BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338-E) for Approval of De mand Response P rograms, Goals, and B udgets for 2009-2011	Application 08-06-001 (filed June 2, 2008)
Application of San Diego Gas & Electric Company (U 902M) for Approval of De mand Response P rograms, Goals, and B udgets for 2009-2011	Application 08-06-002 (Filed June 2, 2008)
Application of Pacific Gas and Electric Company for Approval of the De mand Response P rograms, Goals, and B udgets for 2009-2011 (U 39-E)	Application 08-06-003 (Filed June 2, 2008)

OPENING BRIEF OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Dated: January 28, 2008

CALIFORNIA INDE PENDENT SYSTE M OPERATOR CORPORATION

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OPENING BRIEF OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

The California Independent System Operator Corporation ("CAISO") submits this Opening Brief pertaining to the Calif ornia Public Utilitie s Comm ission's ("Commission") consideration of the App lications of Southern California Edison Company ("SCE"); San Diego Gas & Electri c Company ("SDG&E"), and Pacific Gas and Electric Company ("PG&E").

I. THE CAIS O SUPPORTS THE IOU APPLICATION PILOT P ROJECT COMPONENTS AS THE IOUS HAVE P RESENTED THEM IN THEIR AMENDED APPLICATIONS

The CAISO supports the utility application pilot program components set forth in the utility amended applications. CAISO is also appreciative of the comments m ade by Assigned Commissioner Chong at the outset of the hearings, emphasizing the importance of aligning demand response resources with wholesale markets: I also wanted to place a high priority on continuing to integrate dem and response into the ISO's market. I have had m eetings with the ISO. We have had som e discussions about how i mportant this is, and I want to emphasize to the parties here today that their interests need to be m et as we consider these programs.¹

II. THE CAIS O DOES NOT SUPP ORT TURN'S RECO MMENDATION TO SCALE BACK PG&E'S PILOTS IN PG&E'S APPLICATION

1. C&I Intermittent Resource Management Pilot

In the CAISO's view, the Comm ission should not accept TURN's invitation to scale back the C&I Intermittent Resource Management Pilot. This is a pilot program promoting the integration of intermittent renewable resources. In the direct testimony of TURN Witness Jeffrey Nahigian, Mr. Nahigian testified that the Commission should not authorize funding for PG&E pilots to integrate renewable resources. He argued that:

PG&E has had large amounts of wind re sources in its system for decades and the ISO is cur rently a lready integ rating PG&E's existing wind resources into its grid-without demand response.²

It is true that there are ongoing efforts at the CAISO, and elsewhere, to study integration of increasing levels of intermittent resources, like wind. However, this does not mean that devoting additional resources to the subject is unnecessary or costineffective. To the contrary, the efforts in this regard must be expanded, as state policy has now moved the renewable portfolio standard ("RPS") requirement upwards, to 33%. This shift in the RPS standard has been recently memorialized in Governor Schwarzenegger's Executive Order issued November 17, 2008³

The need for concentrated effort to study integration of intermittent renewables is underscored by the fact that the variability of wind genera tion energy production from a

¹ Opening Comments of Assigned Commissioner Rachelle Chong, Tr at 4-5.

² TURN/Nahigian, Exhibit 418, at 18. The CAISO notes that the Exhibit List for the January 6-9 hearings mistakenly describes Exhibit 418 only as the Errata to Mr. Nahigian's testimony.

