learned” can be documented, incorporated and passed on to others in preparation for the full direct participation of demand response resources in ISO markets and operations.

In order to facilitate market participant development of Proxy Demand Resources in 2010, the ISO will be creating a number of default Proxy Demand Resources by subLAP, which could be assigned, beginning in May 2010, to new demand response providers; however, if custom Proxy Demand Resources are desired by the load-serving entities, then time is required to establish these custom resources in the ISO’s systems, which the Commission should consider in its decision making process. For instance, any new custom Proxy Demand Resources that would have to be set up in the ISO’s network model database for implementation summer 2010, the following estimated deadlines would apply based on the next two database builds that are scheduled and planned for production:

ISO Database Build Schedule

Database Build	Production Date	Market Participant New Resource Request Date
DB47	April 28, 2010	Early February
DB48	June 30, 2010	Early April

3. There are technical and policy limitations on Dual Participation

In the workshops, there were several discussions regarding dual participation. To further inform this discussion and, ultimately, the Commission’s decision on the matter, it is important that the Commission and parties understand that the ISO’s Demand

Response System, which will be used to manage demand response resources that are directly participating in the ISO market, will only allow one service account⁴ per demand response provider. The possibility of multiple demand response providers operating retail demand response programs against the same service account will not work. For example, if a service account is under contract to provide demand response services for the utility, which is acting as the demand response provider, during certain hours or days, it is not possible to have another demand response provider assigned to that same service account for the “other” hours that are outside of the utility’s contract hours.

Thus, from the ISO’s perspective, the dual participation of different retail demand response programs that translate into wholesale demand response products is only possible when that “dual participation” is transparent to the ISO, i.e. it is managed outside of the ISO’s purview, and the underlying service accounts of a demand response resource are assigned to a single demand response provider and are scheduled by a single Scheduling Coordinator.

Understanding these restrictions, a demand response provider could have contractual arrangements with multiple parties and programs to direct the activity of a particular demand response resource in the ISO markets. The ISO would financially settle the demand response resource with the demand response provider’s Scheduling Coordinator based on the demand response resource’s performance in the ISO markets. It would be incumbent upon the Scheduling Coordinator/demand response provider to work out the financial arrangements with the other parties that have ties to that demand response resource. In other words, multiple arrangements can be made against the performance of a particular resource, although the complexity can be significant, such as how to deal with under and/or over performance of a resource amongst the parties associated with that demand response resource.

⁴ A service account is analogous to what the ISO terms a “location.”

4. The Commission should strive to develop a pro forma contract between the DRP and LSE

Most parties, if not all, agreed in the workshops discussions that a standard contract, versus, multiple bilateral negotiations, should be developed to govern pertinent terms of the relationship between the CPUC jurisdictional load-serving entities and the third-party demand response providers. The ISO strongly supports a standard contract, or other simple remuneration method, to resolve compensation concerns between load-serving entities and demand response providers. The form and content of this standard agreement is essential to lowering a potentially significant barrier to greater demand response participation. As EnerNOC expressed:

... without a standard agreement, DRPs would have to negotiate separate settlement agreements with each LSE prior to offering DR services and depending on the position of the LSE regarding compensation when negotiating separate agreements the expected compensation may render direct participation uneconomic and discourage demand response participation.

At the workshop, PG&E similarly stated⁵ that the benefits of the standard contract are that it lowers overhead/transactional costs for the engaged parties, and by making the settlement between the parties transparent and pre-determined, enables demand response providers to more easily structure programs and products for their customers, lowering barriers to demand response participation. The ISO concurs with this point.

In addition, the ISO wishes to clarify in these comments that, as outlined in the ISO's proposal for the design of Proxy Demand Resource, pecuniary concerns between the load-serving entity and the demand response provider are to be settled outside of the ISO and its systems. There was a brief discussion in Workshop 2 (Dec 17) asking "if the parties could agree on the settlement/payment method, could the administration be migrated to the ISO to be included in settlement statements."⁶ After much debate and

⁵ Compliance Filing of Southern California Edison Company (U 338-E) - Report on Direct Participation Phase Workshops, January 8, 2010, at Pg. B-2.

