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)

RESPONSE OF OLIVINE, INC TO FOUNDATIONAL QUESTIONS IN ORDER INSTITUTING RULEMAKING TO ENHANCE THE ROLE OF DEMAND RESPONSE IN MEETING THE STATE'S RESOURCE PLANNING NEEDS AND OPERATIONAL REQUIREMENTS

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I. Introduction

In accordance with the instructions in the Joint Assigned Commissioner and Administrative Law Judge Ruling and Scoping Memo issued by the Commission on November 14, 2013, Olivine, Inc. provides the following responses to the foundational questions raised therein. We welcome the opportunity to comment and appreciate the complexity of the issues surrounding this proceeding. Making fundamental changes to Demand Response in California is not a quick and easy effort and will require effort on all of the stakeholders and participants to achieve a new vision for California. Olivine is not vested in the integration of any or all programs into the wholesale market but is focused on the effective use of Distributed Energy Resources (DER) throughout California.

II. Bifurcation

a. Comments on Demand-side, Supply-side terminology

Any terms introduced will require time for adoption and may go through some evolution. However the terms demand-side and supply-side create some unnecessary confusion and potential for misrepresentation. It may be as simple as using a term such as load managing or load modifying DR to address the confusion, although the core of the issue is in defining the different categories. It is likely necessary to clarify the intentions and finalize definitions prior to solidifying the terms in order to gain full acceptance and use.

b. Potential Concerns with Bifurcation

Determining which programs are most compatible with the wholesale market is a complex and nuanced process that must take into account a multitude of programmatic and customer-specific details, balanced against the requirements of the various ISO market models and products. The work of assessing what metrics determine wholesale market compatible has really only recently begun and evaluating programs that were not designed for use in the wholesale market against requirements that are also relatively new is substantially more complex than it may appear on the surface. Having been directly involved in these types of evaluations Olivine has been immersed in the tactical issues surrounding the migration of existing programs and the realignments that include operational and infrastructure as well as policy. We developed an approach for assessing program compatibility with the wholesale market and it has become exceedingly clear to us that there are surprising inconsistencies such as a rate that is a good fit for wholesale integration or a Resource Adequacy qualified program that does not, without significant modifications.

Integrating an entire DR program can lead to effort wasted in incorporating groups of customers that are not, nor ever will be, a good fit for the requirements of the wholesale market. Performance is one of many metrics that must be analyzed before integrating a DR customer into the wholesale market. A DR participant that routinely does not perform, regardless of what program they participate in, would make a poor candidate for wholesale market integration since their unpredictability may translate into significant market risk for a Scheduling Coordinator (SC). Such non-performance exists across multiple programs. Relying too heavily on an approach that stresses all-or-nothing program integration without taking into account the deeper variables that make for wholesale market compatibility will lead to unnecessary effort and missed opportunities.

c. Balancing Customer & System Needs

It is critical that demand-side resources continue to reduce the resource adequacy requirements; however, there is an implication that supply-side resources only create value if they meet yet incomplete flexible resource adequacy requirements. Consistent with our position that existing programs may not integrate in an "all or nothing" fashion, we believe that there is inherent value to the integration of economic DR resources. For example, we may have load-modifying programs (e.g., the CBP), that are not capable of meeting the flexible resource adequacy requirements and yet they provide value to California by being bid into the ISO. We are concerned that the concept the bifurcation will keep such resources out of the market altogether. This gives us pause in supporting bifurcation as stated, perhaps there needs to be either a trifurcation or, at the very least, two subcategories of supply-side DR.

III. Cost-Allocation

Applicability of the different cost allocation methodologies are dependent upon decision regarding bifurcation and the specifics of program integration into the wholesale market.