³ See the Governor's Executive Order S-14-08, issued November 17, 2008, which creates a 33% renewable target by 2020. T he E xecutive O rder can be a ccessed on t he G overnor's Web pa ge at <u>http://gov.ca.gov/executive-order/11072/</u> (accessed Jan 27, 2008).

relatively small number of units is usually m uch less than the variab ility of system load changes. The CAISO is accustomed to dealing with daily load forecast errors, changes in hourly load forecasts and the unpredictabil ity of loads. However, under a 33% RPS requirement, as the amount of wind generation in an area increases, the impact from these intermittent resources will reach a point where the variability of their output is gre ater than the variability of load. As the installed capacity from wind generation increases, the amount of variability will incr ease non-linearly. Indeed, the CAISO has reported in our Integration of Renewable Res ources Report that "an increase [of the RPS] to 33% could more than double the integration problems and costs."⁴

We reiterate that this is not the tim e for the Commission to back off support for pilots that can help inform and resolve the issues inherent in the state's efforts to integrate far greater amounts of i ntermittent renewable resources in to California's energy supply portfolio. In the CAISO's opinion, the cost of taking actions now to resolve the technical issues associated with understanding how the dem and-side can contribute to the solution to the g reater in tegration of intermittent renewable resources will be f ar less than the hefty cost and consequences of the go-sl ow approach that is im plicit in TURN's recommendations.

2. The Commission Should Not Eliminate Funding and Approval o f the SmartACTM Ancillary Services Pilot Program

TURN also advocates the elimination of PG&E's SmartAC[™] Ancillary Services Pilot, as duplicative of SCE's Participating Load Pilot Project. The CAISO disagrees on this point as well, and the CAISO s upports the approval and fundi ng of the Sm artAC[™] program.

⁴ See th e C AISO's In tegration of Ren ewable Resou rces Rep ort, November 20 07, Pg . 14 found at: <u>http://www.caiso.com/1ca5/1ca5a7a026270.pdf</u> (accessed Jan. 27, 2009).

TURN addresses the Sm artAC[™] program in the direct testim ony of witness Gayatri Schilberg, who discusses the IOU Participating Load Pilots. Am ong the summary recomm endations listed at th e beginning of her wr itten testim ony, Ms. Schilberg included, as the first recommendation, elimination of the SmartAC[™] program.

PG&E's Smart AC AS Pilot shou ld be denied, as any benefits from this pilot are duplicative of and seconda ry to E dison's similar residential ancillary services (AS) pilot.⁵

Ms. Schilberg further stated that

In TURN's view, this pilot is similar enough to that undertaken by SC E that the additional information it may provide is not necessary at this time and only of secondary importance.⁶

There was som e discussion of the PG&E and SCE pilo ts in TURN's cros s examination of SCE. TURN asked the SCE pa nel if the panelists were aware of whether coordinating efforts regarding the IOU pilots had occurred with PG&E and the panelists could not an swer in the affir mative.⁷ The CAISO im agines that TURN will cite to this cross examination questioning as support for its argument to eliminate SmartACTM.

However, TURN's cross-exam ination of the PG&E panel of witness es, which occurred on a different hearing day, elicited that inter-IOU coordination did in fact take place. Th is was explained by P G&E witness Osm ond Sezgen, who explain ed that coordination occurred through regular m eetings, and a half-day event that was held on August 20, 2008 at PG&E's offices, a meeting in which most parties and Energy Division staff participated.⁸

In the cross-exam ination immediately following, the PG&E panel explained that the PG&E pilot would test different comm unication technologies and different end-use

⁵ TURN/Schilberg, Exhibit 420, at 1.

⁶ TURN/Schilberg, Exhibit 420, at 2.

⁷ Tr at 80, lines 26 to. 81, lines 18.

⁸ Tr at 402, line 14 to 403, lines 19.

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device thermostats.⁹ This is one reason to m aintain the P G&E program along with the SCE residential AS program . However, ther e is yet an other reas on. It is not only important to learn the mechanics of how to dispatch DR, but, also, on a deeper level, how dispatch will be accom plished within the uni que environ ments of the distinct IOU's service territories.

It is important to bear in mind that each IOU environment is unique, because each was constructed in the independent, vertic ally-integrated era, prior to statewide integration of the IOU t ransmission systems under a single s ystems operator. Each IOU service territory differs from the other, in that the electric al and information system s of each IOU are based on different architectural underpinnings. Accordingly, it must be the case that PG&E and SCE, respectively, have different custom er inform ation system s, built on d ifferent legacy systems. F urthermore, the s ame must be true f or their energy management systems, their meter data systems, and their custom er billing and settlement systems.

