BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Pursuant to Enhance the Role of Demand Response in Meeting the State's Resource Planning Needs and Operational Requirements	R.13-09-011 (Filed September 19, 2013)

CORRECTIONS OF THE DIRECT ACCESS CUSTOMER COALITION AND ALLIANCE FOR RETAIL ENERGY MARKETS TO DRAFT DEMAND RESPONSE WORKSHOP REPORT

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July 1, 2014

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The Direct Access Customer Coalition[1] ("DACC") and Alliance for Retail Energy Markets[2] ("AReM") respectfully submit corrections to the *Draft Workshop Report On The Workshops Held On June 9, 10, and 11, 2014* ("Draft Workshop Report"), which was filed on June 24, 2014 by Pacific Gas and Electric Company ("PG&E") on behalf of itself, Southern California Edison Company and San Diego Gas & Electric Company. The Draft Workshop Report was filed by the utilities in accordance with the May 30, 2014 e-mail ruling of Administrative Law Judge ("ALJ") Kelly Hymes. DACC and AReM submit these corrections in accordance with ALJ Hymes' June 23, 2014 e-mail ruling, which set this date for filing of corrections on the Draft Workshop Report.

[1] DACC is a regulatory alliance of educational, commercial, industrial and governmental customers who have opted for direct access to meet some or all of their electricity needs. In the aggregate, DACC member companies represent over 1,900 MW of demand that is met by both direct access and bundled utility service and about 11,500 GWH of statewide annual usage.

[2] The Alliance for Retail Energy Markets is a California non-profit mutual benefit corporation formed by electric service providers that are active in the California's direct access market. This filing represents the position of AReM, but not necessarily that of a particular member or any affiliates of its members, with respect to the issues addressed herein.

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Representatives of DACC-AReM attended the workshops and submit the attached corrections to Section II.A (Attachment A) and Section II.D (Attachment B) of the Draft Workshop Report. DACC and AReM do not address typographical errors in the Draft Workshop Report, but instead focus on corrections to ensure accuracy. DACC and AReM would also like to express their appreciation to PG&E, which made a Word document available, thereby enabling an easier and faster review of the filed report.

Respectfully submitted,

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ATTACHMENT A

CORRECTIONS TO SECTION II.A OF DRAFT WORKSHOP REPORT

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through June 12, 2014. As a result, parties made significant progress to clarify issues. Evidentiary hearings were scheduled for July 10-11, 2014 (if needed), but have been reset for August 7 and 11 pursuant to the ALJ's ruling on June 23, 2014. At the end of the workshops, parties agreed to continue discussions that might result in the possible settlement.

This Report is organized as follows:

- Section A: Cost Recovery
- Section B: B ack-up Generation
- Section C: CAISO integration costs
- Section D: Bifurcation/Categorization of Load Modifying Resource and Supply Side Resource Demand Response
- Section E: Must Offer Obligations
- Section F: Demand Response Goals
- Section G: Demand Response Auction Mechanism (DRAM) and Cost Effectives Protocols (Part I)
- Section H: Demand Response Auction Mechanism (DRAM) and Cost Effectives Protocols (Part II)
- Section I: Additional Issues/Considerations
- Appendix A: Workshop Presentations

II.
REPORT

A. Cost Recovery (June 9, morning)

During the workshop, PG&E noted that cost recovery and cost allocation are related, but distinct issues. Cost allocation, for the purpose of this proceeding, refers to how the IOU s' DR costs are allocated among generation and distribution components of I OU rates. Cost recovery can also refer to how rates are designed to recover the costs that have been allocated to a given component. There was consensus among parties that the issue to be addressed in this proceeding is cost allocation. PG&E also stated that cCost recovery should continue to be addressed in the IOUs' respective ratemaking cases, such as General Rate Case (GRC) Phase 2 proceedings.

Two primary positions on this issue were represented at the workshop. DACC-AReM and MCE propose that, under most circumstances, costs for IOU DR programs be allocated to generation rates. D ACC-AReM delivered a presentation (included in Appendix A) to summarize their position. The IOUs propose to continue their ex isting cost allocation methods, which spread DR costs among generation and distribution rates using various criteria.

ALJ Hymes posed three specific questions for conducting the discussion:

- What are the IOUs' current cost allocation methods?
- Should the current cost allocation methods be changed and, if so, how?

- What ~~other~~ factors~~, such as fairness issues and benefits,~~ should the Commission consider if it changes the current cost allocation methods?

