COMMENTS BY JOINT PARTIES ON CAISO'S NOVEMBER 3, 2015 COMMITMENT COST ENHANCEMENTS PHASE 3 REVISED STRAW PROPOSAL

EnerNOC Inc., Johnson Controls Inc., Comverge, Inc., and CPower (Joint Parties) submit comments on the November 3 Revised Straw Proposal in the Commitment Cost Enhancements Phase 3 (CCE3) initiative. Joint Parties comments are specific to the impacts of the proposal on Proxy Demand Resource (PDR) and Reliability Demand Response Resource (RDRR).

With FERC's recent rejection of CAISO's definition of "use-limited capacity" under Commitment Cost Enhancements Phase 2 (CCE2), we understand that CCE3 has now been expanded to include revisions to the definition of use-limited.[1] As it pertains to PDR and RDRR, the current proposal appears to be dramatically different than the treatment of these resources under CCE2. In the February 9, 2015 Draft Final CCE2 Proposal, CAISO stated:

> "Proxy demand and reliability demand response resources are deemed use-limited by the tariff and the ISO does not propose any changes to this status. Reliability demand response resources do not have non-zero start-up or minimum load costs and therefore do not have commitment cost-related opportunity costs. Proxy demand resources may have shut-down costs and minimum load costs that the ISO may consider. However, both can have energy-based opportunity costs. The ISO would only calculate these costs to include in a default energy bid if these resources were mitigated as part of the market power mitigation process. But since demand response is not subject to mitigation, there is no need for the ISO to calculate these costs. Proxy demand resources can directly reflect opportunity cost in the energy bids up to the offer cap and reliability demand response resources are already required to bid in near the offer cap."[2]

In CCE2 CAISO did not propose any changes to the use-limited status in the tariff for PDR and RDRR. However, in CCE3 CAISO proposes to eliminate PDR and RDRR from the definition of use-limited resources. CAISO proposes to define use-limited as:

> "A resource with one or more limitation(s) on starts, run-hours, and/or output due to environmental restrictions or design considerations, which cannot be optimally dispatched oved the limitation horizon without consideration of opportunity costs."[3]

In addition:

[1] CCE Phase 3 Revised Straw Proposal at p.7.
[2] CCE Phase 2 Draft Final Proposal at p. 13.
[3] CCE Phase 3 Revised Straw Proposal at p. 9

> "Limitations accepted by the ISO must originate from restrictions imposed by external regulatory bodies, legislation, or courts, or due to the design of the resource. They cannot be contractual, such as a monthly start limitation that is well below any binding environmental limit, based on economic decisions such as staffing requirements or maintenance cost tradeoffs . . . Again, the ISO is not proposing to change the intention of the revised definition as developed through CCE2."[4]

Demand response currently has regulatory monthly availability requirements in the context of its must-offer obligations for resource adequacy. For example, DR must be available for 3 consecutive days for 4 hours per day and available to be dispatched for 24 hours. If DR is a system RA resource, it must offer into day-ahead energy market every non-holiday weekday for the CAISO designated hours. If DR is a local resource, it must offer into the day-ahead and real-time energy markets every non-holiday weekday for the CAISO designated hours. Lastly, if DR is a flexible resource, it must bid into the day-ahead and real-time energy markets for every non-holiday weekday for the CAISO designated hours. By the product definitions, DR would be use limited in that it can place itself on outage if it has been dispatched for 3 consecutive days for four hours per day for 48 hours or if it has been dispatched for 24 hours per month. However, the above definitions proposed for use-limited resources do not appear to accommodate those existing requirements, approved by the CPUC.

As such, the Joint DR Parties are confused as to the implications of this new definition as it relates to the above-referenced product definitions. Is the suggestion that utility contracts that specify such limitations on the amount a demand response program can be dispatched would not qualify as use-limited by the CAISO because the limitation is contractual? Or would these contracts fall under the heading of "limitations imposed by external regulatory bodies?" Similarly, would tariff provisions for retail demand response qualify as regulatory use limitations? If CAISO is concluding that a CPUC approved retail tariff or a CPUC approved contractual use limitation is not sufficient for that resource to be determined to be use-limited by CAISO where does that leave these resources? And what are the implications of this determination for demand response resources that may be bid into CAISO's market in 2016 as part of the Demand Response Auction Mechanism? Will those resources be expected to follow these rules? Can that possibly be done if resources have to register in March 2016 before any proposed tariff changes have been approved by FERC? All of this needs to be clarified.

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[4] CCE Phase 3 Revised Straw Proposal at p. 10.

CAISO's only proposed solution appears to be that PDR and RDRR would have to register as use-limited resources and provide documentation to obtain an opportunity cost.

> "Based on tariff section 40.6.4.1, hydroelectric generating units, proxy demand resources, reliability demand response resources, and participating load, including pumping load, are currently deemed to be use-limited. However, under the revised tariff language, these resources will no longer default as use-limited resources, but they can go through the registration process and seek to qualify as "use-limited" under the revised terms."[5]

It is not clear what documentation would be required of these resources. Section 6.1 refers to documentation of the resources' "limitations or restrictions imposed by regulatory agencies, legislation, or providing evidence of design limitations."[6] And if the resources were eventually granted use-limited status, would that make them eligible for opportunity costs? The two things appear to be connected in this proposal. What are the implications of opportunity costs for PDR? Will this in turn subject PDR to other requirements such as bid insertion?

As CAISO may be aware, opportunity costs for demand response resources are customer-dependent. It is difficult to quantify an opportunity cost for a resource. This difficulty arose in CAISO's Flexible Resource Adequacy Capacity Must Offer Obligation (FRACMOO) initiative. Original proposals would have required DR resources to submit an opportunity cost. Stakeholders pointed out in comments on the early FRACMOO Proposals that it is more difficult to determine the opportunity cost for a DR resource than for a generating unit because customers have different thresholds as to their willingness to curtail. The businesses that make up a DR resource have different usage and operating characteristics, business cycles, financial targets, environmental and corporate responsibility goals, etc.[7] The October 3, 2013 Third Revised FRACMOO Straw Proposal was revised to acknowledge "the challenge of implementing an opportunity cost calculation for start-up and minimum load costs for use-limited resources."[8] And, finally, in CAISO's October 9, 2013 FRACMOO presentation CAISO stated that it was not proposing to change the daily limitation for demand response. It also recognized that PDR does not have a start-up or minimum load cost and is not subject to local market power. And CAISO concluded that PDR can manage limitations through energy bids, so there is no need to include opportunity cost in start-up or minimum load costs for PDR.[9]

It is also not clear how the CCE3 proposal impacts the Reliability Services Initiative, which is where we discussed the relevant use limitations permitted under the CPUC and

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[5] CCE Phase 3 Revised Straw Proposal at p. 12.

[6] CCE Phase 3 Revised Straw Proposal at p. 13

[7] See for example EnerNOC's August 15, 2013 Comments on the FRACMOO Straw Proposal at p. 6

[8] FRACMOO Third Revised Straw Proposal, October 3, 2013 at p. 8

[9] CAISO FRACMOO Presentation, October 9 2013, at slide 43

CAISO RA requirements: dispatch for four hours per day for three consecutive days and 24 hours per month.

Thank you for your consideration of our comments.

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