

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Integrate
and Refine Procurement Policies and
Consider Long-Term Procurement Plans.

Rulemaking 12-03-014
(Filed March 22, 2012)

**REPLY COMMENTS OF ENERNOC, INC. ON WORKSHOP TOPICS
IDENTIFIED IN ALJ'S RULING OF SEPTEMBER 14, 2012**

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October 23, 2012

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EnerNOC, Inc. (EnerNOC) respectfully submits these Reply Comments on the Workshop Topics identified in the Administrative Law Judge's (ALJ's) Ruling issued in this proceeding on September 14, 2012 (September 14 ALJ's Ruling). These Reply Comments are filed and served pursuant to the Commission's Rules of Practice and Procedure, the September 14 ALJ's Ruling, and the ALJ's Ruling issued by electronic mail to the service list on October 4, 2012, extending the time to file these Reply Comments to October 23, 2012.

**I.
CAISO CONTINUES TO UNDERMINE THE COMMISSION'S
LOADING ORDER BY RAISING THE BAR FOR DEMAND RESPONSE
PARTICIPATION RELATIVE TO OTHER RESOURCES.**

The California Independent System Operator (CAISO) continues to advocate that preferred resources, in general, and demand response (DR) resources, in particular, be held to a higher standard in order to displace the need for generation in the local capacity area (LCA). Thus, from CAISO's perspective, these resources must address "all identified needs (system, local, flexibility)" and be in "compliance with applicable reliability standards."¹ Unless DR resources can be directly dispatched by the CAISO within 10 minutes, so as to respond to a local contingency event, CAISO does not believe these resources can be relied upon as a local capacity resource.

¹ CAISO Workshop Comments, at p. 11.

Yet, if these criteria were used as the basis of determining whether conventional generation could count as a local capacity resource, it would eliminate a substantial amount of existing capacity from meeting the local capacity requirement (LCR). Not all existing generation can respond within 10 minutes and yet CAISO is not suggesting that all existing generation should not count toward the (LCR). In fact, the CAISO itself states: “Establishing minimum flexibility characteristics for all acquired resources is not necessary since not every resource in a portfolio must be flexible.”² Further, even those resources that are “flexible” do not have to be dispatched within 10 minutes to provide value to the CAISO as a continuous ramping resource.³

Nevertheless, in CAISO’s view, DR must be dispatchable by the CAISO within 10 minutes, in order to respond to a 30-minute contingency event, so as to provide any value at all as a LCA resource. The CAISO sees no value in a whole range of DR capabilities, including as an emergency resource, with advance notice requirements.

CAISO’s ongoing, repeated distrust of DR resources unless they can be directly dispatched by the CAISO within 10 minutes is in stark contrast with the way in which DR is utilized, and valued, in the largest DR market in the United States, the Pennsylvania-New Jersey-Maryland (PJM) regional transmission organization (RTO). Nearly 14,000 MW of DR capacity resources are available in PJM that can either be available for a limited number of hours in the summer months, with advance notification, for an extended number of hours in the summer months, with advance notification or for an annual period with advance notification. These resources can be dispatched for purposes of meeting a system or local need.

Significantly, none of these capacity resources are required to be dispatched within 10 minutes. For PJM, providing advance notification to DR resources does *not* eliminate the value

² CAISO Workshop Comments, at p. 7.

³ R.11-10-023 (RA) CAISO 2013 Flexible Capacity Procurement Requirement- Supplemental Information to Proposal (March 2, 2012).

of these resources to the system. Further, while PJM does provide for DR resources to participate in its synchronous reserves market, up to a maximum of 25%, and be dispatched upon 10 minutes notification, the DR capacity that participates in this synchronous reserves market is a fraction of the capacity that is available to PJM.

