

**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)

REPLY COMMENTS OF OLIVINE, INC TO PHASE TWO FOUNDATIONAL QUESTIONS

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Olivine, Inc. respectfully submits reply comments to the Responses to the Phase 2 Foundational Questions posed in the Joint Assigned Commissioner and Administrative Law Judge Ruling and Scoping Memo issued by the Commission on November 14, 2013.

## I. Introduction

The thoughtful responses to the questions posed by the various parties provides a basis for solid discussion of issues and solutions, the results of which will significantly impact demand response in California for the foreseeable future. These decisions are not to be taken lightly and need to be taken with a measured approach. However these decisions do need to be made so that preferred resources such as demand response are able to achieve their potential in providing grid reliability services.

## II. Bifurcation

Many parties raised issues regarding the definitions associated with bifurcation. Certainly clear definitions for bifurcation will need to be adopted and Olivine is in agreement with parties such as CLECA that the most important issue is the ‘services that the DR is intended to provide’. We are concerned with the possibility that the development of definitions and agreement around these definitions could take on a life of its own and distract us from the main objectives. We believe its imperative that the objectives for developing the bifurcation approach be clearly articulated by the Commission to ensure that the definitions do not become a distraction and a catalyst for the wrong debate.

Many parties including the CAISO also referenced the need for a ‘fair playing field’. We wholeheartedly agree with the need for competitive neutrality. However, we caution the Commission to take a wide and educated view of what this may mean and the complexities and unintended consequences associated with this issue. For example, currently there is no requirement for ESPs to register in the CAISO’s Demand Response System. Therefore a third party registering a resource comprised of Direct Access customers must not only convince an ESP/LSE to sign an agreement with them and provide approval in the CAISO DRS system, but must also convince them to register with the CAISO.

Olivine being both a registered DRP and certified SC has been active in understanding and confronting the challenges and barriers working not only with utilities on various pilots but also registering resources with the CAISO independently. We most recently authored a report for the CAISO regarding challenges and barriers for Distributed Energy Resources such as demand response.<sup>1</sup>

The lack of revenue opportunity in the CAISO wholesale markets is regularly identified as a primary barrier for direct participation and is noted as such in this document. We agree with PG&E’s contention that both supply and demand-side resources can provide value to the grid through a variety of services and both should be compensated appropriately. An equitable mechanism needs to be established so that all providers receive appropriate compensation for the value provided. It’s also important that the CAISO acknowledges that demand response resources are not the same as generation and avoid unnecessary cost burdens. As the Joint DR Parties have indicated markets have been developed around a ‘diverse set of resources with

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<sup>1</sup>[http://www.caiso.com/Documents/OlivineReport\\_DistributedEnergyResourceChallenges\\_Barri](http://www.caiso.com/Documents/OlivineReport_DistributedEnergyResourceChallenges_Barri)

varying characteristics' its important to recognize that demand response is not the same as a generator and rules need to be developed based on resource characteristics. For example, for resources intending to participate in Ancillary Services, the current certification test process for aggregated demand response resources is the same as it is for a generator. This presents logistical hurdles, especially for weather dependent resources and can result in the need for regular re-tests in order to certify capacity. An issue a traditional generator does not have. On the flip side, the process does not provide for required re-certification if there is a reduction in the aggregated sites registered. Different approaches are necessary to treat these resources equitably: differing business rules/requirements do not necessarily mean differing standards or value.

Olivine agrees with TURNs admonishment to be careful that DR programs that cannot participate in the CAISO markets but provide cost-effective demand response benefits are not un-intentionally de-emphasized. Many parties tend to focus on the designation of a particular demand response program as being either supply-side or demand-side. Integration of demand response programs with the wholesale market is extremely complex and if not handled in a judicious manner will result in a loss of demand response capability and most certainly be very costly. However, our experience also tells us that there is also a great deal of demand response in California that does not fit well with the current utility-based demand response programs, if at all. We strongly believe that in order to maintain the value provided by current demand response programs while creating a new paradigm, a transitional approach is required.

This transitional approach would provide for careful and considered design to develop an avenue for resources capable of integrating with the wholesale market. The resources themselves should be evaluated for their ability to meet requirements for wholesale market

integration, load modification and local reliability needs. Current demand response programs were not designed for wholesale market integration just as the ancillary services certification test was not designed for demand response resources. The development of such a ‘bridge’ could provide for both a smooth transition for resources to be integrated with the wholesale market as well as the potential for incorporating new resources without complete disruption of the current programs. Olivine believes that efforts along these lines would be able to make a significant impact on resolving some of the issues that are at debate. This would also provide insights into the efforts and costs that both utilities and traditional aggregators may incur as well as create a potential pathway for new third party players.

### III. Conclusion

We believe that demand response can be highly effective resource and its important to cultivate a robust market for demand response capabilities within California that appropriately reflect the value of the resource’s underlying capability and availability regardless of the terminology adopted.

/s/

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