

**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

**OPENING 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 comments regarding the proposed and alternate *Decision Addressing the Valuation of Load Modifying Demand Response and Demand Response Cost-Effectiveness Protocols* (Proposed Decisions). The CAISO generally supports both Proposed Decisions, but supports the Alternate Proposed Decision’s January 1, 2017 effective date for the new capacity valuation of event-based load modifying demand response.

I. Introduction

The CAISO supports the conclusion in both Proposed Decisions that load-modifying demand response has no capacity value. This conclusion supports the spirit of the Commission’s previous bifurcation decision¹ by clearly distinguishing (1) event-based demand response as a supply resource, and (2) non-event based demand response as a load modifying resource. The Proposed Decisions recognize that a “hard trigger” regime for load-modifying demand response would inappropriately create a distinct third category of demand response, namely event-based load modifying demand response. The Proposed Decisions are clear that creating such a third category of demand response runs counter to the principle of bifurcation and the Commission’s policy direction regarding the need to incorporate event-based demand response into the CAISO market.² Furthermore, the Proposed Decisions recognize that the values and incentives the hard trigger proposal attempted to estimate and replicate were already “in part the purpose of the CAISO markets and a fundamental reason the Commission favored integration of the resource

¹ Decision 14-03-026.

² Proposed Decisions, p. 15 (“the Commission elects to maintain focus on integration of the resource into CAISO markets where dispatch functions will be a transparent function of supply and demand.”)

[demand response] into the CAISO markets.”³ Although the CAISO was the sponsor of the only hard trigger proposal presented in this proceeding, the CAISO completely agrees with the Proposed Decisions that any such proposal is “suboptimal” when compared to integration in the CAISO markets.

II. Discussion

A. The Alternate Proposed Decision Properly Modifies The Capacity Value of Demand Response Resources

The Alternate Proposed Decision differs from the Proposed Decision only in its forward-looking treatment of the capacity value of demand response. Specifically, the Alternate Proposed Decision provides that “effective January 1, 2017, capacity value shall be attributed only to demand response if the resource is integrated into the wholesale market or a non-event based program embedded in the CEC’s unmanaged/base case load forecasts.”⁴ The CAISO fully supports the Alternate Proposed Decision on this point. A bright line determination of capacity value for event-based programs outside of the CAISO markets is necessary to bring closure to this long and contentious policy debate. Deferring further action to the resource adequacy proceeding will only result in additional unnecessary debate and delay the Commission’s stated effort to integrate demand resources into the CAISO market.⁵ The Commission should decide, not defer, demand response policy in this proceeding. As poignantly expressed in the Alternate Proposed Decision, “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.” Moving forward now will allow the CAISO and demand response market participants to focus their energies on developing the necessary tools to effectively integrate demand response into the CAISO markets.

Finally, adopting Commissioner Florio’s Alternate Proposed Decision better aligns with and supports the Commission’s timeline for the purposeful transition to full demand response bifurcation by 2018. Decisive action is necessary to meet this goal. By squarely addressing the

³ Proposed Decisions, p. 15.

⁴ Alternate Proposed Decision, pp. 17-18. In contrast, the Proposed Decision defers this determination to the resource adequacy proceeding. “However, for now, without a valid and substantive methodology, event-based load modifying demand response has no capacity value. We provide this conclusion to the resource adequacy proceeding for its determination of future rules for resource adequacy requirements and credit.”

⁵ Alternate Proposed Decision, p. 18.

going-forward capacity value for demand response, the Commission may be able to shift the focus of the parties from an unnecessarily protracted policy debate to a collaborative effort to meet the Commission’s stated policy goals.

B. Comments Regarding the Cost Effectiveness Protocols – B Factor.

The CAISO notes that the Proposed Decisions adopt a B factor of 100% for demand response resources that have a notification time of 30 minutes or less. The Proposed Decisions state:

“As noted by SDG&E, if the CAISO is willing to give full resource adequacy value to demand response that meets other requirements and can be dispatched in 20 minutes, the Commission should do the same. Furthermore, as previously pointed out, there are generation resources that cannot be started up in less than 30 minutes and we agree that demand response should not be required to perform at a higher standard than a combustion turbine. Hence, we adopt the B Factor values in Table 3 below on an interim basis.”⁶

