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

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION RESPONSE TO ADMINISTRATIVE LAW JUDGE'S RULING REQUESTING RESPONSES TO QUESTIONS IN REGARD TO 2018 AND BEYOND DEMAND RESPONSE PROGRAMS

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I. Introduction

The California Independent System Operator Corporation (CAISO) files these responses to Administrative Law Judge (ALJ) Hymes' March 4, 2016 Ruling regarding demand response program applications for 2018 and beyond.

II. Response to ALJ Questions on the Path to 2018 and Beyond

ALJ Hymes's Ruling notes that the results of the Demand Response Potential Study (Potential Study) currently being conducted by the Lawrence Berkley National Laboratory are expected to be partially delayed. These study results were expected to inform determinations on current and future demand response products. Due to the delay, a comprehensive Commission guidance decision on the path forward will not be available in an adequate amount of time prior to the scheduled due date for utilities 2018 demand response program budget and program applications.

Based on the delayed Potential Study results, the Ruling outlines three scenarios for how the Commission should guide utility demand response program applications for 2018 and beyond. The Ruling seeks comment on the pros and cons of each scenario. The scenarios outlined in the Ruling are as follows:

A. **Delay Scenario** – In this scenario, a Commission guidance decision is delayed until after the Potential Study results are fully produced (September 1, 2016). This would result in the issuance of a Commission guidance decision in December 2016 and a delay in utility applications on demand response programs until April 2017. Hence, the issuance of a proposed decision on those applications would not occur until the first quarter of 2018.

B. **Supplemental Application Scenario** – In this scenario, the Commission would issue a preliminary guidance decision in August 2016 based on the partial Potential Study results expected to be produced by April 1, 2016. Further supplemental guidance would be issued through an assigned Commissioner Ruling in a November 2016 based on the full Potential Study results. The utilities would file supplements based on the further guidance as necessary.

C. **Two Decision Scenario** – In this scenario, the Commission would issue a preliminary guidance decision in August 2016 based on the preliminary Potential Study results. The utilities would file applications for demand response programs in December 2016 focusing on existing demand response products. A second guidance decision would be issued in first quarter of 2017 and the utilities would file a second round of applications in the summer of 2017.

The CAISO supports Scenario B (the Supplemental Application Scenario). Scenario C is also acceptable but may be more complex given that two applications and two decisions would be required. The CAISO does not support Scenario A, the Delay Scenario. Delay is precisely what the Commission sought to avoid in implementing full bifurcation of demand response programs. In fact, the Commission's original decision determined that supply demand response integration would begin with the 2017 demand response program year, with a second decision revising that date to January 1, 2018 after further discussion with the parties. The 2018 cut-over date reduced the transition time by two years from the 2020 date originally recommended by the settling parties.[1]

The CAISO is concerned that the delay scenario, which postpones a decision on applications until the first quarter of 2018, would indicate a willingness by the Commission to defer the bifurcation cut-over date, thereby leading to other possible delays. Scenario A may

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[1] D.14-03-026, March 27, 2014, Ordering Paragraph 1 approved the 2017 cut-over date for bifurcation. D.14-12-024, December 4, 2014, Ordering Paragraph 4a stated: "First, and foremost, we acknowledge the desire by the Settling Parties to take a "measured approach" to the transition to bifurcation but believe we can and must move more quickly. Therefore we modify the Settlement to designate the 2016 and 2017 demand response funding periods as a transition period. The period begins with small steps toward bifurcation in 2016 and ends with fully implemented bifurcation in 2018 ..."

receive support from parties that wish to slow the transition down; however, the CAISO encourages the Commission stay the course and not allow momentum to wane. Scenario B strikes a more reasonable balance between allowing applicants flexibility while still achieving the Commission's policy goal to achieve bifurcation by 2018.

Scenario C is also a feasible approach because it allows the Commission to achieve its bifurcation goal by 2018. However, it appears that Scenario C may require more time and resources from all the parties, including Commission staff, because two unique utility program applications would be required and two separate Commission decisions would be issued.

III. Response to ALJ Questions on Completing the Record

Below, the CAISO addresses each of the questions posed in the Ruling regarding how to complete the record in this proceeding.

> **Ruling Question No. 1: The role of the Utilities and third-party providers in administering demand response supply resources and load modifying resources is an issue in this proceeding where the record is lacking. Over the past few years, the Commission has attempted to increase the role of third-party providers through the use of demand response direct participation (i.e. Rule 24/32) and complemented by the several pilots including the demand response auction mechanism pilot and the supply-side pilot. Further, integration of demand response programs into CAISO wholesale markets has required Utilities to perform new functions, such as being a scheduling coordinator for demand response, registering resources, and resolving extensive system automation and interface challenges. These efforts have diversified the role of the Utilities relative to their role when this rulemaking began. Utilities now support the engagement of their customers in demand response both directly, through administration of programs and procurement from third-party providers, and indirectly, through Rule 24/32 and CAISO integration. Have the roles and responsibilities of the Utilities evolved for the better or worse? Are the Utilities well suited to the responsibilities they currently hold or should alternatives be considered? Should third-party providers have additional responsibilities or opportunities? If so, what should they be? Should the Utilities continue to be the lead administrator of the demand response programs as they have for the past two decades?**

The Commission is moving demand response in the right direction. By committing to full bifurcation, increasing the role of third-party providers in sourcing and delivering demand response, emphasizing the direct participation of demand response in the CAISO market and instituting the demand response auction mechanism, the Commission has taken significant action to change the status quo. The Commission should continue to motivate the utilities and the demand response industry to create competitive and customer accepted solutions that will help California build a cleaner, greener, more flexible and sustainable grid. The Commission's vision and over-arching principle should be to redouble its efforts to establish a competitive procurement framework for demand response and all forms of distributed energy resources, whenever practical and cost-effective.

