

**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 REPLY
COMMENTS REGARDING ADMINISTRATIVE LAW JUDGE'S RULING
REQUESTING RESPONSES TO QUESTIONS IN REGARD TO 2018 AND
BEYOND DEMAND RESPONSE PROGRAMS**

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March 25, 2016

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I. Introduction

The California Independent System Operator Corporation (CAISO) files these reply comments regarding Administrative Law Judge (ALJ) Hymes' March 4, 2016 Ruling regarding demand response program applications for 2018 and beyond.¹

II. CAISO Reply Comments

A. The Commission should adopt Scenario B, the Supplemental Application Scenario, as a reasonable compromise between the objectives of the Commission and the parties to this proceeding.

Scenario A, the Delay Scenario, is the least desirable solution because it conflicts with the Commission's stated intention to integrate supply-side demand response resources into the CAISO without additional delay. As the Commission clearly stated in Decision (D.) 15-11-042

the Commission intends to integrate demand response resources into the CAISO market. Tactics to delay this process are not acceptable. The Commission has taken a deliberative approach to demand response integration since 2008. It is now time to move ahead. We conclude that the transition currently underway will benefit both the public and stakeholders

¹ These reply comments primarily focus on the opening responses filed by Converge, Inc., CPower, EnerNOC, Inc., EnergyHub and Johnson Controls (the Joint Demand Response Parties), OhmConnect, Inc. (OhmConnect), the Office of Ratepayer Advocates (ORA) and Southern California Edison Company (SCE).

through an increased ability to rely on demand response in meeting the State's resource needs. Further delay is not in the public interests. As such, our focus will now turn to a commitment to demand response integration into the CAISO market by 2018.

Scenario A would unduly and unnecessarily delay the January 1, 2018 cut-over date for full bifurcation. Some parties have already seized upon this as an opportunity to propose a one year delay and extension of bridge funding for all of 2018 to provide funding certainty.² The CAISO understands that because of the delay in the Demand Response Potential Study results, there is no perfect solution for moving forward, but the Commission's stated principle is that further delay is not acceptable. The CAISO concurs and therefore supports Scenario B, the Supplemental Application Scenario, as the most reasonable way forward. Scenario B balances the Commission's desire to move forward without delay, yet does not impose potentially burdensome requirements for the utilities to file two separate applications and for the Commission to issue two distinct decisions.

B. The Commission must consider potential uncertainty to both ratepayers and developers before it adopts longer budget cycles.

The Joint Demand Response Parties recommend that the Commission should resume the three-year demand response program and budget cycles, and, once the transition rules are more stable, should move to longer, more durable cycles of 5-10 years.³ The Joint Demand Response Parties also highlight the uncertainty that 10-year program budget cycles may create for demand response providers, specifically noting that

the state is not only modifying the IOUs' DR Programs, it is integrating DR into the wholesale market, looking for flexible resources to integrate renewable resources, moving toward implementing time-of-use rates to be more consistent with grid conditions, decreasing greenhouse gas emissions by increasing renewable generation by 50% by 2030, and doubling energy

² The Joint Demand Response Parties' comments at p.7 state "[t]he Joint DR Parties appreciate this approach [Scenario A] because it seeks to consider the full outcome of the Potential Study prior to a further decision. However, because of this delay, it requires a continuation of the 2017 bridge year. Since the Commission will need to extend 2017 bridge funding into 2018, it would be more reasonable to authorize funding for all of 2018 to provide customers, aggregators, and IOUs with funding certainty."

³ Joint Demand Response Parties' Opening Comments, p. 14.

efficiency. Any one of these elements can change the need for and type of demand response solution.⁴

To mitigate developer uncertainties, the Joint Demand Response Parties request that the Commission “maintain flexibility to accommodate changes in commitments, payments, etc.”⁵ The CAISO notes that uncertainty is a risk shared by all resource developers, including developers of storage and other preferred resources. Even developers of gas-fired generation face similar, if not the same uncertainties, such as determining whether a particular resource will be needed in the future given increasing numbers of renewable resources, the effect of the potential doubling of energy efficiency, and the impact a flattening load shape will have if new policies, technologies, and rate designs are adopted and effective. Any one of these changes to the market represents potential downside risk for developers and could fundamentally alter the long-term need for particular energy supply solutions.

These types of uncertainties and the ability to contractually mitigate risks are reasons why the Commission should be cautious about longer-term resource procurement through utility-administered programs because this framework is potentially a less effective mechanism for mitigating uncertainty and risks compared to negotiated bilateral contracts. Negotiated procurement contracts are well-established vehicles to negotiate and share risks between the buyer and seller.

The fundamental question for the Commission is whether to transition demand response and distributed energy resource (DER) procurement to a competitive solicitation framework, as is being considered in the IDER proceeding, or to retain the existing utility-administered program framework. The challenge with the utility-administered program framework is that the “certainty” longer budget and program cycles provide resource and program developers comes at the expense of ratepayers who will largely bear the risks of uncertainty. For these reasons, the Commission should carefully weigh the impacts of these risks in deciding whether long budget cycles are in the best interest of ratepayers.

⁴ *Id.*, p. 15.

