

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)

**OPENING COMMENTS TO THE PROPOSED DECISION ADDRESSING
FOUNDATIONAL ISSUE OF THE BIFURCATION OF DEMAND RESPONSE
PROGRAMS OF ENVIRONMENTAL DEFENSE FUND**

James Fine
Senior Economist
Environmental Defense Fund
123 Mission St, 28th Floor
San Francisco, California 94601
Phone – (415) 293-6060
jfine@edf.org

Michael Panfil
Attorney
Environmental Defense Fund
257 Park Avenue South, 17th Floor
New York, NY 10010
Phone – (212) 616-1217
mpanfil@edf.org

Lauren Navarro-Treichler
Attorney
Environmental Defense Fund
1107 9th Street, Suite 1070
Sacramento, California 95814
Phone – (916) 492-7074
lnavarro@edf.org

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1. Introduction

Pursuant to Article 14 of the Commission’s Rules of Practice and Procedure, Environmental Defense Fund (“EDF”) respectfully submits these comments on the February 21, 2014 Proposed Decision Addressing Foundational Issue of the Bifurcation of Demand Response Programs (“Bifurcation PD”).¹ These comments are timely submitted pursuant to Rule 14.3 of the California Public Utilities Commission’s (“CPUC” or “Commission”) Rules of Practice and Procedure. Rule 14.3(c) provides that comments “shall focus on factual, legal or technical errors” in the Bifurcation PD.

EDF supports the Commission’s stated intention to bifurcate demand response (“DR”) so as to “...meet the state’s long-term energy goals including those for renewable and low greenhouse gas emitting resources and...to maintain both system and local reliability by relying on load-following resources bid into the energy markets...”² EDF believes the factual record supports augmenting the Bifurcation PD by: 1) including more information on proceeding process; 2) noting key elements that should be incorporated into a bifurcated approach; and 3) ensuring, at a

¹ Role of Demand Response in Meeting the State’s Resource Planning Needs and Operational Requirements, R. 13-09-011 (issued Feb. 21, 2014).

² Bifurcation Decision, p.24.

foundational level, that load modifying demand response is correctly valued, forecasted, and encouraged.

2. EDF Supports Goal of Bifurcation, and Recommends Process Improvements

As noted above, EDF strongly supports the Commission's stated intentions in this proceeding, including to "prioritize demand response as a utility procured resource, competitively bid into the [California Independent System Operator ("CAISO")] energy market."³ We further recognize that the CAISO has begun to lay the groundwork to more seamlessly open up access to this market.

At the same time, EDF believes the Commission, if it provided clearer and more transparent information about how it plans to advance its goals in this proceeding, would reach them more quickly and easily. Based on our conversations with PUC staff, we believe that the Commission has plans for a robust proceeding following adoption of this decision. Outlining this process, augmented herein, at this point in the decision making process will help to alleviate legal and technical errors in the Bifurcation PD.

Specifically, the Bifurcation PD recognizes that several issues remain to be addressed, including: (1) potential siloing or devaluation of DR⁴; (2) CAISO integration costs⁵; (3) the implications for resource adequacy (RA)⁶; and (4) designing the auction mechanism.⁷ EDF recommends that the Bifurcation PD be modified to include process and timeline details necessary for the Commission and parties to examine and resolve the pending issues identified in the record and discussed in the PD.

³ Bifurcation Decision, p.6.

⁴ *Id.* at 11 (note that EDF understands DR siloing to refer to the potential for inequitable treatment between supply and load modifying DR).

⁵ *Id.* at 7.

⁶ *Id.*

⁷ *Id.* at 2.

The Order instituting this rulemaking (“DR OIR”) additionally identified this proceeding’s purpose as:

to (1) review and analyze current demand response programs to determine whether and how we should bifurcate them...; (2) *create an appropriate competitive procurement mechanism for supply-side demand response resources;* (3) *determine the program approval and funding cycle;* (4) *provide guidance for transition years;* and (5) *develop and adopt a roadmap with the intent to collaborate and coordinate with other Commission proceedings and state agencies...* [emphasis added]⁸

EDF understands this Bifurcation PD to be limited to the first of the purposes of this proceeding, outlined above. However, these five “purposes” necessarily interact with one another – for example, the creation of a competitive procurement mechanism will influence the success of bifurcation. Thus, the Final Decision should also provide process information as to how bifurcation will interact with other “purposes” stated in the DR OIR.

3. Bifurcation Elements

In our meetings with PUC staff, EDF was asked to put its suggestions about timeline and process in this set of comments. After discussions with Lawrence Berkeley National Lab (“LBNL”), EDF developed a set of recommendations for a smooth transition. EDF believes these recommendations would help address the potential concerns about bifurcation noted in the Bifurcation PD, including “concerns regarding the impacts of bifurcation on related issues such

⁸ 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 (issued Sept. 19, 2013).

as the costs of CAISO energy markets integration, jurisdiction, and resource adequacy qualifications.”⁹ These recommendations are as follows:

- For DR load modifying resources:
 - ensure adequate, well- aligned and transparent incentives for utilities and customers to encourage creation and use of a greater amount of cost-effective load-modifying DR resources than has existed to date; and
 - work with the Energy Commission to ensure that resources are fully represented in the state energy forecasts at the relevant geographic level, reflect demand elasticities, and become available more dynamically, to allow the CPUC and the CAISO to have actionable information from which to plan for reliability and make procurement decisions.