Beginning in 2018, the Commission should transition in earnest from a "utility program" or "utility administrator" model in which demand response is almost exclusively developed and sourced through utility programs to a competitive procurement framework more widely focused on overall grid needs. This will allow demand response to grow from a niche "program" model narrowly focused on reducing peak demand to a competitive market of diverse suppliers focused on serving the particular needs of the grid for energy, capacity, voltage, power quality, asset deferrals and other beneficial services.

There are at least three important reasons why the Commission should continue expediting the transition to a competitive procurement framework for demand response and distributed energy resources. First, utility-administered programs do "compete" for available demand response capabilities. However, these programs are based on non-competitive, administratively set prices, which can create market distortions. Administratively set capacity prices and program incentives effectively set a price floor. By setting administrative prices, the Commission indicates what it is willing to pay a provider for its product, not what price a provider is willing to accept. The Commission can transparently discover the price demand response providers are willing to accept only through a competitive solicitation framework. The CAISO encourages the Commission to continue to pursue a broad and inclusive competitive solicitation framework in the Integrated Distributed Energy Resources (IDER) proceeding. There the Commission should focus on promoting all-source solicitations for distributed energy resources as the primary vehicle for meeting the needs of the grid.

A second reason to move the procurement of demand response to a competitive solicitation framework is to encourage development of flexible demand response programs. Existing programs generally promote a "one-size fits all" solution that cannot be tailored to balance the needs of individual customers and the needs of the grid. Allowing a diverse set of third-parties to compete and offer products and services needed by the grid should spur innovation and bring about unique customer-driven solutions—both technical and financial—that are not feasible under the utility-administered framework.

The third reason to continue to move toward a competitive framework is funding. Utility-administered programs are developed and funded through program application cycles, which generally occur every three years. Application cycles are out of step with how other resources are planned and procured across a longer-term planning horizon. Program applications versus competitive solicitations are entirely different procurement constructs and this difference creates disconnects in how resources are compared and valued.

The CAISO's preference for competitively solicited resources is shared by others. For instance, Southern California Edison Company (SCE), in filed comments in the IDER proceeding stating its preference for competitive solicitations. SCE stated:

> SCE's preference is to rely on competitive solicitations to procure DER products and services from the market in a technology agnostic manner, rather than modeling and trying to prescribe DER portfolios. SCE believes that holding such solicitations is in the best interest of its customers for several reasons. First, in SCE's power procurement experience, competitive solicitations generally provide a greater value to customers than administratively set prices established through hypothetical models and to obtain overly-prescribed products and services which can be sub-optimal. Second, bidders can customize their prices so that, if successful in the competitive process, they can be assured they have the precise revenue stream needed to support their projects. Third, administratively set prices are far more difficult to change when the market or technology changes whereas, competitively set bids automatically include technological and economic innovations. Fourth, relying on market signals avoids disputes over hypothetical modeling assumptions, such as which DER portfolios to model and the estimated DER costs.[2]

The Commission's policies and leadership are accelerating demand response resources' ability to provide flexible and diverse resource characteristics that help California meet its energy and environmental policy goals. The Commission should continue to spur the industry along and move from a utility-administered program framework to a competitive solicitation framework where innovation and new and diverse market entrants can flourish.

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[2] SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) COMMENTS ON ADMINISTRATIVE LAW JUDGE'S RULING INVITING LOCATIONAL NET BENEFITS PROPOSALS AND NOTICING WORKSHOP; R.14-08-013, January 26, 2016, at pp. 14-15; footnotes omitted.

Ruling Question No. 2: Currently, the Commission approves demand response activities and budgets on a three-year cycle. Should the Commission continue this cycle? Why? If the Commission should change the cycle length, what should the length of future budget cycles be and why?

As the CAISO answered in the question above, the Commission should move away from utility-administered programs and the incumbent program application cycles to a competitive solicitation framework in which demand response is allowed to compete to satisfy all products and services needed by grid.

Ruling Question No. 3: One of the possible budget cycle lengths to be considered for the demand response programs is ten years. The Commission recognizes that many changes can occur over the course of that ten-year budget cycle. One way the Commission can balance the advantages of a longer budget cycle with the potential for change is through the use of budget oversight reviews or audits. How should these reviews or audits be performed, how often, and why?

The Commission can adjust budget and program cycles as necessary, but assuming a set utility budget cycle assumes there will be no fundamental change in the procurement vehicle from utility-administered programs to a competitive solicitation framework. The Commission should think beyond the existing demand response procurement paradigm and consider the benefits of moving to a competitive solicitation framework.

If the Commission fails to consider this new paradigm it could unintentionally develop a hybrid procurement model where both competitive resource solicitations (such as the DRAM) and utility-administered programs co-exist. The CAISO believes such a hybrid model is not a long-term sustainable path and will eventually create problems, confusion, mixed signals, and market distortions. The Commission should begin in earnest to transition demand response procurement into a competitive solicitation framework beginning in 2018.

IV. Conclusion

The CAISO appreciates this opportunity to comment on the path toward full bifurcation and the looks forward to working with the Commission to ensure that demand response and all distributed energy resources are optimized to meet the state's long-term energy needs.

Respectfully submitted,
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