

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

Order Instituting Rulemaking Regarding
Policies and Protocols for Demand Response,
Load Impact Estimates, Cost-Effectiveness
Methodologies, Megawatt Goals and
Alignment with California Independent System
Operator Market Design Protocols

Rulemaking 07-01-041
(January 25, 2007)

**REPLY COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR TO
ASSIGNED COMMISSIONER AND
ADMINISTRATIVE LAW JUDGE'S RULING
ESTABLISHING DIRECT PARTICIPATION PHASE AND
REQUESTING COMMENT RE: DIRECT PARTICIPATION OF RETAIL
DEMAND RESPONSE IN CAISO ELECTRICITY MARKETS**

The California Independent System Operator Corporation (ISO) submits the following reply comments with respect to the Assigned Commissioner and Assigned Administrative Law Judge's Ruling Amending Scoping Memo, Establishing a Direct Participation Phase of this Proceeding, and Requesting Comment on Direct Participation of Retail Demand Response in CAISO Electricity Markets dated November 9, 2009 (hereinafter "Direct Participation Scoping Ruling")¹. The ISO and other parties submitted initial comments on December 4, 2009.

1. The Commission needs to establish a clear path for how it plans to address RA counting rules for direct bid-in demand response resources

The ISO supports remarks raised by PG&E and DRA concerning the issue of direct participation and resource adequacy counting.² The ISO encourages the Commission to communicate a clear path forward to address how demand response

¹The ISO is sometimes referred to as the CAISO. This document will carry over this naming style when referring to other documents that utilize CAISO, such as the Direct Participation Scoping Ruling or portions of the CAISO tariff.

² See Comments of Pacific Gas and Electric Company (U 39 E) on the Demand Response Order Instituting Rulemaking for Direct Participation in the California Independent System Operator Markets at p11. PG&E's comments are posted on the CPUC Web site at <http://docs.cpuc.ca.gov/efile/CM/110898.pdf> ; Comments of the Division of Ratepayer Advocates (DRA), dated December 4, 2009, p.2. DRA's Comments are posted on the CPUC Web site at <http://docs.cpuc.ca.gov/efile/CM/110711.pdf>.

resources that directly participate in the wholesale market can qualify for Resource Adequacy (RA) capacity payments. Resource Adequacy qualification and/or access to RA capacity payments for demand response resources offered by third party demand response providers into the wholesale market is essential to driving increased participation from demand response resources. This access is also essential to fulfilling the Commission's policy mandate that there be greater integration between retail and wholesale demand response.³

The ISO is cognizant that this specific proceeding will not address the issue of access to RA capacity payments; however, the ISO encourages the Commission to coordinate and specify a "way forward" on this critical issue in its April decision.

2. The ISO's Proxy Demand Resource product sufficiently addresses the "double payment" issue

The ISO would clarify that its wholesale demand response product called Proxy Demand Resource addresses the "double payment" concern raised by DRA.

Specifically, DRA states that:

If communications between the scheduling coordinators are unclear, the Load Serving Entity will forecast its demand too high for days on which its customers will actually be participating in a CAISO DR event. In that case, ratepayers will be forced to pay twice as resources will be procured for customers who will already reduce load because the SC will not know to adjust its forecast.⁴

Assuming that the remuneration concerns for the forward procurement of energy by the load-serving entity area are addressed in a commercial arrangement between the load serving entity and the demand response provider, the Commission need not be as concerned about the real-time communication protocols, and therefore, the double payment concern, between the load serving entity and the demand response provider.

³ For example, in D.09-08-027 (issued in A.08-06-001 et al, approving the IOU demand response applications for DR cycle 2009-2011), the CPUC instructed the IOUs to better integrate their existing Demand Response resources into the CAISO's energy and ancillary services markets. Earlier, in D.05-11-009 the Commission indicated its desire to promote price-responsive demand response and recognized the need for additional work to integrate demand response programs into the resource planning process. This was a precursor to the current rulemaking R07-01-041.

⁴ Comments of the Division of Ratepayer Advocates (DRA), dated December 4, 2009, p. 4. DRA's Comments are posted on the CPUC Web site at <http://docs.cpuc.ca.gov/eFile/CM/110711.pdf>.