It is clear that the CAISO's attempt to diminish the "value" of DR in its wholesale market is designed to limit DR participation. First, the CAISO sees no value for DR resources in the LCA, even if these resources are capable of being dispatched on a LCA or sub-LAP basis. It is of note that, while CAISO takes this position here, it has in fact lobbied the Commission to adopt a local dispatch requirement in order for DR resources to qualify for local resource adequacy in the current and preceding resource adequacy dockets (R.09-10-032; R.11-10-023). In response, the Commission adopted this requirement effective in 2013 in Decision (D.) 11-10-003.⁴ Yet, now the CAISO states that this local dispatchability requirement, even if met, will only qualify DR for meeting a "system" requirement and not a local capacity requirement (LCR).

Thus, according to the CAISO, a DR resource's local dispatchability is now not enough for that purpose and such resources must, in addition, be able to respond to a contingency event upon a 10-minute dispatch instruction from the CAISO. While the Commission will contemplate the need for flexible capacity resources in R.11-10-023 (RA), not all of the flexible capacity product definitions require a resource to respond within 10-minutes.

Further, the CAISO has not developed any flexible capacity product with DR in mind. In order for DR to "respond to a CAISO dispatch instruction within 10-minutes," which is generally referred to as an ancillary service, there are certain barriers to broad DR participation in CAISO's markets that would need to be addressed. First, if CAISO wants to send an automated

⁴ D.11-10-003, Ordering Paragraph 1.a., at p. 34.

signal directly to customers, the customers themselves would need to be automated. At present, there are a small percentage of utility customers with that capability.

In addition, the current metering requirement in order to participate in CAISO's markets is for the resource to have telemetry, the same type of metering equipment used to provide measurement of power plant generation. That type of metering equipment is cost prohibitive for all but the very largest customers in California and, in this era of smart measurement equipment, unnecessary. In this regard, there is no requirement for telemetry in order to participate in PJM, the Midwest ISO, New York ISO (NYISO) or ISO-New England (ISO-NE), unless the resource is providing regulation. CAISO is poised to address this barrier; but, at present, it exists.

Lastly, DR can only provide non-spinning reserves in the Western Electric Coordinating Council (WECC). In order for DR to provide the "higher value" ancillary services, WECC would have to recognize DR as an acceptable non-generation source of spinning reserves. In other words, there has to be some financial incentive for DR resources to provide these "high value" services and removal of existing barriers.

Even if all of these hurdles were overcome, it would not negate the value that DR provides in blunting the peaks and "curbing" the ramping requirements for other generating resources. EnerNOC has *never* stated in this proceeding that DR would replace *every* megawatt of generating need within the LCA. In fact, EnerNOC specifically recognized in its testimony that generation is likely to be needed to provide the full range of services that the CAISO is seeking. However, DR can certainly offset a portion of that need. This very reasoned and reasonable position put forward by EnerNOC has been opposed, stridently, at every turn by CAISO.

CAISO's position is simply not reasonable, not consistent with current trends, policies, technology or uses of DR in other wholesale markets, and will seriously undermine the Commission's Loading Order policy. In these circumstances, the Commission should ensure that any decision it makes in Tracks 1 and/or 2 in this proceeding reinforces its Loading Order preferred resources and the value of those resources, in particular, DR, to meeting system *and* local area needs.

II.
**AN ALL-SOURCE RFO CAN ONLY OCCUR IF ALL REQUIREMENTS
ARE DEFINED FOR ALL RESOURCES; 20-YEAR DR CONTRACTS
THAT OCCUR 10-YEARS IN THE FUTURE ARE NOT PRACTICAL.**

EnerNOC agrees with San Diego Gas & Electric Company (SDG&E), Pacific Gas & Electric Company (PG&E), and the CAISO that a 20-year DR contract that would commence 10 years in the future is probably not a practical way of soliciting DR resources. It would place an extraordinary amount of risk on the aggregator because customers will not commit to participating in a program that commences 10-years into the future and continue for a 20-year term. There is probably not one customer today who could evaluate whether participation in such a program was in its best interest because it could not evaluate what alternatives it would have, what electricity prices would be, how rate structures will have changed much less what its business operations would be.

The manner in which DR services will be provided over the next several years is likely to change significantly due to the changing needs of the system as well as the technical capabilities to monitor and to alter load in real time. Therefore, as these transitions are occurring, the distant future state is not as certain.

