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**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 PARTY
COMMENTS ON PROGRAM MODIFICATIONS**

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Thursday, March 13, 2014

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Olivine submits the following responses to comments that were made following the Assigned Commissioner and Administrative Law Judge's Ruling Providing Guidance for Submitting Demand Response Program Proposals (Ruling) issued on January 31st, 2014. We see this proceeding as a critical opportunity to realize a vision for demand response and distributed energy resources (DER) in California but recognize the complexities involved in modifying demand response programs. The various comments filed illustrate some of the differences in perspectives and approaches that currently exist.

DR Program Modifications

As the Commission has noted in D.14-02-033, certain changes made to the AMP contracts could be counterproductive to encouraging CAISO integration while others may be consistent with that objective. Olivine has developed a methodology for evaluating compatibility with the CAISO wholesale markets. Alignment by Sub-LAP, such as the way SCE's agreements are designed, is a key element in the assessment of compatibility. The alignment of contracts to Sub-LAP is important for CAISO integration since a Proxy Demand Resource must only be made up of customers from within a single Sub-LAP. When considering modification to performance metrics, if the aggregation used to measure performance is not aligned at the Sub-LAP level, it can shift performance risk from the Aggregator to the Scheduling Coordinator (SC) as bidding into the wholesale market carries with it risk that retail programs currently do not have. The financial ramifications of a shortfall in performance within a current retail program are well understood; however if a resource's performance is not calculated at the same level of aggregation as wholesale market bidding, there will be disparity between program performance and CAISO market settlement. The Scheduling Coordinator will be billed for a short fall in-performance based on the CAISO calculations using the real-time energy prices and the details of this settlement will not be immediately to the SC. Replacement costs can be greater than the awarded price and real-time prices can be negative resulting in monies owed to the CAISO. These types of issues should be kept in mind when modifying agreements such as AMP contracts and considering changes qualifying as program modifications as requested by EnerNOC, Comverge and other Joint DR Parties.

I. Staff Pilot Proposal and Alternatives

Olivine generally supports the concepts associated with the staff proposals and thinks that it is important that the IRM2 or some form of the IRM2, which provides for third party access to the wholesale market should be incorporated across the IOUs during the 2015-2016 transition period. Olivine believes that the

structure of the IRM2 can readily be expanded to the other territories with a value being the critical need to broaden customer engagement and gain much needed experience. We perceive the IRM2 as an important platform for transition and learning and the more interaction with have with clients and potential clients the more this perspective has been reinforced. We recognize that this is a first of its kind project and the concepts involved and the details required to implement are new to most people involved. The specific details, as implemented in PG&E's territory, do not necessarily need to be seen as constraints for further implementation in other territories and a similar but consistent approach would support readiness efforts for both third parties as well as the IOUs as they prepare to engage with third party DRPs/SCs in a way they have not before, such as through registration approvals and other activities including default load adjustment issues that have yet to be tested. This would also provide an opportunity for incremental supply side demand response that currently is unable to effectively participate in a retail demand response program.

Several parties responded indirectly with specific elements that could be incorporated in a pilot but only PG&E provided detailed plans for expansion and alternatives. Further discussion about the details of an IRM2 or similar concept may be warranted to properly assess the value. Olivine is in favor of expanding IRM2 to mass markets to allow technology vendors to test wider scale DR participation prior to designing or funding new programs. Rather than re-allocating current program funds to divert them to technology providers as suggested by Energy Hub, we believe the expansion to mass market would allow variants to current funding structure under a controlled circumstance without interruption to existing programs.

In reviewing PG&E's "Excess Supply" proposal it appears to align with the concept put forth by CESA but provides specifics without limiting participation to Permanent Load Shifting (PLS) which is already receiving DR funds and might conflict with dual participation rules. A design should provide the flexibility to include PLS resources along with other storage and DR resources that is integrated with the wholesale market to encourage additional consumption during hours when prices are favorable and to mitigate pervasive adverse system conditions.

In the case of favorable pricing, both day ahead and real-time bidding strategies could be incorporated. Day-ahead bidding could provide the opportunity to test the CAISO NGR resource which was designed to allow bi-directional bidding and scheduling on a single resource supporting diurnal cycling of a storage resource in the wholesale market. Real time participation can provide a more opportunistic approach since there are frequent occurrences of very low and even negative pricing. Pervasive system conditions such as addressing steep ramps associated with renewable integration can in part be addressed by using DR and storage resources to "flatten" ramps. By shifting consumption to the

period preceding steep increasing ramp periods (i.e., filling in the belly of the “duck”) high production hours from renewable resources can in effect be shifted to peak load hours.

Leveraging the existing infrastructure and wholesale services capabilities will allow participants, technology vendors, retail demand response provider as well as the IOUs to focus on the changes in processes and business models required. This could address some of Marin Clean Energy’s concern by providing a platform and capabilities for them to develop a small scale program during this bridge period. Olivine believes that it is extremely important for current demand response participants as well as incremental resources to have the ability to learn about the issue and risks associated with participation in the wholesale market during this bridge period. Building a ‘bridge’ typically takes some investment and we would urge the Commission to consider using some of the unused funds from 2012-2014 to support this ‘bridge’ and to provide for some fund shifting as changes among the program participants and deviations from previous years budgets are to be expected. Additionally we would ask the Commission to consider using Marketing, Education and Outreach funds during this period to provide some awareness and education to potential participants.

/s/

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