As the ISO conveyed in its December 4 Comments:

To this point, the ISO's Proxy Demand Resource product anticipates that this commercial arrangement is in place, and therefore, is structured so that load serving entities do not have to be particularly concerned about the real-time actions of a demand response provider. The intent of the Proxy Demand Resource design was to enable the load serving entities to go about their business of forecasting and scheduling load and remain effectively unharmed by the actions of the demand response provider. To this end, the ISO subtracts the performance of the PDRs from the load-serving entities uninstructed load deviations in the PDR settlement process. Thus, any actions the load serving entity takes to alter its forward procurement in anticipation of load curtailments by demand response providers is another a form of arbitrage between the utilities forward procurement cost for energy and the ISO's real-time market clearing price.⁵

3. Dual Participation by having customers enrolled in multiple wholesale demand response resources is not possible

Question 6 and 7, attached to the Direct Participation Scoping Ruling seek input as to whether a demand response load can be enrolled in multiple demand response programs and used for multiple purposes.⁶ The Joint Parties (consisting of

⁵ Comments of the California Independent System Operator to Assigned Commissioner and Administrative Law Judge's Ruling Establishing Direct Participation Phase and Requesting Comment re: Direct Participation of Retail Demand Response in CAISO Electricity Markets (SO December 4 Comments), at p. 6. These comments can be accessed on the CPUC's Web site at:

<http://docs.cpuc.ca.gov/eFile/CM/110902.pdf>.

⁶ Appendix A to the Direct Participation Scoping Ruling contains 19 questions for the parties. Questions 6 and 7 are as follows:

6. When an IOU or other demand response service provider is not using a particular retail demand response program resource for an event, are there existing restrictions that prevent the entity managing that retail demand response resource from bidding the demand response load from those same retail participants into the CAISO markets outside of the context of the retail program? If so, what are these restrictions, and how if at all should they be modified? Please provide specific proposals for modifying these rules, if necessary.

7. If an IOU or other demand response provider is allowed to bid demand response load that is also part of a retail demand response program into the CAISO markets outside the context of the existing retail program on non-event days, what information flow is necessary between the IOU, the demand response service providers (if any) and the customer providing the load drop to ensure transparency in the process? Please provide specific information-flow proposals that include the information each party would need to make such transactions possible, and methods for ensuring that those communications are successful.

EnerNOC, Inc., Energy Connect, Inc., and CPower, Inc.), for example, state that “[they] are not aware of any existing restrictions in the utilities’ tariffs that would prohibit the pool of existing DR resources from bidding into the CAISO markets when the resources are not being used.”⁷

The ISO’s concern is that even if this statement is correct, the reality is that if the retail DR program or demand response contract operates in the wholesale market in certain hours or days as a Proxy Demand Resource, then those customers that are already enrolled in that Proxy Demand Resource cannot be simultaneously enrolled and active under *another* Proxy Demand Resource. At this juncture in the ISO’s development of demand response at the wholesale level, the simple rule that applies is: *a customer service account can only be associated with one demand response provider and one Scheduling Coordinator at a time*. Any notion of “dual participation” must respect this rule with regard to demand response resources that participate at the wholesale level, which, over time, should be most resources, as the Commission strives for the greater integration between retail and wholesale demand response.

Furthermore, if dual participation of the type that allows a customer to be enrolled in an “un-integrated” retail demand response program and also as part of a wholesale demand response resource, then coordination around those customers would be essential, for example, so that both *retail* and *wholesale* “event days” would be considered in the respective retail and wholesale baseline calculations. While this type of dual participation may be technically feasible, it would be administratively complex, requiring tight coordination and communication between the various involved parties, including the load-serving entity, the demand response provider, and the ISO.

⁷ Comments of EnerNOC, Inc., Energy Connect, Inc., and CPower, Inc., on Direct Participation of Retail Demand Response in CAISO Electricity Markets, at pp. 5-6. These comments are located on the CPUC Web site at <http://docs.cpuc.ca.gov/eFile/CM/110912.pdf>.

4. The CAISO's Demand Response System provides a formal communication link between load-serving entities, demand response providers and the CAISO, enabling customer service account enrollment and approval, but clear eligibility rules must be established

Question #9, attached to the Direct Participation Scoping Ruling, seeks input on what types of settlement and communication problems may arise due to the implementation of direct participation. In response, SCE remarks that:

Another communication issue is the eligibility of a DR resource to participate in the wholesale market. Retail and wholesale requirements should be established to ensure that a DR resource cannot simultaneously participate in retail and wholesale events and thereby receive double payment for the same load reduction.⁸

SCE's comment highlights that the Commission must establish clear eligibility requirements, so that a load-serving entity has the pre-defined reasons for accepting or rejecting the enrollment of a specific customer service account in a wholesale demand response product. Ambiguity in eligibility rules will create uncertainty, subjectivity, disputes, and, ultimately, erect a barrier to participation.

The ISO's Demand Response System addresses part of this issue, in that it provides the important communication link between load-serving entities, demand response providers and the ISO⁹. The ISO's Demand Response System also satisfies FERC's requirement that load-serving entities be notified when an entity is to enroll in a demand response resource and the expected level of participation by that entity. Specifically, FERC states in Order 719-A:

We direct each RTO and ISO, through the stakeholder process, to develop, at a minimum, a mechanism through which an affected load-serving entity would be notified when load served by that entity is enrolled to participate, either individually or through an ARC [Aggregator of Retail Customers], as a demand response resource in an RTO or ISO market and the expected level of that participation for each enrolled demand response resource.¹⁰

⁸ Southern California Edison Company's Comments on Assigned Commissioner and Administrative Law Judge's Ruling Amending Scoping Memo, Establishing a Direct Participation Phase of this Proceeding, and Requesting Comment on Direct Participation of Retail Demand Response in CAISO Electricity markets (SCE Comments) at p. 15. These comments are posted at <http://docs.cpuc.ca.gov/eFile/CM/111667.pdf>.

