

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



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Order Instituting Rulemaking 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)

**COMMENTS OF SAN DIEGO GAS AND ELECTRIC COMPANY (U902E) ON  
PROPOSED DECISION ADOPTING GUIDANCE FOR FUTURE DEMAND  
RESPONSE PORTFOLIOS AND MODIFYING DECISION 14-12-024**

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**I. INTRODUCTION**

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission ("CPUC" or "Commission"), San Diego Gas and Electric Company ("SDG&E") hereby submits its Opening Comments on the Proposed Decision ("PD") Adopting Guidance for Future Demand Response Portfolios and Modifying Decision 14-12-024.

SDG&E's Opening Comments focus on the following:

- The Commission should avoid adoption of the new mandate contained in Ordering Paragraph 13 while the integrated resource planning ("IRP") process is being defined. The IRP process is intended to produce an integrated, holistic resource planning strategy that avoids the current approach of mandating procurement through siloed, resource-specific proceedings. OP 13 is an example of a mandate developed in isolation of the IOUs' respective portfolios and need. OP 13 sets an upper limit procurement amount without regard to varying customer characteristics (developed in the DR Potential Study), grid characteristics, and reliability needs in different areas of the state. Further, as more load moves to non-IOU service providers, the Commission must develop policies that ensure that all load serving entities ("LSEs") bear an equal burden in meeting the State's policy goals, which OP 13 does not do.
- The PD does not provide a clear argument for why, without the analysis required by OP 11, DRAM should become a permanent program with the characteristics outlined in OP 13.
- The requirement to procure 200MW of DRAM does not address SDG&E's needs and portfolio fit. The allocation to SDG&E ignores the DR Potential Study, the normal load share allocation method, and the allocation of the DRAM pilot.

## **II. OP 13 IS A BARRIER TO THE INTEGRATED RESOURCE PLAN**

OP 13 would establish supply-side DR as a must-take mandate, creating a barrier to implementing integrated resource planning. The IRP process should consolidate all authorized procurement in a single place and should determine the quantities of needed resources in an integrated fashion. SDG&E recognizes that different proceedings are on different timelines, and thus, not all proceedings can be integrated immediately. However, the Commission should not adopt a barrier to implementing a proper design of the IRP process. It should be a goal of the Commission to integrate all planning as soon as is practical and not create a barrier as OP 13 would do.

Having stated the above, SDG&E sees the challenge that the Commission faces in ordering significant change in a chronology that is the most prudent given competing goals, mandates, legislation, and, most often, proceedings including the IRP proceeding. To this end, SDG&E suggests that the Commission consider taking a similar approach as that recently taken in the Energy Efficiency (“EE”) Decision (D.16-08-019). While the Decision makes significant changes to how the goals and metrics will be set (pertaining to baseline policy), that Decision rightly understands that items such as those in the area of EE will need to be updated due to the impact of outside forces. Specifically, the Decision acknowledges that “our method for setting goals ultimately must align with the overall framework not only for the Commission’s funding of ratepayer-supported energy efficiency programs, but also for the CEC’s forecasting activities and the utilities’ electricity and natural gas procurement.”<sup>1</sup> Because DR is addressed in the Integrated Energy Policy Report (“IEPR”), the CEC’s forecasts, and the IRP, DR will need to react to those changes as they occur and as their impacts are identified.

Conclusion of Law (“COL”) 16 states, “The Commission should determine the issue of integrating demand response with other resources in rulemakings 14-08-013 and 14-10-003.” OP 13 would establish the DRAM program as “the main procurement mechanism for resource adequacy capacity from all third-party demand response providers.” OP 13 has “jumped the gun” by asserting that the DRAM should be the primary mechanism when these other proceedings will determine how to integrate DR with other distributed energy resources. As

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<sup>1</sup> D.16-08-019, p. 20.

SDG&E pointed out, a preferred mechanism may be a competitive all-source resource adequacy solicitation.<sup>2</sup> In any event, it is legal error to propose a DRAM program structure in OP 13 that contradicts COL 16 and creates a barrier to implementing the IRP process.

OP 13.f. (“*The Utilities are authorized to record contract and administration expenses from the administration of the demand response auction mechanism in the relevant Energy Resource Recovery Account*”) would require the utilities’ bundled customers to exclusively pay for DRAM-acquired RA from third-party providers through its procurement budget. OP 8 (a.) of Decision 14-12-024 adopted the following cost causation principles for demand response:

OP 8.a. Any demand response program or tariff that is available to all customers shall be paid for by all customers. If a demand response program or tariff is only available to bundled customers, the costs for that program or tariff can only be borne by bundled customers.