This statement appears to conclude that resource adequacy value is based solely on a resource’s dispatch time, while ignoring the relevant concept of availability. Keeping demand response on a level-playing field means comparing its dispatch time and availability, among other characteristics, with other resources. For example, resources that are limited in their availability, such as traditional demand response, can maintain resource adequacy value by being capable of fast response to CAISO dispatch instructions. Fast responding resources with limited availability can capture value by offering contingency reserves and having the ability to respond to contingencies in local capacity areas. On the other hand, resources that are not capable of fast response but that have sufficient energy available for frequent dispatch on a pre-contingency basis can be used to ensure the operator can meet minimum online commitment constraints or reposition the system within 30 minutes after the first contingency occurs. Both dispatch time and availability provide value.

Unlike traditional demand response, a slower responding resource with greater availability can be pre-dispatched in preparation and anticipation for a contingency and to enforce minimum online commitment constraints. For example, long start thermal units contribute resource adequacy value in this manner. If demand response resources have availability to be repeatedly pre-dispatched, then “long start” demand response resources can

⁶ Alternate Proposed Decision, p. 28.

also capture local capacity value because the CAISO can pre-dispatch them pre-contingency, rather than having to rely on them as strictly fast responding, post-contingency resources.

If a demand response resource cannot be reasonably pre-dispatched to satisfy applicable reliability criteria and minimum online commitment constraints because of its limited availability, then it must be capable of fast response for the CAISO to consider it as a local capacity resource in the Local Capacity Technical Study.⁷ CAISO tariff Section 40.3 and its sub-sections outline the local capacity area resource requirements for scheduling coordinators for load serving entities. Section 40.3.1.1 of the CAISO tariff specifically provides that the “CAISO will apply those methods for resolving Contingencies considered appropriate for the performance level that corresponds to a particular studied Contingency, as provided in NERC Reliability Standards TPL-001-0, TPL-002-0, TPL-003-0, and TPL-004-0, as augmented by CAISO Reliability Criteria in accordance with the Transmission Control Agreement and Section 24.2.1.” The tariff section further requires that the maximum time allowed for Operator manual readjustment “to take all actions necessary to prepare the system for the next Contingency” should not be more than 30 minutes.

The CAISO planning standards also impose a 30 minute manual readjustment requirement. As a parameter of the local Capacity Technical Study, the CAISO must therefore assume that as the system operator, it will have sufficient time to: (1) make an informed assessment of system conditions after a contingency has occurred; (2) identify available resources and make prudent decisions about the most effective system re-dispatch; (3) manually readjust the system within safe operating limits after a first Contingency to be prepared for the next Contingency, and (4) allow sufficient time for resources to ramp and respond according to the operator’s re-dispatch; this all must be accomplished within 30 minutes. Local Capacity Area Resources can meet this requirement by either (1) responding with sufficient speed, allowing the CAISO, as operator, the necessary time to assess and re-dispatch resources to effectively reposition the system within 30 minutes after the first Contingency, or (2) have sufficient energy available for frequent dispatch on a pre-Contingency basis to ensure the CAISO can reposition the system to meet applicable reliability criteria, minimum online commitment constraints, and be capable of responding within 30 minutes after the first Contingency occurs. Accordingly, as a

⁷ “Local Capacity Technical Study” and other terms capitalized, but not defined herein, are defined in the CAISO tariff.

parameter of the Local Capacity Technical Study, the CAISO assumes that non-pre-dispatchable Local Capacity Area Resources in category (1) will be available within 20 minutes so CAISO operators and the resources have a reasonable opportunity to perform the necessary tasks and enable the CAISO to reposition the system within the 30 minutes in accordance with applicable reliability standards.

The CAISO understands that the B factor in the cost effectiveness protocols is a general “notification time” value; however, if the intent is that a significant portion of the B factor comes from capturing local capacity value, then it must recognize that a resource with very limited availability that cannot be reasonably pre-dispatched must be fast responding, *i.e.*, within 20 minutes or less, for the CAISO to include this resource in its Local Capacity Technical Study analysis when testing to ensure that no deficiency exists in a local capacity area. A non-pre-dispatchable limited availability resource that is not available within 20 minutes could not capture this B factor value as it relates to local capacity value. In addition, it must satisfy other resource adequacy resource counting criteria as specified by the Commission.

Respectfully submitted

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