

**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

R.13-09-011
(Filed September 19, 2013)

**PREHEARING CONFERENCE STATEMENT OF
PACIFIC GAS AND ELECTRIC COMPANY (U 39 E)**

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Pacific Gas and Electric Company (PG&E) respectfully submits its pre-hearing statement on Rulemaking (R.) 13-09-011, Order Instituting Rulemaking to Enhance the Role of Demand Response in Meeting the State's Resource Planning Needs and Operational Requirements (Rulemaking), in response to the October 2, 2013 Administrative Law Judge's Ruling Calling for Prehearing Conference Statements (Ruling).

I. ADDITIONAL SCOPING ISSUES FOR COMMISSION CONSIDERATION IN THE RULEMAKING

As the Commission embarks on this two-year proceeding, it should not marginalize fundamental principles such as: 1) demand response (DR) programs' reliance on customer willingness to participate, 2) the importance that clearly defined benefits to ratepayers outweigh the cost of existing DR programs and the cost of developing new ones, and 3) providing a wide range of opportunities to attract participation by many customers. However, the Rulemaking appears to be focused on converting DR to a fast and flexible wholesale market resource while ignoring the importance of improving the existing retail DR programs.

The first and most immediate priority, other than approving the provisions of a bridge period for IOU DR programs, is to make changes to the existing retail DR program structure. These programs currently represent a vast majority of the DR in California; consequently, addressing key barriers to these programs will enable the IOUs to improve and grow them in the next budget application cycle. Once the Commission approves the improvements to retail DR

programs, it should devote its attention to the other issues within the scope of the Rulemaking. PG&E recommends that the following additional issues be covered in the Rulemaking

A. The Rulemaking should develop recommendations for how the CAISO can better integrate retail DR programs.

It is clear that one of the fundamental goals of the Commission in the Rulemaking is to increase the amount of DR that is integrated with the CAISO wholesale market. PG&E is generally supportive of this goal but cautions that the cost, effort and risk for demand response providers (DRP) and customers to bid into the CAISO market could be extremely high. Furthermore, this wholesale market focus by the Commission ignores the question of what more can be done to ensure that the CAISO integrates the IOUs' retail DR programs into their operational load forecasts. The IOUS have already made a great effort to enable the CAISO to better capture the benefits provided by the retail DR programs: most of the IOUs' DR programs are dispatchable by subLAP or LCA, and each IOU provides the CAISO and the Energy Division with daily reports on the amount of DR scheduled to be dispatched (including location) and what more is available to be dispatched. Yet despite these efforts, it appears that the CAISO still does not fully value these programs in its operational and planning forecasts. If there are steps that the CAISO can take to better integrate DR that is not bid into the wholesale market into its operations, these steps should be identified and explored. Better integrating retail DR programs into the CAISO's market operations will improve their utility and thus increase their value, a goal which all parties should support.

B. Changes to the DR cost effectiveness methodology are essential to ensuring that robust programs are developed for the next DR program cycle.

Decision (D.) 12-04-045 highlighted the need for revisions to the DR cost effectiveness methodology.^{1/} In the October 19, 2012 workshop on DR cost effectiveness, there was a general consensus that the following cost effectiveness issues must be considered in the next DR

^{1/} "Correcting the deficiencies will improve the Protocols for the future. We describe these deficiencies below and direct Commission Staff to hold workshopsto address and develop cures for the deficiencies.", D.1204-045, p.45.

rulemaking and how they could be resolved: 1) the methodology for calculating the A-factor, 2) the treatment of dual participation, 3) whether to use a portfolio versus program-level cost effectiveness, and 4) identifying how non-program specific costs should be addressed. Progress on these issues is needed now, and resolution of these questions should be a high priority in the Rulemaking.

C. Commission guidance on its next DR application is necessary by June 2014.

Although the Rulemaking will address the future structure of DR procurement, the Commission should provide explicit guidance to the IOUs about when and how they should submit their next DR program application. Assuming that the Commission will authorize a one-year bridge period, this guidance should be given no later than June 2014 to allow the IOUs time to develop their respective applications and file by January 2015, in a manner consistent with the discussion below on creating three tracks for this proceeding.

D. PG&E's 2012 DR programs should be assessed as SCE's and SDG&E's programs were before making any conclusions.

The general assessment of the capability of IOU DR programs in the Rulemaking appears to have been, to a large degree, influenced by the report developed by Commission staff (Staff) entitled, *Lessons Learned from the Summer 2012 Southern California Investor-Owned Utilities' Demand Response Programs May 1, 2013* (Report) in proceeding A.12-12-016 et al. PG&E notes that the Report did not include PG&E's DR programs within its scope, so it would be inappropriate for the Commission to make any judgments or conclusions that will impact all IOUs based on the Report. The Commission should develop a full evidentiary record to support its findings and orders with respect to PG&E and not just rely on the Report.

II. RECOMMENDED ISSUES FOR HEARINGS OR TESTIMONY

PG&E recommends that in the Rulemaking, the Commission develop an evidentiary record for the following key issues. As this proceeding progresses, there also may be a need to develop an evidentiary record for other issues, which cannot be identified yet.

