

**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
(Filed September 19, 2013)

**NOTICE OF EX PARTE COMMUNICATION BY
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

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June 8, 2015

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Pursuant to Article 8 of the California Public Utilities Commission (Commission) Rules of Practice and Procedure, the California Independent System Operator Corporation (CAISO) hereby files this notice of the following oral and written ex parte communication with Matthew Tisdale, advisor to Commissioner Florio.

On June 4, 2015 from approximately 11:35 a.m. to 12:00 p.m., representatives of the CAISO met with Mr. Mr. Tisdale. The meeting was held at the Commission offices in San Francisco, California. Present for the CAISO were John Goodin, Regulatory Policy Manager; Ali Miremadi, Manager-Operations Policy; and Jordan Pinjuv, Counsel. Heather Sanders, Director of Regulatory Affairs, also participated by telephone.

During this meeting, Mr. Goodin discussed the development of "hard triggers" for the dispatch of load-modifying demand response. Mr. Goodin discussed the expected dispatch based on the CAISO's proposed hard triggers and he explained the effort underway at the California Energy Commission to pull historic load and resource adequacy data to assess the triggers. Mr. Goodin also noted that load and resource adequacy sensitivities are being conducted to understand the potential range and frequency of expected dispatch.

Mr. Goodin also discussed the default load adjustment mechanism. Mr. Goodin noted that the CAISO reached out to various Commission and non-Commission stakeholders regarding

the continuing need for the default load adjustment mechanism. Based on this outreach, several key stakeholders indicated that the termination of the default load adjustment mechanism would need to be accompanied by additional stakeholder process to address cost allocation concerns. Based on these inquiries, Ms. Sanders stated that the CAISO would be unable to pursue the simple termination of the default load adjustment given stakeholders would want to open up a broader cost allocation discussion.

The CAISO did not present any written materials during the course of this communication, but indicated to Mr. Tisdale that it would provide additional background regarding the default load adjustment in a separate email. This additional information regarding the default load adjustment was emailed to Mr. Tisdale on June 8, 2015 and is included as Attachment A to this notice.

Respectfully submitted,

By: /s/ Jordan Pinjuv

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Dated: June 8, 2015

ATTACHMENT A

From: Goodin, John
Sent: Monday, June 8, 2015 4:46 PM
To: Matthew Tisdale
Cc: Pinjuv, Jordan; Sanders, Heather
Subject: DR Default Load Adjustment Write-up

Matthew-

Thanks again for allowing time to meet last Thursday. As we discussed in our meeting, here is a brief write-up on the default load adjustment. If you have any questions, please let me know.

Regards,

John Goodin
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Enabling demand response – LSE Aggregation Limitations and the DLA

Stakeholders state that the inability to aggregate multiple LSEs into a single resource is a significant barrier

Stakeholders have communicated that this requirement adds administrative burden as well as performance risk and challenges in reaching the minimum ISO aggregation level of 100 kW.

The Default Load Adjustment requires the DR registration to be limited to a single LSE

The DLA represents the actual performance of the aggregate PDR and RDRR. The DLA is derived from the baseline calculation of all the meters that make up a PDR or RDRR. It is not a baseline calculation of groups of meters (by LSE or other categorization) that are then summed together. A baseline calculated on the aggregate resource is not the same as the baseline calculated on parts of that same resource and then summed together. This would produce a different “performance” result. Thus, each PDR or RDRR resource must be associated with a LSE to allocate a single DLA quantity to that LSE. If there were multiple LSEs in a PDR or RDRR, there would be no way to allocate the single DLA across multiple LSEs given you cannot deconstruct the aggregated baseline result.

Stakeholders have suggested the ISO perform a “sub-settlement” of the PDR or RDRR resource by LSE (versus by the aggregate resource) to allow LSE specific aggregations. This may assist DRPs with meeting the minimum 100 kW resource size limitation; however, this settlement approach introduces additional complexity and does not reduce a DRP’s performance risk. For instance, LSE service accounts would still have to be registered and resource performance would still be calculated by LSE so that the LSE-specific DLA could be applied. This construct changes the ISO settlement paradigm of settling resources, to settling sub-resources, which introduces complexity and effort (e.g., more meter data to manage) and is infeasible at this time.

The Default Load Adjustment addresses wholesale market double payment

The ISO Proxy Demand Resource and Reliability Demand Response Resource apply the DLA to address the wholesale double payment concern, and its inception and construct recognized that the Local Regulatory Authority (e.g. CPUC) is the proper entity to address any under-collection on the retail side of a demand response transaction. The DLA is applied to the LSE’s uninstructed energy settlement to ensure that the ISO only pays the DRP for the real-time instructed energy from curtailing load, and that the ISO does not also pay the LSE for uninstructed energy for energy purchased but not consumed. The DLA design mechanism eliminates the need for the ISO to design an uplift charge or add to settlement neutrality. Instead, the DLA effectively deferred to the Local Regulatory Authority to decide if the difference between the LSE’s cost of procuring energy to serve load and the revenue lost from retail sales due to third parties/customers selling that LSE procured energy back into the wholesale market was worth resettlement and cost recovery in the retail market.

However, per FERC Order No. 745, the DLA is only applied below the Net Benefits Test (NBT)

FERC Order No. 745 (July 2011) requires the ISO to implement a net benefits test that establishes a price threshold above which demand response resource bids are deemed cost effective and worth the “double-payment” in the wholesale market, i.e. the net benefits from demand response outweigh the added costs. The ISO performs a monthly analysis based on historical real-time price data from the previous year’s supply curve to identify the price threshold estimate where customer net benefits occur.

- The Net Benefits Test (NBT) will be performed monthly (by the 15th day) to establish the static monthly threshold price to be used in the next trade month.
- The threshold price is determined by the point where the net benefits of dispatching DR exceeds the marginal cost of DR.
- The net benefit of dispatching DR is estimated based on a representative aggregated supply curve for the trade month.

Additionally, since the NBT is a real time test, application of the DLA creates settlement uncertainty

A resource can receive an award in the day-ahead market at or above the NBT threshold. However, the NBT is based on real-time price relative to the NBT, not on day-ahead bids or prices. Thus, a PDR or RDRR resource is net beneficial when it is tested and clears against the ISO’s monthly real-time on-peak and off-peak NBT price, not on a Day-ahead NBT price. Therefore, the DLA can apply in real-time even when the day-ahead award is above the threshold price.

The ISO filing in CPUC in R.07-01-041 provides extensive text and examples pertaining to this settlement topic.

http://www.caiso.com/Documents/Dec8_2010Initialresponse-remainingdirectparticipatingissues_phaseIV_part2_docketR_07-01-041_OIRdemandresponse_.pdf