The CAISO contends that, rather than be ing d uplicative, the two pilots can b e complimentary, and that running the pilots together can serve to identify and highlight the conditions for one IOU environm ent that are uni quely different from the other, so as to help to identify what aspects of demand response architecture and inf rastructure can be standardized across IOUs and what must be cu stomized. If the work is done on a single track, then the risk is greater that IO U-specific conditions may not be identified up front, with the result that the pilot implementation may not be readily transferable to a different utility environment.

3. CAISO Views TURN's "Simpler Way" Ap proach as Inconsisten t with State and Federal Policy on Demand Response

⁹ Id, p. 403, line 20 to 405, line 12.

In the direct testimony of TURN witness Gayatri Schilberg, TURN also advocates postponing utility application ac tivities directed toward ev aluating the integration of demand response into ancillary services a nd residual unit commit ment (known as RUC). Ms. Schilbe rg indic ates that, in stead, it bes t for now to take a sim pler approach, one which only uses dem and resources as a tool to dim inish the load forecast. ¹⁰ However, TURN's suggested app roach is not in line with either f ederal or s tate policy rega rding what efforts should be made to develop demand response.

FERC has recently signaled that it is federal policy that organized markets should make concentrated efforts to m ove demand response toward a condition of com parable treatment for supply side and non-supply side resources in competitive markets. In this regard, in October, the FERC issued its Or der 719 which directed RTOs and ISOs to undertake efforts to enable greater direct participation by Aggregators of Retail Customer load in their wholesale markets:

In this Final Rule, the Comm ission adopts the NOPR proposal to require each RTO or ISO to accept bids from demand response resources, on a basis comparable to any other resources, for an cillary services that are acquired in a competitive b idding process if the dem and response resources: (1) are technically capable of providing the ancillary service and meet the necessary technical requirements; and (2) submit a bid under the generally-applicable bidding rules a t or b elow the market-clear ing price, unless the laws or regulations of the relevant electric retail regulatory authority do not permit a retail custom er to participate. All accepted bids would receive the market-clearing price.¹¹

See also Paragraphs 154 and 155 which state that:

¹⁰ TURN/Schilberg, Exhibit 420, at.6.

¹¹October 17, 2008 Order, FERC Docket Nos. RM07-19-000 and AD07-7-000 [Wholesale Competition in Regions with Organized Electric Markets], 125 F.E.R.C. P 61,071 [hereafter, "FERC Order 719"] at P 47.

^{154.} The Commission adopts in this Final Ru le the proposed rule to require RTOs and ISOs to amend their market rules as necessary to permit an ARC to bid demand response on behalf of retail customers directly into the RTO's or ISO's organized markets, unless the laws or regulations of the relevant electric retail regulatory authority do not permit a retail customer to participate. We find that allowing an ARC to act as an intermediary for many small retail loads that cannot individually participate in the organized market would reduce a barrier to demand response.

FERC Order 719 also requires the ISOs to assess, through pilot projects or other mechanisms, the technical feasibility and value to the market of using ancillary services from small demand response units.¹²

As to state policy, the Co mmission has acknowledged that the topic of de mand response sp ills ov er in to related to pic areas, s uch as reso urce adequacy and scarcity pricing.¹³ On the subject of resou rce adequacy, the Commission has clearly s tated that

FERC Order 719 als o directs the RTOs and ISOs to study and report to FERC on w hether future reforms are necessary to eliminate barriers to demand response in organized markets. (FERC Order 719 at P 274.) ¹² Paragraph 97:

The Commission will require RTOs and ISOs, in cooperation with their customers and other stakeholders, to perform an assessment, through pilot projects or other mechanisms, of the technical feasibility and value to the market of smaller demand response resources providing ancillary serv ices, within one year from the effective date of the Final Rule, including whether (a nd how) sm aller dem and response resources c an rel iably and d economically provide operating reserves and report their findings to the C ommission. The choice be tween either a pilot program or other mechanisms in this assessment is appropriately left to the d iscretion of the eR TO or IS O and i ts cust omers and other stakeholders. Ad ditional issues rai sed he re by c ommenters, s uch as the need for measurement and v erification stan dards and a definition of what con stitutes a "sm all demand response resource" should be addressed in the assessments.

