

**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

**REPLY COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION**

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Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), the California Independent System Operator Corporation (CAISO) files these reply comments regarding the proposed and alternate *Decision Addressing the Valuation of Load Modifying Demand Response and Demand Response Cost-Effectiveness Protocols* (Proposed Decisions).

I. RESPONSES TO PARTY COMMENTS

- A. *The CAISO’s Valuation Proposal Was the Sole Valuation Proposal Included in the May 1, 2015 Load Modifying Resource Demand Response Valuation Working Group Report (Valuation Working Group Report)*

The Joint Parties incorrectly claim “that the PD and the APD err in failing to adopt the Alternate Proposal contained within the May 1, 2015 Report submitted by the Valuation Working Group.”¹ The Joint Parties state in their opening comments that “[t]he alternative hard trigger proposal in the Valuation Working Group Report is reasonable and should be adopted for application to event-based DR programs.”² However, there is no “Alternative Proposal” included in the May 1, 2015 Report as the Joint Parties claim. The CAISO was the only party to sponsor a formal and comprehensive load modifying valuation proposal included in the Valuation Working Group Report.

Contrary to the Joint Parties claims, the Valuation Working Group Report states as follows:

¹ Joint Parties at p. 3

² Joint Parties at p. 2

“There was not consensus on the more narrow issues of:

- How “hard triggers” for LMR DR programs should be set for System RA/LTPP
- How LMR DR should be incorporated into the RA, LTPP and TPP processes so that their value is properly captured”³

In fact, the working group did not develop any alternative to the CAISO’s proposal and only the Valuation Working Group Report only contained a final recommendation by *certain* working group members to seek more time to conduct a study on possible “hard triggers.” The Valuation Working Group Report states:

“The [Generation Capacity] Subgroup recommendations allow for time for two studies by some parties to move the valuation effort forward. The first would be a study on possible ‘hard’ triggers for specific LMR DR programs and their impacts to the DR program calls. This study could provide the necessary quantitative basis for selecting “hard” triggers for the LMR DR programs. The second study would be on the value of LMR DR for Local capacity. This study could provide the necessary factual information to inform future recommendations on if, and if so, how LMR DR should address local reliability requirements.”⁴ (Emphasis added)

This statement is a request for more time to conduct additional studies to inform possibly a future valuation proposal and does not consist of an Alternative Proposal. Unlike the CAISO proposal, this statement does not address how the Commission could value load-modifying demand response.

In the June 19, 2015 Administrative Law Judge (ALJ) confirmed that the CAISO was the only party that presented a valuation proposal. The ALJ’s Ruling states:

“The Valuation Working Group proposes to create hard triggers but explained that there was no consensus on how to establish the hard triggers. The working group requests additional time to develop and perform a study on hard triggers. Alternatively, a smaller subset of the Valuation Working Group included in the report a proposal on how to set the hard triggers [CAISO’s proposal]. Ordering Paragraph 4.f.ii states that ‘given the necessity to vet and integrate the results, all finalized Valuation Working Group conclusions must be filed to the Commission in a compliance report by May 1, 2015.’ The expectation by the Commission was that the May 1, 2015 report would be a final report. This Ruling will therefore move forward with a focus on the CAISO hard trigger proposal. Hence, the role of the Valuation Working Group is considered to be complete

³ Load Modifying Resource Demand Response Valuation Working Group Compliance Report, May 1, 2015, at p. 5 of 145

⁴ Load Modifying Resource Demand Response Valuation Working Group Compliance Report, May 1, 2015, at p. 6 of 145.

and the request to perform the hard trigger study, as well as the study on the ability of load modifying demand response to avoid local capacity, is denied.”⁵

The CAISO proposal was the only fully formed hard trigger proposal the Commission could consider because no other alternative was provided in the Valuation Working Group Report. There are no grounds to claim that the Proposed Decisions are in error because they fail to consider a non-existent “Alternative Proposal.”

B. The Commission Should Not Review Other Hard Trigger Proposals

The Commission should not expend additional time and resources having parties explore development of another hard trigger proposal. Parties in the Valuation Working Group had ample opportunity to produce a load modifying demand response valuation proposal, but were unable to do so in a meaningful way after months of meetings and discussions. The CAISO was the only party to submit a comprehensive proposal, which based the hard trigger on the principle that the triggers must beneficially affect the metrics that drive capacity requirements. Opower and the Joint Parties reference vague hard triggers previously discussed in the Valuation Working Group, such as system load and reliability/emergency condition triggers, which are the same triggers in use today, without offering evidence or demonstrating how such triggers demonstrably avoid generation capacity.⁶ There is no reason to believe that the parties could develop an alternative load-modifying demand response valuation proposal if provided more time or another opportunity.