It is EnerNOC's position that the "need" for generation resources should be reduced from what the CAISO has calculated to reflect growth of DR resources over this time and to develop

these DR resources over the period of time to make that projected growth a reality. In the meantime, DR resources can be competitively solicited, as they are today, to provide defined products, services and operational characteristics.

While EnerNOC agrees with CAISO regarding the 20-year contract term for DR, it does not share CAISO's contention that DR resources are lagging behind its needs because they are not competitively solicited. According to CAISO, "Developing preferred resources through largely non-competitive, programmatic cycles spurs little innovation or competition."

This claim is incorrect. The Commission, in D.12-04-045, permitted PG&E and SCE to renegotiate or to issue new requests for offer (RFO) for DR services for 2013 and 2014. Those RFOs were issued and resulted in a significant amount of locally, dispatchable DR resources, specifically in response to D.11-10-003, some of which can be called within 30 minutes. This was a competitive solicitation that produced cost-effective contracts, for which PG&E and SCE are seeking approval in their pending Applications (A.) 12-09-004 and A.12-09-007.

Now, however, the CAISO wants resources to provide flexible capacity attributes, none of which have been adopted by this Commission yet. No resource can bid to provide undefined products without understanding the operational obligation associated with winning the bid. While the CAISO may object to the current Commission process for soliciting DR resources, CAISO is also not in favor of a long-term DR RFO process.⁵ Yet, there is no market opportunity available for DR resources today either because the rules have not been fully implemented; barriers exist, as described above; or the economics do not support participation. When combined, if CAISO's position was adopted, there would be *no* opportunity for DR resources in California, except, perhaps, as a system resource, in the State.

⁵ CAISO Workshop Comments, at p. 9.

Finally, having reviewed SCE's Opening Comments, EnerNOC continues to have concerns with the approach advocated by SCE, for the reasons stated in EnerNOC's Opening Comments. While EnerNOC agrees with SCE that an RFO for DR resources for a 20-year contract commencing 10 years in the future is not a practical way to develop DR resources, EnerNOC does not agree with SCE that it has to "study" the effectiveness of DR resources within the local area to determine if they will be effective in meeting the local capacity requirement. SCE knows, or should know, where DR resources are located to determine the contribution toward effectively meeting the local capacity need. SCE demonstrated as much during the hearing.⁶ SCE goes on to discount the "relative" success of DR resources in the eastern markets as only providing a one-year commitment, three years in advance.⁷

However, that manner of resource solicitation is not limited to DR resources. That is the manner in which all resources are acquired-through a competitive auction for a one-year commitment, three years in advance. The fact is that 14,000 MW of DR successfully cleared in that auction process so as to provide capacity alongside other generating resources.

III. CONCLUSION

EnerNOC appreciates the opportunity to provide these Opening and Reply Comments on the Workshop Topics identified in the September 14 ALJ's Ruling. EnerNOC believes that the Opening Comments of other parties support the Commission taking the following actions, as recommended by EnerNOC in its Opening Comments as follows:

1. Reduce the total need amount determined by the CAISO in its once-through-cooling (OTC) study by the growth in preferred resources over the planning period. Recognize that over 1,200 MW of existing, dispatchable DR capacity exists in both the LA Basin and the Big

⁶ R.12-03-014 (LTPP) Track 1 Exhibit (Ex.) CEJA X SCE-003.

⁷ SCE Workshop Comments, at p. 22.

Creek/Ventura local capacity areas that could reduce the local need. Develop DR resources over the period where fossil generation resources are being built.

2. Define flexible attributes or characteristics and the need for these types of resources.
3. Define how preferred resources can participate in providing those flexible services.
4. Authorize an RFO for the “net” short position, considering growth in preferred resources, with the flexible attributes defined and participation by preferred resources in supplying those flexible attributes defined. Alternatively, direct the investor-owned utilities to set aside a percentage of the total net local resource need for an RFO for preferred resources.
5. Determine the means for evaluating bids, including bids from preferred resources.

Respectfully submitted,

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