⁵ *Id.*, p. 15.

C. The Investor-Owned Utilities (IOUs) should be the gateway to enabling a future competitive demand response and DER market.

It is unclear how SCE's opening response in this proceeding comports with its January 26, 2016 comments in the distribution resource plan (DRP) proceeding. In this proceeding, SCE supports a proactive role for the utilities, stating that "[t]he IOUs are well-suited to continue to be the *lead* administrator for demand response program administration, but third parties *may* play an important role."⁶ (emphasis added.) In contrast, in its DRP comments SCE states that its "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."⁷ SCE goes on to explain that competitive solicitations are in the best interest of customers because:

1. Competitive solicitations generally provide greater value to customers than administratively set prices;
2. Bidders can customize their prices so that they are better assured they have a precise revenue streams needed to support their projects;
3. 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; and
4. Relying on market signals avoids disputes over hypothetical modeling assumptions, such as which DER portfolios to model and the estimated DER costs.⁸

The CAISO strongly supports the latter position, relying on competitive solicitations to procure DER products and services from the market in a technology agnostic manner. The CAISO does not support the IOUs continuing as the lead administrator for the foreseeable future, shepherding and guiding the market's demand response activity through utility-administered demand response programs and through limited third-party solicitations.

Under a competitive procurement framework, the IOU will have two essential roles in the development and enablement of demand response and DER. First, the IOU is

⁶ SCE Opening Response, p. 6. (emphasis added)

⁷ See SCE's January 26, 2016 Comments on Administrative Law Judge's Ruling Inviting Locational Net Benefits Proposals and Noticing Workshop (R.14-08-013), pp. 14-15.

⁸ *Id.*

a procurement agent that helps develop demand response and DER by procuring energy and capacity services to meet its load-serving responsibilities and the needs of the grid. As a procurement agent, the IOU performs these duties utilizing a least-cost, best fit principle. Best fit criteria include satisfying the needs of the transmission and distribution grid while fulfilling state energy and environmental policy goals. Second, the IOU is a utility distribution company. The utility distribution company is uniquely positioned to enable demand response, DER, and other energy and capacity solutions to compete and operate fairly, safely, and reliably on the distribution system. In these two roles, the IOU would perform such enabling functions as:

Procurement Agent:

- Procuring cost-effective resources, including demand response and DER, through competitive solicitations that address specific grid and load serving needs;
- Setting resource performance requirements;
- Validating and enforcing resource performance; and
- Complying with regulatory and reporting requirements.

Utility Distribution Company:

- Providing accurate and timely meter data;
- Offering meter data management services;
- Providing appropriate reliability coordination at the transmission and distribution interface;
- Timely publishing and updating integrated capacity analyses;
- Planning and communicating utility distribution company needs where solutions could come through specific demand response and DER procurement;
- Offering telemetry services;
- Providing service account information, validation, and tools such as:
 - Customer and service account information;
 - Customer sub-LAP mapping and related information; and
 - Customer circuit/feeder mapping and related information.
- Conducting marketing, customer education and outreach campaigns regarding third-party demand response opportunities and upcoming procurement solicitations; and
- Compliance and regulatory reporting on its demand response and DER enablement activities.

The IOUs are essential and well-positioned to lower barriers and promote the growth of demand response and DER in these two specific roles as an enabler, not a

competitor. However, outside of these two roles, especially where the IOU is administratively developing and procuring demand response, the IOUs become direct competitors to third parties.

The IOUs' competitive presence could potentially impede the progress of a competitive market and the development of a diverse set of demand response and DER providers. The Joint Demand Response Parties reinforce this concern, stating that

[c]ompeting with an IOU that has a large portion of the market share at the inception of a new market creates unique challenges. As such, the primary means for aggregators to develop any reasonable market share is to attract customers away from an IOU program. To do so, the aggregators have to undertake additional efforts to identify and qualify customers to be DR resources.⁹

If the utilities are going to continue to participate in the procurement of demand response, they should do so through an independent arm and compete head to head with other competitive providers. The utility roles of a UDC/LSE, are still important functions for managing resources and will require a certain level of engagement going forward, in the management, not in the solicitation and procurement of DR. The CAISO encourages the Commission to transition the role of the IOU from a gatekeeper to a gateway for enabling robust and competitive demand response and DER markets. The CAISO encourages the Commission to take the lead and develop a robust and competitive solicitation framework for demand response.

Finally, the CAISO concurs with ORA's observation that "there needs to be a transition period before utility-centric demand response programs could be fully transitioned to a competitive procurement environment like DRAM."¹⁰ Affording a reasonable transition period should provide a glide path to a competitive procurement framework for supply-side demand response and DER.

⁹ Joint Demand Response Parties' Opening Response, p. 12.

¹⁰ ORA Opening Response, p. 7.

III. Conclusion

The CAISO encourages the Commission to provide a clear vision for what the IOUs' future role will be in sourcing and securing supply-side demand response and DER in the Commission's upcoming guidance for utility demand response applications for 2018 and beyond. As described herein, the CAISO encourages the Commission follow a competitive procurement path and promote the two distinct and essential roles for the IOUs—as the procurement agent and the utility distribution company.

Respectfully submitted,

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