

**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
(Filed September 19, 2013)

**COMMENTS OF
THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION ON
BRIDGE FUNDING AND THE STAFF PILOT PROPOSAL IN R.13-09-011**

The California Independent System Operator Corporation (the ISO) hereby files these comments in response to the set of questions regarding demand response program bridge funding and the staff pilot proposal in accordance with the Administrative Law Judge Ruling dated October 2, 2013.

I. INTRODUCTION

On September 25, 2013, the California Public Utilities Commission issued Rulemaking 13-09-011 to, among other things, enhance the role of demand response in meeting the State's resource planning needs and operational requirements. Of immediate concern, is how to maintain stability in the current demand response funding and procurement process while the Commission works to "... retool demand response to align with the grid's needs and enhance the role of demand response in our energy policy", and "[t]est the participation of demand response in the CAISO wholesale energy market through two pilot programs."¹ Specifically, the Commission is seeking direction from parties on the merit of bridge funding and the staff pilot proposal.

¹ DR OIR at p. 14 and Attachment A, p. 1, respectively.

II. ISO Response to Potential Bridge Year Funding and the Staff Pilot Proposal

The DR OIR requests that parties respond to six questions related to the prudence and method of bridge funding for year 2015 and the staff pilot proposal. The ISO responds below to the two questions that are most relevant to the ISO's concerns and interests.

- 1. Do you find it reasonable for the Commission to authorize SCE, SDG&E and PG&E a one-year bridge funding to allow current demand response programs to continue, as is, through 2015 while the Commission contemplates changes to the structure of the overall demand response program?**

The ISO supports the Commission extending the current demand response programs and their associated funding for one year while the Commission transitions to a competitive procurement model and establishes reasoned policies for the bifurcation of demand-side (load modifying) and supply-side demand response resources. Given the time and effort the utilities require to file a new application, and the fact that the Commission intends to establish a new direction and supporting policies for demand response, it makes sense to defer a new application that would simply promulgate existing demand response policies and programs.

- 2. Do you support the objectives of the staff proposal pilots? Please provide alternative suggestions for Utility pilots in 2015 if you do not.**
 - a. Customer response to time-of-use and critical peak pricing rates should not simply emphasize peak load reduction.**

Under the "summary" section in the staff proposal, the second goal related to time-of-use and critical peak pricing rates is to "increase customer awareness of peak hours." (at p. 1) The ISO would caution against focusing too heavily on this goal.

Over the past two years, the ISO has emphasized that, although meeting and managing peak load is important, the system is moving toward meeting and managing “net load.” Net load is the actual demand minus the output of intermittent resources such as wind and solar. The net load indicates that the “net peak load” can shift by several hours day-to-day, and the idea of conserving energy during the hours of noon to 6:00 PM could be counter-productive at certain times and under certain conditions. Traditional time-of-use rates to reduce traditional peak demand could actually exacerbate over-generation in the middle of the day, which is counter-intuitive in the context of historical system operations. The effects of growing amounts of intermittent energy are having a profound effect on how the grid will operate in the near future. Thus, the ISO cautions against promulgating messages and tariffs that focus solely on peak demand, while ignoring the new pending operational reality of “net load” and its effects. The messaging is more complex, but it is important that consumers begin to understand that the needs of the system are more dynamic than they once were; energy consumption at certain times could be as important as energy reduction at other times.

b. The ISO’s demand response models support the provision of ancillary services.

The staff proposal states that “[t]here are no mechanisms for DR to provide ancillary services,” and “... the supporting mechanisms are not currently in place to allow DR to provide these services.”² Contrary to these statements, the ISO’s Proxy Demand Resource model does allow for the provision of ancillary services. Currently, demand response is eligible to provide non-spinning reserves and will soon be eligible to provide spinning-reserves in 2014 under the ISO’s proxy demand resource model given FERC’s

² DR OIR, Attachment A, at p. 2.

approval in July 2013 of the *Regional Reliability Standard BAL-002-WECC-2 – Contingency Reserve* standard.³ Thus, there will be no prohibition under the ISO tariff or its market models for the demand response pilot projects to provide spinning and or non-spinning reserves in 2014.

c. Comments on PG&E’s and SCE’s IRM2 pilot projects

Overall, the ISO supports the objectives and metrics of PG&E’s and SCE’s IRM2 pilot projects and the advancement of demand response resources participating in the ISO market as proxy demand resources. The ISO’s proxy demand resource is a defined product in the ISO tariff, approved by FERC in 2010. As such, proxy demand resources adhere to certain tariff and business practice manual processes. Having helped develop the ISO’s proxy demand resource model, PG&E and SCE, as the primary pilot operators, are aware of these requirements, including the minimum proxy demand resource sizes for providing energy or ancillary services, telemetry requirements for ancillary service provision, and timelines to model proxy demand resources in the ISO’s network model. The IRM2 pilots present a unique opportunity to test and refine the ISO’s demand response system and associated business processes.

The ISO provides the following comments on the particular identified sections in the IRM2 staff proposal:

Specific objective and goals for the pilot

The ISO suggests adding the following items under this section of the proposal:

³ FERC approved the WECC Regional Reliability Standard BAL-002-WECC-2 – Contingency Reserve, which resolves the ability for demand response to provide spinning reserves in the WECC (which includes the ISO market). The relevant FERC decision can be found here: <https://www.ferc.gov/whats-new/comm-meet/2013/071813/E-8.pdf>

- To accurately forecast demand response capabilities on any given day or hour.
This will enhance the provider’s ability to submit accurate bids and schedules into the ISO market.
- To understand if and how demand response will scale- from kilowatts to gigawatts.
- What is the economic market potential for demand response to provide:
 - Energy
 - Day-ahead
 - Real-time imbalance energy
 - Ancillary services
 - Flexible capacity

The IRM2 pilots should make an assessment of the cost-effective market potential by the service types listed above. To inform California’s loading order policy, it is imperative that we understand how demand response scales from kilowatts to gigawatts for the different services required by the grid.

Standards and metrics

The following elements should be added to the standards and metrics for these pilots:

- How well did the resources perform relative to submitted bids/schedules?
- A measurement and comparison of DR’s impacts by season.
- A measurement and comparison of DR’s performance on weekends versus weekdays.

Strategy to identify and disseminate best practices and lessons learned

The staff proposal states that “[p]articipants, led [sic] by the IOUs, will conduct quarterly meetings with the Energy Division throughout the pilot period.”⁴ The ISO would suggest that these quarterly meetings be expanded to include participation by other parties interested in learning more about the pilots’ progress and successes or failures to date. These updates could help rapidly transfer knowledge to other interested parties and support the “training vehicle” purpose of these pilots.

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Respectfully submitted,

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⁴ DR OIR, Attachment A, at p. 7.