Additionally, the Proposed Decisions emphasize adherence to, and furtherance of, the Commission’s bifurcation principle. Any hard trigger proposal for load-modifying event based demand response will instead result in “trifurcation” by authorizing a third category of demand response that has some of the attributes of a supply resource, but is treated as a load modifying resource. The Proposed Decisions rightly preserve the Commission’s bifurcation principle and policy.

⁵ ADMINISTRATIVE LAW JUDGE’S RULING REQUESTING COMMENTS REGARDING THE COST-EFFECTIVENESS PROTOCOLS AND THE VALUATION WORKING GROUP REPORT, R.13-09-011, June 19, 2015, pp. 9-10.

⁶ Opower Comments at p. 5.

C. Allowing Partially Integrated Resources to Receive Full Resource Adequacy Capacity Credit Is Counter to the Commission's Bifurcation Policy.

Southern California Edison Company (SCE) states that “[i]f the [Proposed Decision]s are not modified to defer to the [resource adequacy] proceeding to make determinations on capacity valuation, they should be modified to clarify that programs that are partially integrated but behave as if they were fully integrated should receive full capacity credit.”⁷ The Alternate Proposed Decision expressly states that “[i]n this Decision we solidify the Commission’s commitment to the integration of demand response into the California Independent System Operator (CAISO) market.”⁸ The Commission has not wavered in its support for the market integration of demand response. Allow “partially integrated” resources to receive full capacity credit undermines the Commission’s bifurcation principle and dilute the integration efforts the Commission set out to accomplish through this decision.

D. The Proposed Decisions Correctly Conclude that Event-Based Load Modifying Demand Response Has No Capacity Value and There Are No Issues to Defer to The Resource Adequacy Proceeding.

The Proposed Decisions definitively conclude event-based load modifying demand response has no capacity value. Based on this fundamental finding, such resources have no resource adequacy or avoided generation capacity value. There is a logical disconnect in deferring final resolution of this issue to the resource adequacy proceeding because the issue has been decided.

SCE states that

[if] the Commission adopts the position that no event based [load modifying demand response] should receive [resource adequacy] capacity value, SCE prefers the [Proposed Decision]’s deferral to the [resource adequacy] proceeding for determination of future rules over the [Alternative Proposed Decision]’s firm declaration. Deferring to the [resource adequacy] proceeding appropriately places the issue in a proceeding with a more extensive record on [resource adequacy] rules and credit.⁹

⁷ SCE Comments at p. 3.

⁸ Alternate Proposed Decision at p. 2.

⁹ SCE at p. 4.

If the Proposed Decisions concluded that there was capacity value for non-CAISO integrated event-based load modifying demand response, then it would be logical to defer counting resource adequacy to that proceeding. However, the fact that both Proposed Decisions find “no capacity value” obviates this need. In other words, there is no “counting” issue that needs to be resolved in the resource adequacy proceeding. After establishing that there is no capacity value for event-based load modifying resource, the only question is when will this be recognized in the resource adequacy proceedings space. The Alternative Proposed Decision affirmatively answered this question by implementing the new resource adequacy valuation on January 1, 2017.

E. A Utility’s Self-Directed Demand Response Actions Do Not Impute Capacity Value.

San Diego Gas & Electric Company (SDG&E) claims that “[g]iven an appropriate opportunity to present evidence for Commission consideration, SDG&E would be able to demonstrate that when an LMDR event is called, SDG&E load impact data demonstrates that there are demand reductions during the event. The demand reductions that occur during a DR event imply that a level of capacity is being provided through these LMDR resources.”¹⁰

SDG&E’s monthly and annual load impact reports already demonstrate that when SDG&E dispatches its non-CAISO integrated demand response programs, load reductions occur. No further evidence is required. This statement obfuscates the Commission’s key “capacity value” concern by taking an unsubstantiated leap that self-directed load reductions, by their nature, provide system capacity value and related cost savings.

Individual utility-directed demand response that is dispatched separate and distinct from the CAISO’s centralized security constrained unit commitment and economic dispatch process must be subject to more rigor and analytics to support any claim that it demonstrably reduces system capacity needs and system energy costs. Demonstrating system benefits, especially system capacity benefits, differs greatly from demonstrating load drop. Such resources must answer additional questions. For example, what is the amount by which the self-directed demand reductions reduce the CAISO’s system coincident peak demand, and therefore, future procurement needs? Did these demand reductions reduce the need for local capacity? Have these dispatches actually reduced system energy costs and congestion? To the best of the

¹⁰ SDG&E at p. 10.

CAISO's knowledge, no party has presented data or evidence of this nature in this proceeding. Accordingly, based on the record herein, the Proposed Decisions, based on substantial evidence and the facts in the record, correctly concluded that non-CAISO integrated event-based load modifying demand response has no capacity value.

Respectfully submitted

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