⁶ Ibid., p. B-4

discussion with stakeholders in the working group sessions in 2009,⁷ certain stakeholders expressed support for the ISO formalizing an explicit settlement between the LSE and the Curtailment Service Provider (CSP); however, “the majority of stakeholders agreed that the settlement between the LSE and the CSP [aka the demand response provider] should remain outside of the ISO’s settlement process.”⁸

The ISO understands the criticality of this issue. It was a significant issue discussed in the working group meetings, and the compensation issues between the load-serving entity and the demand response provider remain a critical and unresolved issue that must be settled through this CPUC process directly, or through a negotiated agreement between the parties, but the resolution and process is to remain external to the ISO.

5. The LSE/UDC will have detailed information about demand resources acting within its service territory

On the second workshop day (December 17) there was a discussion about what information the LSE/ESP would need from the demand response provider (see pg. B-10 – B-11). The ISO intends to offer certain detailed information to load-serving entities and the utility distribution company about a demand response provider’s Proxy Demand Resources that operate in its service territory, or among its customers, through the *ISO Market Results Interface* (CMRI) system. Specifically, the load-serving entity/utility distribution company will have access to two reports in the CMRI system: (1) Day-Ahead Generation Market Results, and (2) Expected Energy.⁹

⁷ The working group sessions in 2009 established the framework for the ISO’s Proxy Demand Resource product whose design satisfied the Federal Energy Regulatory Commission’s Order 719 mandate to (1) permit a demand response provider to bid demand response on behalf of retail customers directly into the organized energy market, and (2) to accept bids from demand response resources in ISO/RTO markets for ancillary services comparable to any other A/S capable resources.

⁸ Draft Final Proposal for the Design of Proxy Demand Resource (PDR), Revised on August 28, 2009, at Pg. 10.

⁹ *ISO Market Results Interface (CMRI) Report Overview, Version 1.14, August 20, 2008* found using this link: <http://www.ISO.com/1c9d/1c9d761a5a8f0.pdf>

- Day-Ahead Generation Market Results

This report provides the Day-ahead schedule information for a Proxy Demand Resource, including the scheduled quantities for energy, residual unit commitment, and ancillary services.

- Expected Energy¹⁰

This report contains the Total Expected Energy for Day Ahead, Real Time, Instructed and Total energy for a Proxy Demand Resource.

These two reports are contained within a compilation entitled “ISO Market Results Interface (CMRI) Report Overview, Version 1.14, August 20, 2008”, which can be accessed on the ISO Web site at <http://www.ISO.com/1c9d/1c9d761a5a8f0.pdf>.

Dated: January 22, 2010

Respectfully submitted,

By: /s/ **John Goodin**

John Goodin, Lead Demand Response
CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION
151 Blue Ravine Road
Folsom, CA 95630
Tel. (916) 608-7154
Fax (916) 608-7222
E-mail jgoodin@caiso.com

By: /s/ **Baldassaro “Bill” Di Capo**

Baldassaro “Bill” Di Capo, Esq., Counsel
CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION
151 Blue Ravine Road
Folsom, CA 95630
Tel. (916) 608-7157
Fax (916) 608-7222
E-mail bdicapo@caiso.com

¹⁰ Expected Energy is the total Energy that is expected to be delivered by a resource, based on the dispatch of that resource as calculated by the ISO’s Real-Time Market software. Expected Energy includes the Energy scheduled in the Day-ahead Integrated Forward Market.

CERTIFICATE OF SERVICE

I hereby certify that on January 22, 2010 I served, on the Service List for Proceeding R.07-01-041, by electronic mail and United States mail, a copy of the foregoing

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Executed on January 22, 2010 at
Folsom, California

Anna Pascuzzo

Anna Pascuzzo,
An employee of the California
Independent System Operator