The DRAM pilot is available to both bundled and DA customers so the costs should be recovered through distribution rates to ensure they are borne by both bundled and DA customers, not bundled only. OP 13 (f.) of this PD, by requiring only bundled customers pay for the costs of this pilot, would then contradict the cost causation principles for demand response adopted in D.14-12-024. This result would also contradict the IRP process requiring that all LSEs share the same responsibility to attain the State’s goals. And by shifting the cost to bundled ratepayers, the OP is in violation of Public Utilities Code (c).

For all of these reasons, OP 13 should be deleted.

### **III. THE PD ERRS IN PROVIDING ELEMENTS FOR A DRAM PROGRAM WITHOUT CONSIDERATION OF THE DRAM PILOT RESULTS**

The PD does not provide a clear argument for why DRAM should become a permanent Program and does not consider the evaluation of the Pilot to gauge its effectiveness.

The purpose of the DRAM Pilot is to provide information about whether third party providers can reliably provide Resource Adequacy value and be reliably dispatched to meet grid needs. OP 13 acknowledges the need for Commission approval to transition DRAM from a Pilot to a Program, but not the need for evaluation of the information and data the DRAM Pilot will provide. The Settlement Agreement, adopted with modification in D.14-12-024, states that “[d]evelopment of the details of the DRAM Pilot must incorporate, at minimum, the following

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<sup>2</sup> PD, pp. 63-64.

conditions: ... Specific success metrics to inform the Commission of the efficacy of a DRAM and its long-term potential for procurement of Supply Resources....”<sup>3</sup> Metrics resulting from the evaluation of the DRAM Pilot may indicate that a proper DRAM program should have different elements than those described in OP 13.

OP 13 states that the main procurement mechanism for future DR should be DRAM, but there is no Finding of Fact (“FOF”) to support this notion and no other procurement mechanism or option has been evaluated for comparison. For the benefit of ratepayers, all resources should compete with each other in an all-source type RFO under an approved least cost best fit methodology to guarantee that ratepayer’s funds are used appropriately. SDG&E has provided data that the DRAM may not be the best procurement mechanism for third party DR based on its latest all-source solicitation. Even if the DRAM pilots show that solicitations produce reliable, cost-effective DR, the Commission should steer future DR procurement towards all-source RFOs where competition is even more strenuous.

FOF 73 (“*Measuring the level of third party and customer engagement and the level of competition are the most important aspects to meet the objectives of the demand response auction mechanism pilot and determine whether to transition from pilot to program status.*”) should be deleted. FOF 73 is in conflict with FOF 50. FOF 50 states, “Parties generally agreed that the issues of system reliability, environmental needs, and customer needs are the top attributes of demand response.” Whether the DR capacity contracted for in DRAM can provide RA capacity, create reliable energy reductions when dispatched, and be dispatched a sufficient number of times to reduce environmental impacts cannot be omitted from the most important aspects of the DRAM pilot when they are considered the top attributes of DR. OP 13 should not adopt a structure for a DRAM Program without any analysis of this critical information being developed in the DRAM Pilot.

#### **IV. THE REQUIREMENT TO PROCURE UP TO 200MW UNDER THE DRAM PROGRAM DOES NOT ALIGN WITH SDG&E’S MARKET NEEDS OR PORTFOLIO FIT**

The 200 MW procurement limit is not consistent with the proportional size of each utility. Moreover, the Commission’s Phase 1 Demand Response Potential Study shows much less

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<sup>3</sup> *Settlement Agreement . . . on Phase 3 Issues*, p. 25, R.13-09-011.

than 200 MW of supply-side DR availability in SDG&E's service area at a capacity price comparable to the DR cost effectiveness benchmark adopted in OP 14. Finally, accepting all bids up to a specified procurement amount would create a barrier to IRP since it does not align with SDG&E's market needs or portfolio fit.

There is no evidence from the Demand Response Potential Study that 1,000 MW, with 200 MW from SDG&E per OP 13, is acceptable to allocate to SDG&E. The DR Potential Model from the Commission's Demand Response Potential Study Phase 1 shows that at \$75/kW-year (the price of capacity in the new avoided cost calculator multiplied by the A factor and rounded) there is only 57 to 75 MW of supply-side DR in SDG&E's service area in 2020, once load-modifying DR rates and tariffs are accounted for and with no change in consumer preferences for DR and mid-demand energy efficiency assumptions. The Demand Response Potential Study also shows the DR potential in SDG&E's service area is at most 5 percent of the combined potential in the PG&E and SCE territories, suggesting 40 MW would be a proportional assignment, not 200 MW.<sup>4</sup> Furthermore, the 200 MW cap ignores the normal load share ratio for SDG&E of 10% and the precedent from DRAM, which allocated 2 MW out of 22 MW to SDG&E, which is 9%. Lastly, the DRAM Pilot program required SDG&E to procure a minimum of 2 MW, and the PD sets a cap up to 200MW, 100 times more than was required by the DRAM Pilot.