1. Current cost allocation methods

Parties generally agreed[4] that the characterization of each of the IOUs' cost allocation methods during the workshop was accurate. The IO Us' allocation methods for DR costs are described below. Parties also generally agreed that there are differences in how the IOUs allocate their DR costs among generation and distribution rates. CLECA noted that since 2002, for PG&E and SCE, their DR cost allocation and recovery methods were often developed in settlements, which has resulted in some of the inconsistencies, but that the differences between the IOUs are not large in its view.

a) PG&E

The majority of PG&E's DR program costs (including most program incentives) are allocated to distribution rates. P G&E's Aggregator Managed Portfolio (AMP) contract incentives are the only DR incentives and costs allocated to generation rates. With the ex ception of dynamic pricing tariffs, all customers are eligible to participate in PG&E's DR programs.

b) SDG&E

The majority of SDG&E's DR program costs are allocated to distribution rates. Incentives for SDG&E's DR programs are allocated to generation rates. For SDG&E's dynamic pricing programs, D.12-12-004 ~~10-03-032~~ directed SDG&E to allocate program costs to generation rates. Those costs had traditionally been allocated to distribution rates.

c) SCE

SCE bases its DR cost allocation method on eligibility for its DR programs. Costs for programs for which all customers, including DA and CCA customers, are eligible are allocated to distribution rates. Cos ts for programs for which only SCE's bundled service customers are eligible are allocated to generation rates.

2. Future cost allocation methods

There are two primary positions on this matter. The IOUs propose to continue their current cost allocation methods (mostly through distribution rates). DACC-AReM ~~and MCE~~ request that the Commission require the IOUs to allocate all costs for Supply DR programs

[4] TURN clarified that they generally agree with the characterization, but that they had not retained their rate design expert to review the IOUs' testimony on the issue.

to generation rates and Load Modifying DR programs based on eligibility and function performed. These positions are described further below. A third proposal that Shell Energy raised is also described below.

CLECA noted that it is difficult to determine future cost allocation methods because the policies for the future of DR, including bifurcation, have not yet been established in this proceeding. Several part ies agreed with that point, though DACC-AReM and MCE suggested that the Commission can establish cost allocation principles now and apply those principles in the future. In its presentation, DACC-AReM also noted that this issue should be addressed now because it is a foundational issue in the proceeding, D.12-04-045 directed that this proceeding should decide the issue in a consistent manner across all three IOUs, and there should be uniform cost allocation principles. The DACC/AReM presentation is included in Appendix A.

a) Maintain current DR cost allocation methods

In general, current DR cost allocation methods recover most DR-related ~~most~~ expenses via distribution rates. There are differences in cost recovery; however, among the utilities (for example, some DR-related incentive payments are recovered via generation rates and SCE allocates bundled customer DR programs to generation rates).

b) Allocate most ~~all~~ DR costs to generation rates

DACC-AReM ~~and MCE~~ propose to allocate all costs for Supply DR programs to generation rates and Load Modifying DR programs based on eligibility and function performed. D ACC-AReM ~~and MCE~~ presented several concerns with the current cost allocation method:

- Artificially depresses generation rates, which gives the IOUs a competitive advantage
- Discourages participation by third parties in DR
- Conflicts with unbundling rules established in D.97-08-056
- Creates inappropriate cross-subsidies (from DA and CCA customers to IOU customers)
- Conflicts with Commission policy of competitive neutrality

c) Allocation based on categorization of resource

Shell Energy proposed that costs for supply resources be allocated to generation rates and cost for load modifying resources be allocated to distribution rates. SCE opposed this proposal because the concept of bifurcation is nascent and it is not yet determined which DR programs will be in each category of resources. SCE also noted that just because a DR program is categorized as a Supply Resource that does not mean it does not also have transmission and distribution benefits.

3. Factors for the Commission to consider

Parties proposed ~~discussed~~ several factors that the Commission might ~~should~~ consider if it decides to modify the cost allocation method for DR costs.

a) Fairness

DACC-AReM stated that their proposal achieves a "level playing field." SDG&E questioned what a level playing field means.

b) Function

CLECA recommended the Commission consider the function of a DR program when determining how to allocate its costs. TURN sugge sted that there may be some relevance in looking at why a program is dispatched, such as for distribution benefits, system benefits, or local reliability. SCE sugge sted that focusing on function of a DR program may not help because programs serve multiple functions (e.g. reducing generation needs, alleviating transmission congestion, etc.). CLECA agreed with SCE's point.

c) Benefits

TURN stated that while the function of a DR program has some relevance, it makes more sense to look at the benefits of a DR program. TURN sta ted that benefits certainly go to participating customers but that there also benefits to others by treating it as an alternative to generation. TURN a lso pointed out that there are benefits in terms of reliability for the entire system that all customers experience.

CLECA pointed out that DR, even if it is being used as a substitute as a generation resource, has benefits to the transmission and distribution systems. DACC-AReM acknowledged that point, but also noted that the same can be true of all generation resources or DSM programs offered by ESPs. DACC-AReM stated that while there are benefits other than replacing generation, the primary purpose of DR is to replace generation. TURN stated that because DR is primarily a capacity program, its primary purpose is to replace the equivalent of combustion turbine. CAISO sta ted that DR can be used for system or local reliability.