- For DR supply resources:
 - develop the auction mechanism and allow it to run to ensure it works and provides adequate funding;
 - begin with programs that already meet CAISO’s market requirements and work through any barriers to DR that still exist in ISO’s markets;
 - give other programs the opportunity to prove their value as load modifying programs, and should it be decided that they are more appropriate in CAISO’s markets, adequate time to phase into the CAISO requirements; and
 - gain experience with the ISO market and work through any issues . Monitoring of and communication about this process between the CAISO, the PUC and parties would be helpful.

⁹ Bifurcation PD, p.7.

- regularly evaluate how to integrate new opportunities presented by advanced DR automation and control programs. For example, Title 24 now requires that new commercial buildings and major retrofits include HVAC and lighting systems capable of receiving standard space (OpenADR) signals – these buildings are ready to be recruited by the utilities into fast DR programs;
- For both:
 - consider the role of cost-effectiveness in DR program adoption, including developing cost-effectiveness comparisons that span both categories, and that are inclusive of the full range of grid and environmental benefits that DR can secure (e.g., flexibility, ramping, voltage support);
 - ensure that the value of participating in these programs exists and is clearly articulated to customers on an initial and ongoing basis (focus groups have proven valuable preparation tools for the utilities);
 - work to overcome siloing between energy efficiency and demand response programs to maximize results, particularly when utilities communicate program options with customers. For example, SMUD requires OpenADR when installing energy efficient control systems;
 - develop information and planning-oriented bridges between supply-side and load-modifying DR to maximize their value to ratepayers, the grid, and the environment; and
 - ensure that opportunity exists for third-parties to provide DR resources.

Should bifurcation proceed, the record supports EDF's strong contention that the CPUC address each of these issues *before* requiring programs to be bid into CAISO's market or making related decisions about RA funding for load modifying programs.

4. Maximizing the benefits from Load-Modifying DR

Supply-side DR can be very valuable in addressing short-term supply gaps, and creating transparent incentives for this resource to be fully enlivened is a key issue in this proceeding. However, getting load-modifying DR right is just as (or even more) important to the overall operation of the system. Load-modifying DR can also substantially reduce the need for generation and transmission resources if it is effectively recruited onto the grid and represented in the demand forecasts.¹⁰ From this perspective, an important outcome of this proceeding will be to develop the right value alignment to induce cost-effective load modifying DR on the electricity system.

To that end, EDF notes third party technology providers and ratepayers are going to play a substantial role in delivering load-modifying DR that is triggered by tariffs, and "behind the meter," through automation or changes in customer behavior. This could include developing combinations of resources that are attached to DR, such as storage or renewable distributed generation. Thus, EDF encourages the Commission to widen its inquiry in this proceeding to include active consideration of how beneficial automation and behavioral changes can be incented and enabled by utility and non-utility third parties, through tariffs and other means.

¹⁰ For example, EDF found that over \$400 million would be saved annually if 50% of residential customers adopted current utility TOU rates, *see* Residential Rate Design Proposal of Environmental Defense Fund, Order Instituting Rulemaking on the Commission's Own Motion to Conduct a Comprehensive Examination of Investor Owned Electric Utilities' Residential Rate Structures, the Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations, R. 12-06-013 (filed June 21, 2012), p.18.

EDF sees these as essential steps to ensuring that load-modifying resources are fully represented in the State's demand forecasts.

5. Conclusion

EDF thanks the Commission for the opportunity to comment on the proposed decision and supports the overall intent of this docket, including the goal of bifurcation. In these comments, EDF seeks to provide insight into remedying legal, technical, and factual errors in the PD, per rule 14.3, that will also help the Commission to accomplish these goals in a manner that most supports the expansion and evolution of DR as a valuable system resource.

EDF believes that successful bifurcation can best be accomplished by ensuring communication and collaboration between the Commission and the parties. The Commission could sponsor workshops on how to structure the bifurcation and on how to best value, forecast, and align mechanisms. Workshops could provide a valuable tool in structuring the bifurcation and resolving the remaining issues laid out in the PD. As discussed above, we respectfully recommend that implementing the process envisioned by the Commission and further outlined herein remain a priority.

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Respectfully signed and submitted on March 13, 2014.

ENVIRONMENTAL DEFENSE FUND

/s/ James Fine

James Fine
Senior Economist
Environmental Defense Fund
123 Mission St, 28th Floor
San Francisco, California 94601
Phone – (415) 293-6060
jfine@edf.org

/s/ Michael Panfil

Michael Panfil
Attorney
Environmental Defense Fund
257 Park Avenue South, 17th Floor
New York, NY 10010
Phone – (212) 616-1217
mpanfil@edf.org

/s/ Lauren Navarro-Treichler

Lauren Navarro-Treichler
Attorney
Environmental Defense Fund
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Sacramento, California 95814
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