

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Oversee
The Resource Adequacy Program, Consider
Program Refinements, and Establish Annual
Local Procurement Obligations.

Rulemaking 11-10-023
(Filed October 20, 2011)

**REPLY COMMENTS OF ENERNOC, INC., ON
CAISO FLEXIBLE CAPACITY REPORT AND
ISSUES ADDRESSED AT WORKSHOP OF APRIL 9, 2014**

April 25, 2014

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EnerNOC, Inc. (EnerNOC) respectfully submits these Reply Comments on the Flexible Capacity Report (FCR) filed by the California Independent System Operator (CAISO) in this proceeding on April 4, 2014, and the issues, documents, and presentations identified for comment at the Workshop held on April 9, 2014 (April 9 Workshop). These Reply Comments are filed and served pursuant to the Commission's Rules of Practice and Procedure and the Administrative Law Judge's (ALJ's) Ruling identifying the schedule and subject matter for these comments on April 9, 2014 (April 9 ALJ's Ruling).¹

**I.
MULTIPLE PARTIES ECHO ENERNOC'S CONCERNS REGARDING
NEEDED REVISIONS OR CAUTION BEFORE EITHER STAFF RA
PROPOSALS OR CAISO RECOMMENDATIONS ON FLEXIBLE
CAPACITY PROCUREMENT ARE ADOPTED BY THE COMMISSION.**

In its Opening Comments, EnerNOC recommended that the following actions be taken by Commission Staff *before* any of the pending RA or flexible capacity procurement proposals or recommendations are adopted or relied upon in a formal Commission decision:

1. Effective Flexible Capacity (EFC) and Qualifying Capacity (QC) should *not* be bundled for Demand Response (DR) resources.²

¹ Reporter's Transcript (RT) (April 9, 2014) at 79-81 (ALJ Gamson).

² EnerNOC notes that this language is precisely the phrase used by EnerNOC in the Conclusion to its April 18 Opening Comments at page 8. However, the critical word "not" was inadvertently left out of this summary phrase when first stated in Section I. of these Comments at page 2. By these Reply Comments, EnerNOC corrects that statement to read: "EFC and QC should *not* be required to be bundled for DR resources."

2. The requirement for DR resources to supply a system resource on a sub-LAP basis is unreasonable and should be eliminated.
3. The testing window should be reduced from 3 months to 1 month, as originally proposed by Staff.

EnerNOC additionally recommended that the Commission Staff should respond to CAISO's calculations that demonstrate that a higher percentage of flexible capacity resource needs could be supplied by super-ramping resources as follows:

1. Staff should not allow Categories 1 and 2 to displace Category 3 resources, unless those resources are unavailable, at which point the deficit could be filled by higher "ranking" resources;
2. Staff should be open to revising the 5% limitation proposed by CAISO, if lifting that cap is supported by CAISO's calculations.
3. CAISO's calculations, using actual data, contain some apparent anomalies, which should be corrected before adopted for use by Staff.³

Similar concerns and additional requested revisions have been raised by other parties, some of whom believe that certain of these proposals are simply not sufficiently clarified or tested to be adopted by the Commission in this RA cycle or fail to ensure alignment between CAISO and Commission Staff recommendations on the same issues. Such inconsistencies and lack of clarity will only add confusion to the energy market and should be avoided.

Specifically, and as addressed in further detail below, EnerNOC strongly supports the CAISO's position in opposing Staff's proposal to "fix" the percentage of Category 1 resources at 80%, which is clearly in excess of the amount of Category 1 resources, as calculated by CAISO.⁴ Further, various parties have raised concerns relative to the determination of the capacity value for supply-side DR resources, which EnerNOC shares.⁵ In addition, unbundling of the capacity attributes, for economic efficiency purposes, has been proposed by San Diego Gas and Electric

³ EnerNOC Opening Comments, at pp. 8-9.

⁴ CAISO Opening Comments, at pp. 14-16.

⁵ See, e.g., CAISO Opening Comments, at pp. 17-19; Alliance for Retail Energy Markets (AReM) Opening Comments, at p. 6.

