



**Alliance for Retail Energy Markets**

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# Cost Allocation for IOUs' Demand Response Programs

*June 9, 2014 CPUC Workshop*

*R.13-09-011*

# Proposed Commission Action

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- Establish cost allocation principles in R.13-09-011 as proposed by DACC-AReM.
  - Ensures competitive neutrality and fairness in markets.
- Require IOUs to apply approved principles when requesting funding for any DR programs going forward.

# Proposed Principles – Supply DR

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- Characteristics of Supply DR:
  - Integrated with CAISO markets.
  - Treated like generation in those markets with the retail customer providing the resource to the market.
- Therefore, costs to be recovered like other market resources -- through generation rates.
- All benefits (RA) to be retained by bundled customers.

# Proposed Principles – Load-Modifying DR

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- Characteristics of Load-Modifying DR:
  - Reshapes or reduces net load curve.
  - Retail customer provides the resource, which is used as substitute for other generation to meet LSE's RA requirements or to shift peak load, if approved for that purpose by the CPUC.
  - Also includes pricing tariffs solely applicable and available to bundled customers, which are used to reshape or reduce IOU's net load curve.
- Therefore, costs to be recovered as follows:
  - Programs that are open to all customers, but function as substitute for generation, are to be recovered the same as other similar resources – through generation rates.
  - Programs solely applicable and available to bundled customers are to be recovered solely from those bundled customers. (See, D.12-12-004).
  - All benefits, load reduction and RA, from these programs are to be retained by bundled customers.

# Adverse Effects of Current Cost Allocation

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- Current cost allocation is primarily through distribution rates, which:
  - Depresses generation rates artificially, thereby giving IOUs a competitive advantage; conflicts with CPUC Unbundling Decision (D.97-08-056).
  - Creates inappropriate cross-subsidies.
  - Conflicts with CPUC policy of competitive neutrality.
  - Discourages third-party entry into DR market.

# Reason to Decide Now

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- Identified as “foundational issue” in Scoping Memo that requires resolution.
- D.12-04-045 directed that cost allocation be:
  - Considered in the successor policy proceeding to R.07-01-041 *and*
  - Decided in a “consistent manner across all three utilities.”
- Foundational to ensuring competitive neutrality and fairness in markets.
- Uniform cost allocation principles should be established for DR and applied consistently across the 3 IOUs to address current inequities.