

**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)

**REPLY BRIEF OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E)
ON IDENTIFIED PHASE TWO AND PHASE THREE ISSUES**

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OTHER AUTHORITIES

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SUMMARY OF RECOMMENDATIONS

Rule 13.11 of the Commission’s Rules of Practice and Procedure requires a “summary of the briefing party’s recommendations following the table of authorities.” To this end, San Diego Gas & Electric Company (SDG&E) provides the following summary of its recommendations on Participation in Demand Response Auction Mechanism (DRAM) Pilot. SDG&E respectfully requests that the Commission’s decision in Phase Two and Phase Three of this proceeding resolve this issue as recommended in this Reply Brief and summarized as follows:

- The Commission should not impose any limit on customer or aggregator participation in SDG&E Demand Response (DR) programs while the DRAM Pilots are administered.
- Caps on SDG&E DR programs could frustrate the ability of SDG&E to increase the level of DR in its service area and to achieve the goals contained in the Settlement Agreement.

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San Diego Gas & Electric Company (SDG&E) submits this Reply Brief in Phase Two and Phase Three in this Demand Response (DR) Rulemaking (R. 13-09-011). This Reply Brief being filed and served pursuant to the Commission's Rules of Practice and Procedure (Rule 13.11) and the Administrative Law Judge's (ALJ's) Email Ruling served on August 13, 2014.

I.

**THERE SHOULD BE NO LIMITATION ON DR PROCUREMENT
TO ENCOURAGE PARTICIPATION IN THE DRAM PILOT**

The Settling Parties agreed that implementation of the DRAM should begin with two Demand Response Auction Mechanism (DRAM) "pilot" auctions. One of the pilot auctions is to be held in 2015 for system resources that are deliverable in 2016 and beyond;¹ and the other is to be held in 2016 for system, local and flexible resources that are deliverable in 2017 through 2019.² The design of the DRAM Pilot will be developed through a soon-to-be initiated process.³

In their Opening Briefs, the Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN) each argue that the DRAM should be the preferred means of procuring DR resources.⁴ ORA and TURN both assert that the DRAM pilot may fail to attract participants, not because the mechanism is ineffective, but because customers and aggregators will have other

¹ August 4 Motion for Adoption of Settlement Agreement, Appendix A (Settlement Agreement), at 27.

² Id.

³ Id., at 24-25.

⁴ ORA Opening Brief, at 4-5; TURN Opening Brief, at 7-10.

options for DR participation, some of which may be more attractive than participating in the DRAM Pilot.⁵ In order to encourage participation, ORA and TURN ask that the Commission direct that other means of soliciting DR resources be limited by either a cap being placed on customer and aggregator participation in Investor Owned Utility (IOU) Requests for Offers (RFOs),⁶ or that the Commission set-aside a specific local area, a specific customer program, a specific customer class, or a specific end use whose DR will be procured exclusively through the DRAM Pilot.⁷

Since SDG&E has only a single local area, ORA and TURN's recommendation would be to limit aggregator and/or customer participation in a single customer program (or sub-program) such as the Capacity Bidding Program (or Capacity Bidding Day-of Sub-program), or a specific end use such as air conditioning cycling. SDG&E believes this proposed limitation on other DR programs during the DRAM pilot auction period is unnecessary to encourage participation in these pilot auctions. The past experience of SDG&E is that existing customers will migrate to new programs. As indicated in the Rebuttal Testimony of David Barker, past SDG&E RFO-selected Demand Response contracts were failures not because they could not attract customers from existing programs, but because they could not attract new customers and incremental DR.⁸ Roughly two-thirds of the enrolled load of the aggregator-managed "DemandSmart" program migrated from existing utility programs to the new program.⁹ Past experience suggests TURN and ORA's concerns are unfounded.

⁵ ORA Opening Brief, at 8-10; TURN Opening Brief, at 7-8.

⁶ ORA Opening Brief, at 10-11.

⁷ TURN Opening Brief, at 7-10.

⁸ Barker Rebuttal, at DTB-3.

⁹ Id.

ORA questions - “Why would customers participate in DRAM for potentially lower payments in a competitive auction than what is available through participation in utility programs?”¹⁰ But as SDG&E witness Barker pointed out, the DRAM is only providing compensation for Resource Adequacy and the third party aggregator can keep all earnings from the sale of energy and ancillary service products in CAISO markets.¹¹ The DRAM pilot should be attractive for fast response DR that can access earning streams from price spikes in the real time energy markets and from provision of ancillary services. There is no evidence that SDG&E DR program offerings will limit participation in the DRAM Pilot Auctions.

II. ANY LIMITATION ON SDG&E DR PROGRAMS TO ENCOURAGE PARTICIPATION IN THE DRAM PILOT MAY REDUCE TOTAL DR

If the Commission were to institute caps on SDG&E DR programs, there is a significant risk that overall DR levels in SDG&E’s service area will be reduced and its ability to achieve the goal of increase levels of DR established in the Settlement Agreement will be hindered.¹² As ORA points out in its Opening Brief,

“Although D.14-03-026 requires that operational bifurcation of DR programs occur beginning with the 2017 demand response program year, it is not clear the extent to which the existing DR programs could be integrated into the CAISO markets as supply resources. In fact, the Settlement provides for setting up a Supply Resource Demand Response Integration Working Group to (1) identify areas where requirements for integration of supply resources demand response into CAISO markets are adding significant cost and complexity, to determine whether these requirements can be simplified or changed without creating operational problems, to prioritize these possible changes, and to resolve them; and (2) identify program modifications and operational techniques to make demand response programs more suitable and successful as supply resources.”¹³

¹⁰ ORA Opening Brief at 9.

¹¹ Barker Opening Testimony at DTB-4.

¹² SDG&E Opening Brief at 3.

¹³ ORA Opening Brief at 3.

Placing limits on DR programs may leave some SDG&E customers without a viable option if they do not meet the requirements to be supply-side resources that result from the Supply Resource Demand Response Integration Working Group.

**III.
IF THE COMMISSION IMPOSES LIMITS ON SDG&E DR PROGRAMS,
AUCTION CLEARING PRICES WILL DETERMINE SUCCESS OR FAILURE**

If the Commission caps SDG&E customer participation in certain DR programs (or sub-programs) to encourage participation in the DRAM Pilot, it should be made clear that auction clearing prices will be a measure of success or failure. Under a DRAM pilot where customers and aggregators have access to other DR programs, the price of the highest bid accepted will likely be similar to the other alternatives since losers in the auction can go to other programs.

If there is no alternative for aggregators or customers other than the DRAM pilot, the highest bid accepted will be a test of whether the mechanism can reduce DR procurement costs. Because the successful bidders get to keep CAISO market revenues, the highest bid accepted should be well below the payments made in the capped DR program(s).

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Respectfully submitted

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