

Decision **PROPOSED DECISION OF ALJ FARRAR** (Mailed 11/16/2010)

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
(Filed January 25, 2007)

**DECISION REGARDING PHASE FOUR DIRECT PARTICIPATION:
AUTHORIZATION FOR INVESTOR-OWNED UTILITIES TO PARTICIPATE IN
BIDDING OF THE CAISO'S PROXY DEMAND RESOURCE PRODUCT**

1. Summary

The California Public Utilities Commission here authorizes the Investor Owned Utilities to participate in bidding of the California Independent System Operator's (CAISO) Proxy Demand Resource product into the CAISO wholesale markets subject to conditions discussed in prior and upcoming decisions and Advice Letters.

2. Background

Demand Response resources are highly valued in California's Energy Action Plan and Loading Order in order to reduce reliance upon peaking generation resources. Peaking generation units not only are typically less efficient than most base load power plants, but also contribute

disproportionately to greenhouse gas emissions and local air pollution.¹ The California Public Utilities Commission (Commission or CPUC) has developed a variety of retail Demand Response products through its oversight of the Investor Owned Utilities (IOUs).² With the development of the California Independent System Operator's (CAISO) price-based wholesale electricity markets in the last several years, the Commission recognized that our retail Demand Response programs could be modified to more efficiently and effectively operate within the CAISO's contemplated markets.³

In response to the Federal Energy Regulatory Commission's (FERC) Orders 719 and 719-A,⁴ which directed Independent System Operators to expand Demand Response functionality in their wholesale markets, the CAISO developed the Proxy Demand Resource (PDR) product. The PDR product permits retail energy customers to bid their own demand response capabilities, either on their own behalf or through an aggregator, directly into the CAISO's

¹ See *Energy Action Plan[,]* 2008 Update, published in February of 2008, at 10, available at http://www.cpuc.ca.gov/NR/ronlyres/58ADCD6A-7FE6-4B32-8C70-7C85CB31EBE7/0/2008_EAP_UPDATE.PDF.

² Decision (D.) 09-08-027, *Decision Adopting Demand Response Activities and Budgets for 2009 Through 2011*, issued in Applications 08-06-001, 08-06-002 and 08-06-003 at 212-214.

³ *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*, issued on January 25, 2007 in Rulemaking (R.) 07-01-041 at 4.

⁴ See *Wholesale Competition in Regions with Organized Electric Markets* (Order 719), issued on October 17, 2008 in Docket Nos. RM07-19 and AD07-7 at 15-154; and *Wholesale Competition in Regions with Organized Electric Markets*, Order on Rehearing (Order 719-A), issued on July 16, 2009 at 13-117.

organized markets, just as a traditional generation resource would do.⁵ The CPUC has stated that “[t]he Proxy Demand Resource product may facilitate implementation of California’s Loading Order, by allowing demand response resources (i.e., retail customers and their loads) to bid ‘negawatt’ energy and/or Ancillary Services directly into the CAISO day-ahead and real-time markets . . .”⁶

The Commission Decision on *Phase Four Direct Participation Issues* (Direct Participation Decision) directed the California IOUs to modify existing Demand Response pilot programs to prepare to bid those resources into the CAISO wholesale markets as PDR.⁷ That Decision reserved the Commission’s final judgment on whether and under what conditions the IOUs should actually bid their PDR pilots into the CAISO’s wholesale markets until after the FERC approved the CAISO’s PDR tariff.⁸ The Direct Participation Decision also directed interested parties to “closely monitor FERC Docket No. ER10-765 and be prepared to expeditiously evaluate the FERC’s decisions on the proposed PDR product and comment on whether the CPUC should order the IOUs to participate in the CAISO’s PDR bidding process after such tariff language is

⁵ CAISO *Tariff Amendment to Implement Proxy Demand Resource Product*, filed in FERC Docket No. ER10-765 on February 16, 2010, Transmittal Letter at 1.

⁶ *Notice of Intervention And Comments of the California Public Utilities Commission Regarding California Independent System Operator’s February 16th, 2010, Filing Regarding Proxy Demand Resource Product*, filed in FERC Docket No. ER10-765 on March 9, 2010 at 2.

⁷ D.10-06-002, *Decision on Phase Four Direct Participation Issues*, issued on June 3, 2010 in R.07-01-041 at Ordering Paragraph. 5.

⁸ Direct Participation Decision at 20.

finally approved by the FERC.”⁹ The FERC issued an order accepting the CAISO’s proposed tariff on July 15, 2010.¹⁰

On August 12, 2010, the assigned Administrative Law Judge (ALJ) issued a ruling that requested input on “whether and to what extent the IOUs should be authorized to participate in the CAISO’s PDR product bidding”¹¹ Parties that filed initial comments on August 27, 2010 were: Southern California Edison Company (SCE), Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), the CAISO, and the Division of Ratepayer Advocates (DRA). PG&E filed reply comments on September 2, 2010.

