

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

Application of PACIFIC GAS AND ELECTRIC) COMPANY (U 39-E), for Approval of 2006-2008) Demand Response Programs and Budgets.) _____)	Application 05-06-006 (Filed June 1, 2005)
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Southern California Edison Company's (U 338-E)) Application for Approval of Demand Response) Programs for 200602008 and Cost Recovery) Mechanism.) _____)	Application 05-06-008 (Filed June 1, 2005)
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Application of San Diego Gas & Electric) Company (U 902-E) for Approval of Demand) Response Programs and Budgets for Years 2006) through 2008.) _____)	Application 05-06-017 (Filed June 2, 2005)
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**COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION
ON THE OCTOBER 30, 2006 PROPOSED DECISION**

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In accordance with Rules 77.2, 77.3 and 77.4 of the Commission's Rules of Practice and Procedure, the California Independent System Operator Corporation ("CAISO") respectfully submits its comments on the Proposed Decision of Commissioner Chong's "Order Adopting Changes to 2007 Utility Demand Response Programs", mailed October 30, 2006, in the above-referenced proceeding ("Proposed Decision").

I. INTRODUCTION

The CAISO supports and is encouraged by the Proposed Decision and the Commission's efforts to adopt changes in demand response programs necessary to promote greater system reliability and security for 2007 and 2008. The CAISO looks forward to working collaboratively with the CPUC, the IOUs and other interested parties to help structure future demand response products that provide the greatest value along

the entire value chain from the end use to the grid operator and contribute toward greater integration between retail demand response programs/pricing and the wholesale market.

II. IN A FUTURE PROCEEDING, THE COMMISSION SHOULD CONSIDER AND RE-EVALUATE THE ALIGNMENT OF THE WHOLESALE AND RETAIL MARKETS WITH RESPECT TO PRICE-RESPONSIVE DEMAND RESONSE PROGRAMS.

This phase of these consolidated proceedings was initiated with the Commission's August 9, 2006 ruling directing the three IOUs to propose augmentations to their existing demand response programs in light of the summer heat storm, as well as assessing the efficacy of current programs. The Proposed Decision quite clearly notes that the while some of the program modifications adopted therein might have broad policy implications, the Commission did not intend to make major policy determinations in this context (Proposed Decision, 9). To that end, the Proposed Decision utilizes the convention adopted in D.05-01-056 with regard to counting different types of demand response programs towards the policy goals. Specifically, distinctions were drawn between two different types of programs: "price-responsive" programs in which customers can choose how much load reduction they can provide based on either the electricity price or a per-kilowatt (kW) or Kilowatt-hour (kWh) load reduction incentive in the day ahead market, and "reliability-triggered" programs which are triggered due to same day reliability needs (*Id.*, 10).

The CAISO recognizes, and agrees, that a re-evaluation of this distinction between "price responsive" and "reliability-triggered" demand response programs should not take place in this phase of the proceeding. However, as the CAISO wholesale market moves into MRTU, it is important that the Commission refine these categories in order to more appropriately align wholesale and retail markets. In D.05-01-056, the Commission stated that "(t)here is not currently a 'day ahead market price' established by the California Independent System Operator (ISO), which has limited our ability to offer rates to customers tied to actual market prices or to test a customer's true 'price responsiveness' to market prices" (D.05-01-056, 5). Under MRTU, price responsive

programs will not only be viable and important in the day ahead market, but in the real-time market as well. Indeed, in a future proceeding the CAISO would encourage the Commission to consider “price responsive” programs as the means by which customers will respond to price signals in either the day-ahead and day-of markets, whereas “reliability-triggered” programs represent those programs that are dispatched based on system conditions, not on price. For instance, interruptible or load cycling programs that are triggered based on a CAISO declared Stage 1 or Stage 2 emergency event.

From a broad policy standpoint, the Commission should be encouraged to work with the CAISO and other parties to develop and support triggers that are aligned with the needs of the grid, while emphasizing the need for more demand response that is price-responsive. This will:

- Add greater capacity and liquidity to the wholesale market
- Create greater demand elasticity, and therefore, market efficiency
- Tap into an already existing and readily available resource

The Commission should also work towards aligning retail programs and pricing with the wholesale market by supporting the development of demand response products that easily integrate into the wholesale market. Additionally, the Commission should continue to promote the services of third-party providers and support demand response technologies that are automated, addressable, dispatchable and in majority cases, result in minimal inconvenience to the end-user. Such technologies could spawn large-scale, automated demand response that can be harvested from the mass market and yet tailored to respond in very specific and targeted ways for the grid operator. In aggregate, these “nega-watts” could be significant and could become an invaluable, cost-effective resource for maintaining system and local reliability while adding capacity and liquidity to the wholesale market.

Respectfully submitted,

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Independent System Operator