⁹ The system does not resolve underlying qualification issues (i.e. qualification of the resource to participate). This issue is a policy issue which is extraneous to the ISO's DR infrastructure.

¹⁰ FERC Order 719-A, Order on Rehearing, Docket No. RM07-19-001, July 16, 2009, ¶ 69. The order can be accessed at <http://www.ferc.gov/whats-new/comm-meet/2009/071609/E-1.pdf>,

The ISO has built this crucial LSE-ISO communication link in the Proxy Demand Resource product implementation by including a task list feature within the software applications which the ISO calls the “Demand Response System.” This notification is consistent with the original policy for the ISO’s Proxy Demand Resource product, to which stakeholders agreed, that the CAISO’s demand response registration process “provides a series of controls to ensure the appropriate acknowledgement to required parties of Proxy Demand Resource registrations, most important being those to the load-serving entity and/or the utility distribution company....”¹¹

Consistent with this FERC notification requirement, a Demand Response Provider will begin the enrollment process for a demand response resource by logging into the ISO-operated Demand Response System and entering key enrollment data about the demand response resource, including its expected level of participation. The Demand Response Provider will provide the total load and load reduction capacity of the demand response resource into the Demand Response System.¹² Once all data are entered into the Demand Response System, the Demand Response Provider will submit the enrollment for approval by various parties, including the load-serving entity serving the underlying load of the enrolled demand response resource. It is at this stage in the registration process that clarity around eligibility must be clear, so that the approval process moves forward without delay or dispute. Once the enrollment is approved, the Demand Response System will automatically update all task lists to ensure that all parties are appropriately and timely notified.¹³ In addition, the load-serving entity has certain access rights to the ISO’s Demand Response System and can log into the system, as desired, to see all enrolled demand response resources within its service territory, including those that require enrollment approval. A newly enrolled demand response

¹¹ ISO Draft *Final Proposal for the Design of Proxy Demand Resource (PDR)*, Revised on August 28, 2009, at 20, available at <http://www.caiso.com/241d/241da56c5950.pdf>.

¹² Total Load represents the underlying load of the demand response resource. Load Reduction Capacity represents the maximum amount of load reduction that can be provided by a given demand response resource.

¹³ The following ISO business requirements are being used to guide the implementation of the above mentioned solution: (1) PDR.DR.BRQ000200, (2) PDR.DR.BRQ000300. The ISO Business Requirements Specification for Proxy Demand Resources can be found at <http://www.caiso.com/2494/249473613ffe0.pdf>

resource will remain on the load-serving entity's task list, for approval, for ten days from the date of submittal by the demand response provider. If a load-serving entity takes no action within this 10-day window, the enrollment will be automatically approved.

The Direct Participation Phase recognizes that the underlying eligibility rules for participation of retail load in wholesale demand response must be clearly established by the Commission as the Local Regulatory Authority. As stated in the Direct Participation Scoping Ruling,

This Ruling identifies issues the Commission should address given a Federal Energy Regulatory Commission (FERC) order that requires CAISO to allow retail electric customers to bid Demand Response resources directly in the CAISO's wholesale electricity markets *if state laws and rules do not prohibit such bidding, and subsequent CAISO efforts to allow such direct participation.*¹⁴

In its Proxy Demand Resource implementation activities, the ISO is establishing a clear process and mechanism to ensure that communication between all affected parties in the demand response resource registration process is efficiently accomplished, so that those retail load resources that are not prohibited by state law from doing so can participate.

Dated: January 22, 2010

Respectfully submitted,

By: /s/ **Baldassaro "Bill" Di Capo**
Baldassaro "Bill" Di Capo, Esq., Counsel
CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION
151 Blue Ravine Road
Folsom, CA 95630
Tel. (916) 608-7157
Fax (916) 608-7222
E-mail bdicapo@caiso.com

¹⁴ Direct Participation Scoping Ruling at p. 2.

CERTIFICATE OF SERVICE

I hereby certify that on January 22, 2010 I served, on the Service List for Proceeding R.07-01-041, by electronic mail and United States mail, a copy of the foregoing

REPLY COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM
OPERATOR TO ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW
JUDGE'S RULING ESTABLISHING DIRECT PARTICIPATION PHASE
AND REQUESTING COMMENT RE: DIRECT PARTICIPATION OF RETAIL
DEMAND RESPONSE IN CAISO ELECTRICITY MARKETS

Executed on January 22, 2010 at
Folsom, California

Anna Pascuzzo

Anna Pascuzzo,
An employee of the California
Independent System Operator