IV. Back-up Generation

a. Data on BUGs

BUG participation in Demand Response is an issue that spans many jurisdictional authorities and touches multiple actors. This issue straddles so many disparate domains that knowledge is diffuse in this area. Data on BUGs and their usage is scarce and difficult to acquire. Maintaining records of BUGs and or their usage is not directly within a utility's mandate and thus they will not be the best source of data to inform Commission decisions. For example, it is unlikely that

IOUs will have up-to-date records on existing BUGs or the amount of hours they run for DR or any other purpose.

Since all emergency backup generators must be registered with the owners local Air Quality Management District (AQMD), these local agencies can provide the most up-to-date records of all the engines currently registered in their district. These records are publicly available by request from most AQMDs and the CPUC or any other party acting on their behalf could easily request these BUG databases. The AQMDs with the lion's share of California's BUG population are South Coast, the Bay Area, San Diego and Sacramento Metro. AQMDs also have the most recent information on the number of hours that the BUGs in their district run, as well.

b. On Developing Rules Consistent with the D.11-10-003 Policy Statement

Any efforts to implement rules need to prioritize coordination with existing state agencies tasked with monitoring Air Quality. Specifically, we believe efforts to formally involve the California Air Resources Board as well as the local Air Quality Management Districts will yield the most beneficial results, regardless of the specific policies ultimately adopted by the Commission.

To illustrate the important of interagency collaboration, there are several scenarios under which a DR customer may use a BUG in the context of demand response. Each poses a unique set of jurisdictional implications. In the first case, the customer enrolls in a utility DR program. The second involves demand response that is administered indirectly by the utility and managed by a third party or aggregator. In both scenarios, steps could be added by which an

aggregator/IOU verifies that the customer is aware that they may not use a BUG according to the conditions specified by the Commission.

Monitoring BUG usage for customers participating directly in the ISO markets, however, would be significantly more challenging. In this case, a non-bundled customer decides to participate in the wholesale market, using an emergency backup generator every time they receive a market award. The CPUC could develop rules by which the ESP of non-bundled customers earns some form of RA credit for this customers bidding into the wholesale. It would be challenging for any actor—CPUC, ISO, IOU or Aggregator—to ascertain that such customers rely upon BUGs to meet their awards, however.

In all scenarios above, the Air Quality Management District (AQMD) is responsible for monitoring that the number of BUG run-time hours does not exceed the permitted amount. However, neither AQMDs nor the California Air Resources Board (CARB) have access to lists of demand response customers. Therefore, they do not have any infallible way of ascertaining whether any registered engines are used to participate in a DR program.

Regardless of what path the Commission takes in terms of developing rules to the policy directive in D.11-10-003, efforts need to be made to bring in CARB and the AQMDs into the discussion. There is a critical opportunity for interagency collaboration here because it is quite possible that this collaboration could solve issues on both sides. One example of how this could play out would be for the CPUC to aid in providing metering technology to the AQMDs that could be used to enhance BUG monitoring, not just for DR but for all engines. Further study should elaborate on this and any other possible solutions that are mutually beneficial to all relevant actors.

V. Conclusion

Of concern to us is the possibility that the lack of understanding among the parties of these complexities and challenges may create a situation where progress becomes stalled or programs 'force-fit' creating a high likelihood for failure. Either situation would do an extreme dis-service to California. This effort of bifurcation, let alone integration into the market cannot be oversimplified. Olivine acts as a 'Transition Partner' and has regularly been privy to the lack of understanding of operational issues, misunderstanding of requirements and misinterpretation of terminology. We have experienced first-hand some of the impacts of this situation and strongly urge the Commission to take a measured but forward-thinking approach.

We believe that the Commission's goal to incorporate large amounts of DR into the ISO markets would be best served by employing a phased approach focused on integrating specific groups of customers – as opposed to entire programs. We recommend considering the possibility of a transitional project to act as a vehicle to support integration while there is continued development of business and operational rules, procedural and infrastructure requirements and implementation of policies and business practices and solutions required. This would provide an initial opportunity for swift integration and a measured step forward.

/s/

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