For all these reasons, the 200 MW requirement in OP 13 should be deleted as there are no facts supporting it.

#### **V. THE PD SHOULD BE MODIFIED TO PROVIDE IMPORTANT CLARIFICATIONS REGARDING THE 2018-2020 DR BUDGET**

On page 65 of the PD, the Commission states:

Thus, we find it reasonable to require that demand response programs administered by the Utilities shall not participate in the auction mechanism and shall be capped at 2017 budget levels until the mid-cycle program review.

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<sup>4</sup> The DR Potential Model shows at \$75/kW-year, 57-75 MW of supply-side DR in the SDG&E service area in 2020, once load-modifying DR rates and tariffs are accounted for, for the BAU scenario (no change in preferences) mid-demand energy efficiency assumption compared to 700-900 MW for each PG&E and SCE, a combined 1400 to 1800 MWs.  $57/1400 = 4.1\%$ ,  $75/1800=4.2\%$ .

A single year program budget cap at 2017 levels for SDG&E's Summer Saver program ("SS") and, Small Customer Technology Deployment ("SCTD") however, is problematic for several reasons. The 2017 program year is being treated as a transition year, with a short-term contract being negotiated with SDG&E's Summer Saver vendor. SDG&E is currently reviewing submissions from its Summer Saver RFI to determine what technology it will propose transitioning to in 2018. Any technology transition for 2018 and onward would likely be more expensive than what is currently budgeted for 2017. Specifically, additional IT funding and support for both "SS" and "SCTD" will need to be added into SDG&E's DR Management System ("DRMS") and would need to occur in 2018. These costs were not included in the 2017 budgets.

Also, SDG&E is already aware that certain individual program budgets for 2018-2020, if capped at 2017 levels, will not be adequate given new efforts that are already planned. For instance, for some programs the costs of full integration into the CAISO by the summer of 2018 were not included in the 2017 budget because the costs are expected to occur in early 2018. The 2017 Small Customer Technology Deployment ("SCTD") budget also does not account for future growth in the emerging "bring your own device" market. In the bring your own device model, customers who purchase technologies that are capable of accepting a demand response signal (such as smart thermostats, alarm systems, gateways and other devices) are paid incentives for enrolling and participating in demand response events. Not all device manufacturers are willing to undertake the complexity of bidding into the CAISO market or seek to enter that activity, so the utility plays a key role in effectively leveraging these devices already installed by customers for demand response.

SDG&E also anticipates that it could exceed its 2017 budget level in the Auto DR (Technical Incentives program) or commercial SCTD program if capped there for later years. SDG&E recently defaulted all of its small and medium commercial and industrial customers to Critical Peak Pricing rates. A budget cap could limit participation from these customers who will be a prime audience for marketing for the Auto DR and SCTD programs in 2017 and 2018.

Accordingly, if a cap is necessary, instead of reviewing the IOUs' proposals on their merits and cost/benefits, SDG&E seeks Commission direction for the program years 2018-2020 that would allow SDG&E to cap its total portfolio at the 2017 portfolio annual budget level for

each corresponding year (three years total), but that individual programs may exceed individual 2017 program caps. SDG&E understands that increasing some budgets within the portfolio would require a decrease in other program or activity budgets within the portfolio. However, this clarification would allow for efficient and effective planning and would support growth in key areas as already strategized for full integration.

**VI. OP 5 AND COL 13 SHOULD BE DELETED OR MODIFIED TO OMIT THE REQUIREMENT FOR FURTHER WORK TO BE DONE TO ARRIVE AT A MORE STRINGENT VERIFICATION PROCESS**

OP 5, at page 87, reads in part that the IOUs:

[S]hall immediately hire expert consultants to assess whether it is possible, and if so by what methods and data sources, to evaluate whether customers are complying with the demand response prohibition requirement. The Utilities shall require the consultants to provide recommendations on how best to design an audit verification plan.

Similar to OP 5, COL 13, at page 84, states, “It is reasonable to require some level of verification of customer compliance with the demand response resource prohibition requirement.”