ORA stated that DR is at the top of the loading order and that all customers experience reliability and environmental benefits. ORA's position is that DR program costs should be spread across all customers unless a party can demonstrate that they do not benefit from DR programs. AReM sta ted that ESPs and CCAs can deploy interconnected solar but only their customers pay for that even though it has benefits for the entire system.

d) Obligation

SDG&E raised the question of whether ESPs and CCAs should have the same DR obligations as the IOUs. DACC-AReM stated that it depends on whether the Commission wants to move in that direction and that the issue of a DR obligation is separate from cost allocation. PG&E sugge sted that whether the Commission has the jurisdiction to impose DR obligations on third-party LSEs would have to be considered.

SCE stated that a fundamental question is whether the IOUs' have an obligation to procure DR, because it is at the top of the state's loading order, on behalf of all customers or just bundled-service customers.

e) Jurisdiction

During a discussion about whether the Commission should apply the Cost Allocation Mechanism (CAM) to allocate DR program costs, MCE noted that the CAM is authorized by statute for certain purposes. Several parties noted that Commission does not have jurisdiction regarding a CCA's procurement, so a CAM-like cost allocation approach may not carry any weight for CCAs unless it was required by statute.

f) Customer eligibility

MCE stated that it is important for the Commission to consider eligibility. As an example, MCE noted that its customers pay for PG&E's dynamic pricing programs (SmartRate and Peak Day Pricing) but are not eligible to participate in those programs. CLECA stated that CCAs use IOU billing systems and that if they want to offer their own dynamic rates and avail themselves of using the IOU billing systems. AReM suggested CLECA's point is not relevant because CCAs pay the IOU to use their billing system. PG&E noted that there are certain systems and parts of an organization that serve all customers and that it does not make sense to talk about such systems in terms of allocating DR costs.

MCE stated that if the costs for an IOU DR program for which CCA customers are not eligible are allocated to all ratepayers, and a CCA wants to offer a similar DR program, the CCA customers will be paying twice for one program. CLECA suggested a way to help mitigate this issue could be to separate allocation of program administration costs from allocation of costs for incentives.

g) Other Issues

Shell suggested that supply resource DR is a competitive service and that the IOUs should be excluded from offering supply resource DR due to Affiliate Transaction Rules. PG&E disagreed that Affiliate Transaction Rules apply in this situation to IOU procurement. ALJ Hymes sta ted that parties who want to discuss Affiliate Transaction Rules should do so in their briefs.

ATTACHMENT B

CORRECTIONS TO SECTION II.D OF DRAFT WORKSHOP REPORT

D. Bifurcation/Categorization of load modifying resource and supply side resource demand response (June 10, morning and afternoon)

A participant from the CAISO provided the following summary of characteristics for supply resource DR and characteristics for load modifying DR resources, based on their view:

	Load modifying resource (LMR)	Supply resource (SR)
Dispatchability	Dispatchable by IOU	Dispatchable by ISO
Relation to resource adequacy requirement	"Value": can reduce RA requirement	"Credit": can meet RA requirement
Bidding into ISO	Cannot be bid into ISO	Can be bid into ISO (CLECA) Should be bid into ISO (CAISO)
Trading/fungibility	Cannot be traded, cannot be substituted for a generating resource	Can be traded

1. Value vs. credit

The parties agreed that Load Modifying Resource (LMR) DR has RA value and can *reduce* the resource adequacy (RA) requirement, while Supply Resource (SR) DR can *meet* the RA requirement (that is, it can count towards "RA credit"). Some parties ~~They~~ also generally agreed that the ~~magnitude of the~~ RA value of LMR DR should be consistent with the RA credit that SR DR receives.

TURN expressed concern that if a DR resource meets RA requirements, then that DR resource should be displacing new generation, but this may not always be the case.

2. Load and resource forecasts

All parties agreed on the need for clarification as to how the California Energy Commission's (CEC) load forecast is impacted by DR programs and by the bifurcation of DR into LMR and SR. Double procurement should be avoided. It was generally acknowledged that CPUC definitions for RA and CEC load forecasting methods have been changed in the past.

PG&E noted that every April, the IOUs file their annual Load Impact Reports, which are used to determine the capacity value of DR for Resource Adequacy (RA) and Long-Term Procurement Plan (LTPP) purposes. Most DR is normally counted as a supply-side resource for CEC's forecast which reduces the amount of new generation procured in the RA and LTPP proceedings. For most DR programs, load reductions are added back to the load data so the CEC's load forecast is established without DR called. The CEC recently reclassified IOU Critical Peak Pricing and Peak Time Rebate programs as demand-side programs (and therefore should reduce the load forecast), but if the CPUC counts the RA value of these programs, then these programs would be double-counted. The ALJ noted