A. Transitioning DR programs into supply-side resources must provide clear ratepayer benefits that justify the costs.

Based on the language throughout the September 19, 2013 Order Instituting Rulemaking (OIR), the Commission seems to have already determined that transitioning existing and new DR to “supply-side DR” is necessary. Practically all DR in California can likely be considered “demand-side” and is valuable and effective. Transitioning DR programs into supply-side resources should serve a clear purpose and provide net benefits to ratepayers, before the change occurs. The Rulemaking should address what benefits exist of transitioning DR programs to supply-side resources as well as the criteria that would need to be met in order to categorize a DR program as supply-side or demand-side, based on an evidentiary record.

B. The definition of, and need for, “fast” and “flexible” DR to aid in renewable integration should be determined before creating DR with these attributes.

Throughout the OIR, the Commission seems to have already determined that “fast and flexible DR” is necessary. Before the Commission decides that these and other attributes are necessary for DR, it should define “fast” and “flexible” attributes, and then determine when these types of DR are needed. The products will be in the CAISO market, so the definitions will need to be consistent with the CAISO’s definitions, too. PG&E recognizes that there will likely be a need for DR with these attributes, but if that need is not immediate, there is no need to rush the process by which DR resources with these attributes, once they are defined, are developed.

C. The necessity to support financing for DR must be found before developing a mechanism to provide it.

In the OIR, the Commission states that it should explore the need for credit enhancements to finance DR infrastructure. (OIR, p. 19, item 13.) Credit enhancements were approved by the Commission for energy efficiency projects in D.13-09-004 to address what the Commission has identified as barriers to financing energy efficiency improvements. (D.13-09-044, p. 2.) The proceeding in which D.13-09-044 was adopted did not address or explore whether there are any barriers to installing DR infrastructure and, if so, whether on-bill repayment (OBR) would help reduce barriers to DR financing. Given the complete lack of record on that issue, the

Rulemaking should address whether in fact there are barriers to financing DR infrastructure, an issue which to PG&E's knowledge has not been raised in prior DR proceedings. Only if there is a finding of a barrier, should the Commission address whether financing would be appropriate to address that barrier, and whether and to what extent limited credit enhancements could help address such a barrier. To the extent that financing is discussed, the Rulemaking should also address the appropriate funding source for DR financing and the impact of providing credit enhancements on DR portfolio cost-effectiveness.

If the Commission finds that OBR would help to remove a barrier, then PG&E recommends that it be addressed in a separate track of the Rulemaking due to the complexity of the issue.

III. PG&E RECOMMENDS DIVIDING THE RULEMAKING INTO THREE TRACKS

The issues within the preliminary scope of the Rulemaking are numerous and many are very complex. They can be organized into three separate tracks to ensure that the most time critical issues are addressed first. Creating three tracks will provide customers and other DR stakeholders the clarity and stability needed to continue to grow and enhance a cost-effective DR portfolio. PG&E provides a recommended breakdown of the three tracks and associated timeline.

Track 1 would consist of all issues associated with the Bridge Period. These issues will likely not be numerous or overly complex, so a bridge period decision should be possible by late Q1 2014. PG&E is concerned that a decision in Q2 2014 would distract from the other more substantive issues within the scope of the Rulemaking, so once the bridge period decision has been issued, the Commission can turn its full attention to them.

Track 2 would consist of all issues that need to be resolved in order for the IOUs to develop and file their next program applications (in January 2015, assuming a one-year bridge period), including Commission guidance for these applications. Track 2 issues would be 1) changes to cost effectiveness methodology and associated template, 2) Commission guidance on the IOUs' next DR program applications, 3) changes to dual participation rules, and 4) an assessment of PG&E's 2012 DR program performance. The IOUs' next application would be

for the 2016 – 2018 period, pending a reassessment by the Commission as the Track 3 issues are resolved. Under this approach, the IOUs’ would need a Commission decision on Track 2 issues by June 2014 so the IOUs can submit their applications by January 2015.

Track 3 would consist of all of the original 14 issues identified in the September 19, 2013 OIR as well as potential changes to CAISO processes to integrate retail DR programs, as recommended above. Because there would be many issues in Track 3, the Commission could address them in groups and issue multiple decisions on them. When these issues are decided, the DR programs could be revised in future applications to conform to these decisions. Addressing these issues in Track 3 will allow continuity and clarity for customers and other DR stakeholders, while the complex and potentially impactful decisions are made on these new features of DR.

The three tracks could be taken up sequentially or in a staggered manner. PG&E recommends the following procedural schedule for Track 1:

Action	Time
PHC Statements Due	October 14, 2013
Comments on 9/19/13 OIR	October 21, 2013
Pre-hearing Conference	October 24, 2013
Ruling for additional questions and draft scoping ruling	November 29, 2013
Responses due to 11/30 ruling	December 13, 2013
Final scoping memo	~January 15, 2014
Proposed decision on Bridge Period	~February 1, 2014
Final Bridge Period decision	~March 3, 2014

The Gantt chart below illustrates the relationship between the three tracks.