SDG&E supports banning the use of back up generation (“BUG”) during DR events as being antithetical to California’s greenhouse gas reduction goals. However, SDG&E disagrees with the Commission’s push to require additional verification of customers’ BUG use because: (1) SDG&E does not believe additional verification is reasonably achievable; and (2) the request could discourage BUG use by customers who legitimately rely on them for safety reasons.

First, as stated in earlier comments and in the PD itself when reiterating the procedural background of the prohibition of BUG being used during demand response events, SDG&E does not see how it is possible to verify when a customer uses BUG, given the way the generators themselves have cumulative hour counters that do not tie to specific dates and times of use. Furthermore, the Air Pollution Control District (“APCD”), an entity that is charged with regulating BUG activity, relies on the self-recording of BUG use in order to enforce its regulations.<sup>5</sup> Therefore, hiring a consultant to evaluate the accuracy of self-reporting would add burden to customers not required by the very agency that is in place to regulate their BUG activity, and is unlikely to result in valuable results given the design of instrumentation used to

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<sup>5</sup> San Diego County Air Pollution Control District, <https://www.arb.ca.gov/DRDB/SD/CURHTML/R12-1.HTM>.

measure BUG output. Thus, there seems to be a high risk of spending consultants' fees out of ratepayer dollars without any reasonable guarantee of arriving at constructive results. SDG&E believes that additional verification work is not reasonable, and that COL 13 should be omitted entirely or modified to state that such verification is not reasonable.

Second, SDG&E strongly urges the Commission to avoid turning the verification of BUG not being used at certain times into something that can be misconstrued by SDG&E's customers to be a ban on BUG at all times. SDG&E also encourages its customers, especially those in the back country and outlying areas of San Diego County where there can be natural disasters, high winds and outages, to be prepared for any and all emergencies. In the past, SDG&E has provided BUG operational workshops to assist its customers in operating BUG safely when necessary during such disasters to ensure the safety of its grid as well as its customers.<sup>6</sup> Burdening BUG customers with unreasonable verification requests could impede SDG&E's extensive safety efforts.

For all of the foregoing reasons, OP 5 and COL 13 should be deleted or modified to omit the requirement for further work to be done to arrive at a more stringent verification process. Indeed, OP 4 is sufficient oversight on its own, and does not overburden customers by requiring more than local agencies would require.

## **VII. WEEKLY EXCEPTION REPORTING SHOULD BE DISCONTINUED SOONER THAN THE PD ALLOWS**

OP 16 reads as follows:

Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California are relieved of the requirement to provide the weekly dispatch exception reports beginning on January 1, 2018.

SDG&E agrees that the exception reporting currently required should be discontinued for the reasons cited in the PD, which is that the markets and CAISO dispatch will determine when programs are triggered and properly dispatched. SDG&E sees no reason, though, to continue this reporting until January 1, 2018.

Given that the program that is the subject of the report is currently and will still be bid into the CAISO through 2017, and dispatch will still be determined by the CAISO between now

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<sup>6</sup> SDG&E's website currently features a video on the subject at <http://www.sdge.com/video/portable-generator-safety-0>

and then, SDG&E does not see the value of continuing exception reporting in 2017. Further, the Commission has not scrutinized any items in its current exception reporting, nor have there been any events that would cause the Commission to think that SDG&E is not dispatching its programs appropriately. Therefore, SDG&E agrees that the reports should be discontinued as unnecessary, but disagrees with continuing them in 2017. Therefore, SDG&E requests that OP 16 be changed to read that the reports will discontinue on January 1, 2017, instead of 2018.

#### **VIII. CONCLUSION**

SDG&E appreciates the opportunity to submit the forgoing comments.

Dated: September 19, 2016

San Diego Gas & Electric Company

*/s/ John A. Pacheco*

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## **APPENDIX SETTING FORTH PROPOSED CHANGES TO FINDINGS OF FACT AND CONCLUSIONS OF LAW<sup>1</sup>**

### **Findings of Fact**

~~73. Measuring the level of third party and customer engagement and the level of competition are the most important aspects to meet the objectives of the demand response auction mechanism pilot and determine whether to transition from pilot to program status.~~

### **Conclusions of Law**

~~13. It is reasonable to require some level of verification of customer compliance with the demand response resource prohibition requirement.~~

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<sup>1</sup> Pursuant to Commission Rule of Practice and Procedure 14.3, proposed changes to OPs or other sections of the PD are not listed in this Appendix, but are discussed above in the body of these Comments.