

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

Order Instituting Rulemaking to Oversee)	
the Resource Adequacy Program, Consider)	
Program Refinements, and Establish Annual)	R.09-10-032
Local Procurement Obligations.)	
_____)	

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
COMMENTS ON PROPOSED DECISION REGARDING
DEMAND RESPONSE RESOURCES**

In accordance with Article 14 of the Rules of Practice and Procedure of the California Public Utilities Commission (“CPUC” or “Commission”), the California Independent System Operator Corporation (“ISO”) respectfully submits its comments on the Proposed Decision Further Refining the Resource Adequacy Program Regarding Demand Response Resources (“Proposed Decision”), issued on August 9, 2011.

I. SUMMARY

The ISO supports the Proposed Decision and the CPUC’s on-going review of the resource adequacy (“RA”) program. Through these rulemaking proceedings, the CPUC has adopted proposals that refine and enhance the ability of the program to fulfill its fundamental purpose of ensuring that sufficient resources are available where and when needed. The ISO depends on the capacity of RA resources to be available in the areas and during the time periods it is needed to serve load, meet reserve requirements, and support the reliable operation of the ISO controlled grid.

The recommendations contained in the Proposed Decision will further this effort. They will modify the RA program to address certain demand response issues so that the RA program will better serve to facilitate open and efficient competition that will move further toward the optimal, cost-effective mix of existing resources and new infrastructure investments sufficient to meet end-use demand at stable and reasonable prices and reliably provide for the operating requirements of the ISO balancing authority area.

Specifically, the ISO supports the following recommendations in the Proposed Decision:

- Only those demand response resources that are capable of being dispatched by the ISO in the local area in which the reliability need occurs should count as local RA.
- The RA rules should be modified to expand the conventional RA resources categories – commonly referred to as the maximum cumulative capacity (“MCC”) buckets -- from four categories to five categories in order to add demand response as an equivalent category to the supply-side resources.
- The issue of extending the incentive provisions of the standard capacity product to demand response resources should be deferred until the RA proceeding for compliance year 2013.

II. DEMAND RESPONSE RESOURCE DISPATCH BY LOCAL AREA

The Proposed Decision would adopt the ISO’s proposal that only those demand response resources that are capable of being dispatched by the ISO in the local area in

which the reliability need occurs should count as local RA. The ISO urges the Commission to retain this recommendation.

Modifying the CPUC's counting rules to allow demand response programs to count for local RA only when they are dispatchable is consistent with the fundamental purpose of the CPUC's RA program – to make RA capacity available when and where needed. As the Commission recognized in Decision D. 05-10-043, “it is pointless to design a regulatory system [RA program] that encourages investment in order to create capacity unless that capacity is actually available to the grid operator to serve load where it exists in day-ahead, hour-ahead, and real-time circumstances when and where capacity is needed.”¹

Counting demand response programs as RA capacity only if dispatchable is also important to the operation of the ISO grid. As the ISO explained in its reply comments, all resources provide energy to the grid at specific locations, which may be an intertie point, generator node, or within a sub-lap as is the case with ISO demand response products. The ISO utilizes a full network model that considers the impact of the energy injections and load take outs at thousands of points on the ISO controlled grid, and enables the ISO to balance loads and resources and ensure feasible dispatch. If demand response programs were permitted to make energy available wherever the resource is located on the grid, rather than at specific points, the balance would not be obtained, which could lead to incremental congestion and increased costs for consumers.

If demand response resources are not dispatchable, there would be a cost to disrupt all customers on a demand response program when only a minority of the

¹ Decision D.05-10-042 (October 27, 2005), p. 10.

customers on that program are actually needed to respond. Disruption can be economically inefficient, and result in customer and societal costs, such as lost productivity, that could exceed a utility direct program costs and the long-term cost to get demand response to conform and operate more equivalent to a point resource, available when and where needed.

In addition, allowing demand response programs to count for local RA only when they are dispatchable will help ensure that retail, event-based, demand response programs are making the transition necessary to fully integrate into the ISO's wholesale electricity markets. As the ISO has stated in previous comments in this proceeding, the ISO intends to extend the incentive provisions of the standard capacity product to apply to the availability of demand response resources. Retail demand response programs will need to be configured to operate in the ISO markets under these incentive provisions. Those retail demand response programs that cannot be configured to operate under the standard capacity product will not meet the requirements to be RA capacity under the ISO tariff since the ISO tariff does not extend beyond wholesale products to retail demand response products.

For these reasons, the ISO supports the recommendation in the Proposed Decision to modify the counting rules to require demand response resources to be locally dispatchable. The ISO also agrees with the clarification in the Proposed Decision that dispatchability means that investor owner utility ("IOU") demand response programs should be capable of being dispatched in a local area by the IOU at the ISO's direction. The clarification though could be taken one step further to make it very clear that, in order for a demand response resource to be useable RA capacity, it must be

capable of being dispatched by the IOU at the ISO's direction and appropriately integrated into the ISO markets. The ISO suggests that this point be incorporated into the Proposed Decision in ordering paragraph 1(a), as follows:

Retail demand response resources are required to be dispatchable locally by the investor owned utility as the scheduling coordinator for the resources and at the ISO's direction, for integration into ISO markets, in order to receive local Resource Adequacy credits, starting in the 2013 Resource Adequacy year. (revision underlined).

III. MAXIMUM CUMULATIVE CAPACITY

The Proposed Decision recommends that the RA rules be modified to expand the conventional RA resources categories from four categories to five categories in order to add demand response as an equivalent category to the supply-side resources. The recommendation is consistent with the ISO's proposal in this proceeding and should be adopted.

As explained in the ISO's comments, whether the bucket is existing or new, the important factor is that demand response be treated the same as supply-side resources for RA capacity counting purposes. In no event should demand response resources be taken off the top of the monthly or annual RA requirement for a load serving entity. Under the existing approach, neither the monthly nor annual RA filings contain any detailed information for the over 2,000 MW of demand response resources claimed by load serving entities. In contrast, the ISO receives detailed information on supply-side resources in the RA filings, including LSE Capacity Contract Identifier, Scheduling Resource ID, RA Capacity (MW), Zonal Location, Local Area, Capacity Effective Start Date, Capacity Effective End Date, the Minimum Hours of Availability in the Compliance Month/Year, and the MCC Bucket Classification. Receiving the same level of

information for demand response resources in the monthly RA filings as for supply-side resources will allow the ISO to more accurately model and manage these resources in ISO markets and systems. This will be a further step toward the full integration of demand response resources.

In addition, counting demand resources on the supply side will establish a structure to enable competitive solicitation, procurement, and RA showing of demand response resources by load serving entities. This structure should facilitate the development of a more competitive demand response market and the transition of retail demand response programs into the wholesale electricity market, which will improve the ability of retail demand response programs to meet the RA capacity requirements under the ISO tariff.

IV. INCORPORATION OF STANDARD CAPACITY PRODUCT RULES FOR DEMAND RESPONSE RESOURCES

The Proposed Decision correctly defers the issue of extending the incentive provisions of the standard capacity product to demand response resources until the RA proceeding for compliance year 2013. The ISO currently plans to conduct a stakeholder initiative during 2012 to consider extending the standard capacity product to demand response that is RA capacity, with a target implementation date of January 1, 2013. Until this stakeholder initiative is complete and the ISO has amended its tariff to apply the standard capacity product provisions to demand response, it would be premature for the CPUC to consider incorporation the change into the RA rules.

V. CONCLUSION

The ISO respectfully requests that the CPUC issue an order consistent with the ISO's comments.

Respectfully submitted,

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