¹³ For ease of reference, the CAISO offers the following definition for scarcity pricing, taken from the CAISO's Final Proposal on Reserve Scarcity Pricing Design:

Scarcity Pricing is a mechanism that lets the market prices rise automatically, potentially beyond an y ap plicable bid cap, when there is a shortage of supply in the market. Following general practice in other ISO markets, shortage is defined as the inability by the California ISO (CAISO) to procure sufficient regulation or operating reserves through market mechanisms. Properly designed scarcity prices should en hance short-term and long-term market efficien cy and reliability because they stimulate Deman d Response,

^{155.} We are mindful of the comments that allowing ARCs to bid into the wholesale energy market wi thout t he rel evant el ectric ret ail regul atory aut hority's expres s permission may have unintended consequences, such as placing an undue burden on the relevant electric retail regulatory authority. In the NOPR, the Commission so ught to address the concerns of state and local retail regulatory entities by proposing to require that an ARC may bid retail load reduction into an RTO or ISO regional market unless the laws or regulations of the relevant electric retail regulatory authority do not permit a retail customer to participate in this activity. The Commission's intent was not to interfere with the operation of successful demand response programs, place an undue burde n on state and local retail regulatory entities, or to raise n ew concerns regarding federal and state jurisdiction, as some commenters argue. As described above, we clarify that we will not require a retail electric reg ulatory authority to make any showing or tak e any action in compliance with this rule. Rather, this rule requires an RTO or ISO to accept a bid from less the laws or regulations of the relevant electric retail an ARC, un regulatory authority do not permit the customers aggregated in the bid to participate.

RA is about "laying a foundation for the requir ed infrastructure investment and assuring that capacity is available when and where need ed."¹⁴ This level of precision does not come about if dem and response is used merely as a mechanism to lower the forecast; doing this may bring about generalized systems benefit, but the cause and effect are very attenuated, so using dem and response as only a forecast-low ering mechanism promotes resource adequacy only indirectly, at best.

As to the interrelation of demand response and scarcity pricing, the Commission's position is articulated in a posting on the Commission's own Web page:

The CPUC is urging CAISO to implem ent a dem and re sponse program that incorporates price responsive dem and simultaneously with scarcity pricing. The CPUC ratio nale is that providing scar city pricing without perm itting dem and resources to mitigate h igh scarc ity prices im pedes a prim ary goal of scarc ity pricing: *to allow end users to participate in CAISO markets as energy prices rise*. The CPUC will continue to p articipate in CAISO's scarci ty pricing design, support changes as fitting, and file co mments on CAISO's scarcity pricing proposal until it is finalized (emphasis added.)¹⁵

While on the surface, choosing a "sim pler way" m ay appe ar to be a low-cost approach, in the end, it could likely prove costly, if we fail to invest now to try to address and search for solution s to resolve the com plex challenges that are part of the work in enabling demand response to serve as a useful resource to meet two critical needs: i) the energy growth need (both the "peakiness" of California's demand and its growth), and ii) the reliability need, which on the near horiz on, requires integrating greater am ounts of intermittent renewable resources.

http://www.cpuc.ca.gov/PUC/energy/wholesale/01a_cawholesale/MRTU/04_scarcity.htm (accessed Jan 27, 2009).

draw supply from outside of the CAISO control area, create in centives for availability of generation during peak l oad periods, promote l ong-term cont racting, a nd at tract investment in new generation resources.