Company (SDG&E) and supported by the Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN).⁶ EnerNOC continues to strongly encourage unbundling of EFC and QC for supply-side DR resources to reflect the manner in which these resources will be developed and to be consistent with the CAISO's proposal.

II.
STAFF'S PROPOSAL FOR A FIXED PERCENTAGE OF CATEGORY 1
RESOURCES SHOULD BE REJECTED IN FAVOR OF CAISO'S PROPOSAL.

Throughout the CAISO's FRACMOO (Flexible Resource Adequacy Criteria Must-Offer Obligation) Stakeholder Process, various participants, including EnerNOC, have tried to include an opportunity for resources other than generation to participate in providing flexible capacity resources to CAISO. There was broad acceptance of CAISO's adoption of the categories of flexible capacity resources, as opposed to specific resource definitions.

However, the broad acceptance is dependent upon the ability for various resources to actually participate and for the resource requirements to match the resource needs on the system. In CAISO's methodology of defining Categories 1, 2 and 3, CAISO has connected the resource definitions with the actual need for flexible resources on its system.

As reflected in EnerNOC's Opening Comments⁷ and in CAISO's calculations,⁸ the identified need of Category 1 resources varies by month to as high as 90% and as low as 51%. Maintaining a consistent 80% requirement for Category 1 resources across the year would displace the need for, and value of, other categories of flexible capacity resources, in certain months, and would artificially inflate the need for, and value of, Category 1 resources. This proposal, coupled with the CAISO's proposal, to allow Category 1 and 2 resources to displace the need for Category 3 resources will reduce the opportunity for other resources to participate as

⁶ SDG&E Opening Comments, at pp. 1-2; ORA Opening Comments, at pp. 4-5; TURN Opening Comments, at p. 3.

⁷ EnerNOC Opening Comments, at pp. 8-9.

⁸ CAISO Presentation, April 18, 2014 Workshop, at slide 23.

flexible capacity resources and should be adopted in favor of Commission Staff's proposal to apply a simplified and overstated 80% requirement for Category 1 resources.

III.
VARIOUS PARTIES HAVE EXPRESSED CONCERNS WITH THE METHOD
OF DETERMINING QC AND EFC FOR SUPPLY-SIDE DR RESOURCES.

The Opening Comments of several parties identify concerns or a lack of clarity relative to Staff's Proposed Methodology for determining the Qualifying Capacity (QC) and Effective Flexible Capacity (EFC) for supply-side DR resources. CAISO has identified differences between the methodology for measuring performance, either in its tariff or in its FRACMOO Proposal, and the Commission Staff's Proposal.⁹ Further, CAISO states its concern that the Load Impact Protocol (LIP) used by Commission Staff in its methodology may not be well suited to measure EFC.¹⁰ At a minimum, the LIP methodology has not been examined as to its suitability for EFC.

EnerNOC is also concerned that, at least initially, resources that are provided on a retail basis subject to LIP, will be bid into the wholesale market, with capacity determined on a "test" basis. There is the likely potential that the retail and wholesale measure of capacity value will not correlate. In other words, capacity recognition, and therefore compensation, for a single DR resource that participates in the wholesale market would be treated differently as between the Commission Staff's and the CAISO's methodologies. Such an outcome will only create confusion as between buyers and sellers of DR capacity and for purposes of determining RA credit. The methodology for calculating capacity, to the extent it is different between CAISO and the CPUC, must be reconciled. In addition, the LIP methodology must first be examined as to whether it is even appropriate for calculating the EFC of supply-side DR resources.

⁹CAISO Opening Comments, at pp. 17-19.

¹⁰Id.