3. Comments

The parties who submitted comments universally supported allowing the IOUs to bid modified versions of existing retail Demand Response programs into the CAISO’s wholesale markets. SDG&E stated, “[t]he design of the [Proxy Demand Resource] product is anticipated to provide a resource to help meet short-term energy delivery needs such as those associated with morning and evening ramps, and intermittent spikes that are anticipated to increase with further integration of renewable resources”¹² The CAISO noted that, “[t]he 2009 Participating Load Pilot Programs successfully demonstrated the technical

⁹ *Id.*

¹⁰ FERC Order Conditionally Accepting Tariff Changes and Directing Compliance Filing, issued on July 15, 2010 in Docket No. ER10-765.

¹¹ Administrative Law Judge’s Ruling on Phase Four Direct Participation Issues, issued on August 12, 2010 in R.07-01-041 at 2.

¹² Comments of SDG&E to Administrative Law Judge’s Ruling on Phase Four Direct Participation Issues at 1.

feasibility of using demand response resources . . .” and expects similar results from the PDR product.¹³

Parties also observed that the long-term potential for PDR may be best achieved through pilot programs that would aid the evaluation of the challenges and impacts of the new features of the PDR product. As stated by SDG&E, “hands-on experience is required.”¹⁴ The CAISO observed, “Invaluable lessons were learned and experience gained from bidding [Participating Load Pilot] resources into the wholesale market.”¹⁵ As observed by DRA, “all three pilots could provide answers to at least some of the issues identified during the workshops and in comments previously filed in Phase Four” of this proceeding.¹⁶

4. Analysis

The CPUC is pleased to be making progress on the development of new Demand Response resources that are likely not only to facilitate the state’s aggressive greenhouse gas emissions goals, but to also diminish the need to spend ratepayer dollars to build and maintain additional, infrequently used peaking generation units. We agree with SDG&E that implementing PDR pilots will further the goals of renewable resource integration. We also agree that

¹³ *Comments of the CAISO re: Administrative Law Judge’s Ruling Seeking Input on Phase 4 Direct Participation Issues* at 2.

¹⁴ *Comments of SDG&E to Administrative Law Judge’s Ruling on Phase Four Direct Participation Issues* at 1.

¹⁵ *Comments of the CAISO re: Administrative Law Judge’s Ruling Seeking Input on Phase 4 Direct Participation Issues* at 2.

¹⁶ *Opening Comments of the DRA in Response to ALJ Ruling on Phase Four of R.07-01-041* at 2.

knowledge and insights gained through IOU pilot PDR programs will help support our efforts to resolve questions regarding long-term procurement value, Resource Adequacy counting conventions, baseline calculations, communications needs arising from the increased use of Demand Response resources, and the need for development of consumer protection policies prior to the consideration of whether and how to implement more comprehensive PDR programs.¹⁷

The details of each utility's participation in PDR bidding shall be addressed within the scope of their individual advice letters, submitted pursuant to the Direct Participation Decision's Ordering Paragraph Five.

5. Assignment of Proceeding

Dian M. Grueneich is the Assigned Commissioner. Darwin E. Farrar and Jessica T. Hecht are the assigned ALJs and Principal Hearing Officers in this proceeding.

6. Comments on Proposed Decision

The proposed decision of ALJ Farrar in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on December 6, 2010 by _____.
~~Reply~~ SCE and PG&E. No reply comments were filed ~~on~~ _____ 2010
~~by~~ _____.

¹⁷ See *Opening Comments of the DRA in Response to ALJ Ruling on Phase Four of R.07-01-041 at 2*; and *Comments of SDG&E to Administrative Law Judge's Ruling on Phase Four Direct Participation Issues at 1-2*.

Findings of Fact

1. Demand Response resources are likely to prove valuable to assure the reliability of California’s electric supply, reduce greenhouse gas emissions and assist in the incorporation of renewable resources into the grid.

2. The CPUC’s existing retail Demand Response programs were generally developed before the CAISO’s contemplated development of price-based wholesale energy markets.

3. It is appropriate for the CPUC to modify some portion of its retail Demand Response programs to integrate with the CAISO’s wholesale markets to increase the value and usefulness of such programs.

4. The CPUC supports the development of the CAISO’s Proxy Demand Resource product.

Conclusion of Law

~~1.~~—The Commission retains discretion to determine when, whether, and under what conditions the IOUs may participate in the bidding of retail Demand Response Load into the CAISO’s energy markets.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company, Pacific Gas and Electric Company, and San Diego Gas & Electric Company are authorized to participate in bidding of the Proxy Demand Resource product in the California Independent System Operator’s wholesale markets subject to restrictions that the Commission imposed in Decision 10-06-002 and may impose in the future.

2. The details of each utility's participation in Proxy Demand Response bidding shall be addressed within the scope of their individual advice letters, ~~to~~ be that were submitted pursuant to the Ordering Paragraph 5 in Decision 10-06-002.

This order is effective today.

Dated _____, 2010, at San Francisco, California.

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