CAISO Fin al Propo sal o n Reserv e Scarcity Pricing Design, dated July 15, 2008, Ex ecutive Summary, at p. 4 (T his document can be found at <u>http://www.caiso.com/2005/2005b86d5690.pdf</u> (accessed Jan. 27, 2009).)

 ¹⁴ R.05-12-013, ALJ Ruling on Track 2 Proposals, February 29, 2007, p.4 (emphasis added.)
¹⁵ CPUC Web Page at

For these reasons, the Commission should not adopt TURN's recommendation to disallow authorization f or funding of activities intended to evaluate the integration of demand response into ancilla ry services and RUC in favor of TURN's further recommendation that it is best f or now sim ply to use dem and resources as a tool to diminish the load forecast.

III. THE COMMISSION SHOULD BE CIRCUMSPE CT IN GIVING ANY RECOGINITION T HAT ANY APP ROVED P ROGRAM HAS AN AVOIDED T & D BENEFIT

Finally, the CAISO wishes to point out certain item s in the record pertaining to the right place, right certainty criteria of the Cost Effectiveness Consensus Framework to show that the concept and the reality application are missing each other. We point this out not to ask the Comm ission to disa llow a partic ular line item or f eature of the utility demand response applications to be decided upon in these consolidated proceedings, but, rather, to highlight, for purpos es of refinem ent, the cost effectiveness work to be completed in R07-01-041 and future efforts.

We note that PG&E did not seek, any "credit" for avoid ed T&D costs in its application. Had PG&E done so, it is likely that the CAISO would have objected, given the tenuousness arguments that would need to be made to demonstrate that the utility has realized avoided T&D costs through a particular demand response program resource.¹⁶

The CAISO believes that the fact that PG &E did not undertake the "big effort" to articulate avoided T&D costs in its application is an ind icia of the f act that the "right place, right certainty " criter is cannot easily be m et, gi ven the curren t state and

¹⁶ SDG&E's testimony provides perspective and details on avoided T&D costs and additional background on the "right time, right size, righ t place and physical assurance" criteria. (Direct Testimony of Kevin C. McKinley, pp 7-9 [Section B. Transmission and Di stribution Avoided Costs], Volume VI, Chapter IV of Testimony of SDG&E.

configuration of dem and response resources. ¹⁷ In the CAISO's view, the c riteria still suffers from two vulnerabilities:

- 1) There is no "feedback loop" between a) the theoretical T &D cost avoidance effect which a utility m ay claim when the u tility m akes its case that the program is cost effective and ii) the actual deferral/avoidance of som e actual investment by the utility that would have been under taken but for the dem and response resource which the utility has now integrated into its transm ission and distribution solutions; and
- 2) Even if the utility is able to dem onstrate that the demand response resource is situated in a desi rable area (i.e. in a tran smission-constrained local cap acity area), in the majority of cases, the u tility cannot dem onstrate that it has a mechanism to dispatch this r esource to affect a resolution of a particular constraint;

Thus the CAISO respectfully refers the Commission back to a point it made at the onset of this proceeding, in the CAISO's September 29, 2008 Response to the utilities' amended applications. The CAISO noted that the Commission should insist that avoided costs be real. W e urged that cost should only be considered as "A voided T&D costs" if the utility could dem onstrate that the M W quantities a ssociated with spec ific DR programs were explicitly incorporated into utility grid/distribution planning studies, and investments in transform ers or other grid/d istribution related equi pment can actually b e "deferred" as a result of a DR program 's MW contribution. As we not ed, this treats the

¹⁷ The CAISO is referring to this discussion by PG&E Witness Denn is Kean e, answering ALJ Hecht's question about why PG&E did not claim avoided costs or apply the right place, right certainty criteria, and he explained that the activities that would be necessary to accomplish this would be a "big effort." (Tr at 539-540.)