However, *both* the CAISO's and the Commission Staff's proposals for testing of DR resources remain controversial. In its Opening Comments, EnerNOC expressed concern with the Commission Staff's Proposal, which is based upon CAISO's proposed approach for testing EFC.¹¹ Specifically, CAISO states that DR EFC will be determined based upon a test of the resource during the availability window.¹² In addition, CAISO's tariff for Proxy Demand Resource (PDR) contains a particular method of measuring DR capacity, including the utilization of a baseline based upon the previous ten, non-event days.¹³

In their Opening Comments, both Southern California Edison Company (SCE) and the California Large Energy Consumers Association (CLECA) have raised concerns with this random testing and the use of ex-poste LIP results serving as a basis for determining EFC or QC. SCE proposes that ex-ante LIP be used instead to establish a nameplate capacity for the resource for the purpose of measuring performance.¹⁴ CLECA is concerned with the use of a test within a 12-month period, as opposed to within a calendar year.¹⁵ At the April 9 Workshop, CLECA also expressed concern about whether a test event will be representative of the resource's capability.

Unless test results are to be adjusted for actual conditions, EnerNOC agrees with SCE that an ex-ante calculation makes sense for determining the "capability" of the resource, against which performance will be measured, with the caveat that the LIP may need to be adjusted for purposes of its use for flexible capacity resources, for which it was not designed. The ex-ante LIP calculation will establish a "normal" capability, under normal conditions, as opposed to actual conditions, which will vary from hour-to-hour, day-to-day, etc. EnerNOC, therefore,

¹¹ EnerNOC Opening Comments, at p. 7.

¹² CAISO Opening Comments, at pp. 17-18.

¹³ Id.

¹⁴ SCE Opening Comments, at pp. 5-6.

¹⁵ CLECA Opening Comments, at pp. 1-3.

agrees with PG&E,¹⁶ that while Staff's Proposal indicates that Staff "may" make adjustments to test results based upon weather and other factors,¹⁷ the Commission Staff Proposal is too vague as to when, and under what conditions, those adjustments would occur.

Just as there has been no examination as to whether LIP is appropriate for EFC, there has been no examination as to whether a 10-in-10 day baseline is appropriate for EFC. CAISO has made it clear that its need for flexible capacity resources changes on a daily basis over the course of a given month, and from month-to-month as well. In the more recent Workshop held in the DR Rulemaking (R.) 13-09-011 on April 18, 2014, CAISO has, in fact, committed to examining other baseline methodologies, if proposed, as alternatives for the 10-in-10 day baseline. It remains unclear to EnerNOC how a test will be appropriate for determining EFC for a DR resource as the capability could change from month-to-month, including whether the resource has a morning or evening availability window. For all of the above-stated reasons, the method for determining EFC and QC as between Commission Staff and CAISO is not fully resolved and may require further examination.

IV. SEVERAL PARTIES HAVE RAISED CONCERNS ABOUT BUNDLING EFC AND QC.

EnerNOC has supported CAISO's proposal to allow the QC and EFC components for supply-side DR resources to be unbundled.¹⁸ This is an instance where the inherent differences in the resource types needs to be taken into consideration, rather than trying to force DR to look like a generation resource. Treating DR like a generation resource, that can provide any and resource attributes when called upon, is an artifice. DR resources will be developed based upon specific requirements, not an amalgamation of all resource characteristics. To require DR to

¹⁶ PG&E Opening Comments, at p. 13.

¹⁷ Commission Staff Proposal for Calculation of QC and EFC for Storage and Supply-Side DR, at pp. 5-6.

¹⁸ EnerNOC Opening Comments, at pp. 4-6.

meet all resource attributes for capacity will inhibit the development of DR resources. DR resources can contribute either EFC or QC, but will rarely have the ability to provide both from the same resources.

SDG&E has proposed that the attributes be unbundled for economic efficiency purposes. This proposal has been supported by ORA, TURN, and CAISO, although not for implementation in 2015.¹⁹ While EnerNOC takes no position as to whether unbundling makes sense for generation, EnerNOC strongly recommends that Commission Staff reconsider its position to bundle EFC and QC capacity resource attributes for supply-side DR resources.

V. CONCLUSION

EnerNOC again appreciates this opportunity to address the RA proposals currently before the Commission. EnerNOC continues to urge the Commission, as supported by other parties, to direct that revisions be made to the pending proposals before any is adopted by the Commission in a formal decision.

Respectfully submitted,

April 25, 2014

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¹⁹ See, n. 6, *supra*.