"right place", "right certainty" criteria¹⁸ as a screening device to determine if the asserted avoidance cost is a real benefit, or not. This is a logical step in the evolution of de mand response resources as a non-generation supply resource. If we applied the dem and response right place, right certainty criteria to a generation asset, that asset would meet the criteria handily even if it were greatly underutilized. When analyzing a generation solution, the generation asset is considered to have limited avoided T&D value, unless the utility can demonstrate that the resource meaningfully displaces, defers, or reinforces a particular segment of the transmission/distribution system.

In this light, we turn to the recor d. W hen PG&E presented its witnesses on January 9 in support of PG&E's applica tion, ALJ Hecht questioned PG&E W itness Dennis Keane about the appropriateness of applying the transm ission and distribution avoided cost to any particular demand response program and noted that PG&E had in fact only provided a sensitivity analysis for r this component, unlike SCE and SDG&E .¹⁹ Witness Keane responded that PG&E took the is approach because PG &E did not have sufficient geographically-specific load information to apply the right place, right certainty criteria.²⁰ W itness Keane tes tified that "...g iven the time constraints in putting it together, we [PG&E] could come up with the data [at a la ter date in time]. It would require knowing where each DR program participant is loc ated. And I'm assuming we [PG&E] have that data. It's just a pretty big effort"²¹

The CAISO agrees with statem ent by PG&E 's witness that a pplying the "right place" and "right certainty" criteria²² would be difficult in PG&E's case, especially given

¹⁸ SDG&E's testimony provides perspective and details on avoided T&D costs and additional background on the "right time, right size, righ t place and physical assurance" criteria. (Direct Testim ony of Kevin C. McKinley, pp 7-9 [Section B. Transmission and Di stribution Avoided Costs], Volume VI, Chapter IV of Testimony of SDG&E.

¹⁹ The testimony of PG&E Witness Keane is in Section F (1)(c)(4)(j) of PG&E's Amended Application (Exhibit 201), at page 3-29.

²⁰ RT, Vol. 4 (January 9 hearing date), at p. 539 line 5 to line 19.

²¹ RT, Vol. 4 (January 9 hearing date), at p. 539 line 20 to line 24

²² R .07-01-041, At tachment A, April 4, 2008- Draft De mand R esponse C ost E ffectiveness P rotocols, Section 2.E.b Avoided costs of supplying electricity

that the criterion requires the utility to identity dem and r esponse program resources located in areas where the specific DR progr am is capable of address ing local delivery capacity need. As a point of fact, seven out of ten CAISIO identified local capacity areas are with in PG&E's ser vice terr itory.²³ This differs from SCE, which has two local capacity areas and SDG&E, for which the service territory and local capacity area are one in the same.

In sum, the recognition of an avoided T&D cost benefit may be justifiable, but not until dem and response program impacts can be mapped and relied upon, down at the premise, circuit, feeder and/or substation level.

IV. CONCLUSION

The CAISO supports the IOU pilot project components that are set forth the in utilities' respective am ended applica tions. The CAISO does not support the modifications recommended by TURN, which are to eliminate the PG &E SmartACTM ancillary services pilot and to adopt a "s impler" approach to dem and response, which uses demand response only to diminish the load forecast.

The criteria "right place" and "right certainty" are intended to limit the application of the avoided T&D costs to programs that (1) are located in are as where load growth would result in a n eed for add itional delivery in frastructure but for d emand-side potential; (2) are located in areas whe re the specific DR program is capable of addressi ng loca l delivery capacity needs; (3) have sufficient certainty of providing long-term reduction that the risk of incurring after-the-fact retrofit/replacement costs is modest, and (4) can be relied upon for local T&D equipment loading relief.

²³ The CAIS O's Local Capacity 2009 LOC AL CAPACITY TECHNICAL ANALYSIS FINAL REPORT AND STUDY RESULTS can be found at: <u>http://www.caiso.com/1fba/1fbace9b2d170.pdf</u>.

Dated: January 28, 2009

Respectf ully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on January 28, 2009. I served, on the Service List for

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OPENING BRIEF OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Executed on January 28, 2009 at Folsom, California Anna

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