BEFORE THE PUBLIC UTILITIES COMMISSION OF
THE STATE OF CALIFORNIA

FILED
9-26-16
04:59 PM

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 COMMENTS OF THE UTILITY REFORM NETWORK ON THE PROPOSED DECISION PROVIDING GUIDANCE FOR FUTURE DEMAND RESPONSE PORTFOLIOS

Lower bills. Livable planet.

Marcel Hawiger, Staff Attorney

THE UTILITY REFORM NETWORK
785 Market Street, Suite 1400
San Francisco, CA 94103
Phone: (415) 929-8876 ex. 311
Fax: (415) 929-1132
Email: marcel@turn.org

September 26, 2016

TABLE OF CONTENTS

REPLY COMMENTS OF THE UTILITY REFORM NETWORK ON THE PROPOSED DECISION PROVIDING GUIDANCE FOR FUTURE DEMAND RESPONSE PORTFOLIOS

1 Introduction

Pursuant to Rule 14.3 of the Commission's Rules of Practice and Procedure, the Utility Reform Network ("TURN") respectfully submits these Replies to Comments on the Proposed Decision (PD) of ALJ Hymes "Adopting Guidance for Future Demand Response Portfolios and Modifying Decision 14-12-024," mailed on August 30, 2016 in Rulemaking 13-09-011. TURN replies only to a few discrete issues raised by several parties in their opening comments.

2 The August Bid Price Benchmark Should be Replaced with an Exogenous Benchmark Based on the Lowest Utility Demand Response Program Cost

The utilities (PG&E, p. 8; SCE, p. 6) oppose using the August average bid price as a benchmark for a minimum procurement obligation. The utilities make a valid argument that such a benchmark can be easily manipulated by sellers making small-quantity high-price bids. The utilities recommend they be allowed to procure using their existing LCBF valuation methods. ORA (p. 7) likewise highlights the potential gaming and recommends that in calculating the August procurement bid price the utilities exclude "bids that are clearly excessive, out of market, or clear outliers."

In its opening comments, TURN had proposed that the benchmark be the higher of the average August bid price, or the weighted average cost of utility programs.[1] After considering the opening comments of the utilities and ORA, TURN agrees that using bid prices would result in gaming. As with any benchmark, a better solution is to use an "exogenous" benchmark which cannot be manipulated by bidders in the auction. TURN thus recommends that the benchmark be set at the lowest-cost utility supply resource demand response program. Such a benchmark cannot be manipulated by bidders, and directs the utility to procure DR that should be beneficial to ratepayers, since it would be

[1] TURN apologizes that our opening comments inconsistently referred to the average, weighted average, or highest cost of utility programs. TURN changes its recommendation here to be the "lowest-cost utility program." However, it may be reasonable to review the costs of utility programs and determine whether an average is more appropriate as a minimum procurement benchmark.

below the cost of the lowest-cost utility demand response program. A second-best alternative is to adopt ORA's recommendation to discard outlying bids from the calculation, but such a proposal still gives the utility discretion in defining outliers or clearly excessive bids.

On this same topic, the Joint DR Parties (p. 10) apparently recommend that the Commission "permit" the utilities to accept all bids up to the long-term avoided capacity cost, not the average bid price; however, in their revisions to the findings of fact the Joint DR Parties recommend that the "long-term cost of capacity" actually be used as the benchmark which sets the utility "obligation" to procure. This proposed change should absolutely be rejected, as it invites sellers to bid just below the long-term cost of new capacity, which entirely destroys any ratepayer benefits from demand response or from a competitive procurement process.

3 Cost Recovery Should Be Modified to Ensure Proper Cost Allocation

PG&E (p. 12-13) explains that recovering costs through the ERRA would conflict with the cost causation principle adopted in D.14-12-024. TURN completely agrees and recommends that the Commission continue recovering demand response costs through the applicable balancing accounts, unless and until equivalent procurement obligations are imposed on other LSEs.

4 The Commission Should Exempt Air Conditioner Cycling Customers from the BUG Prohibition

SCE (p. 3-4) argues that customers on its air conditioner cycling tariff (the "Summer Discount Plan") should be exempt from the prohibitions against using fossil-fueled back-up generation, because any such generation could not actually power the air conditioner (which was shut off at the compressor) and would thus be useless as a source of back-up generation during a cycling event. SCE's argument sounds logical and reasonable. TURN thus supports SCE's request, with the caveat that any such exemption should apply to *any* residential cycling or smart thermostat program, whether operated by the utility or a third party.[2]

[2] TURN is concerned about potential anti-competitive impacts of this recommendation, which discriminates based on the use of specific air conditioner cycling technologies.

5 The Commission Should Create a Process to Clarify the Specifics of How a DRAM Contract Would Apply Resource Adequacy Penalty Provisions to Demand Response

Most parties support in principle the use of penalty provisions analogous to penalties in the resource adequacy penalty structure, though some parties requested clarification, noting that there is not a uniform penalty contract provision in RA contracts. SCE (p. 7-9) further argues that any replacement RA must be backed up by demand response, or else a DR provider could engage in price arbitrage by not delivering a higher-priced DR product and instead providing a much cheaper conventional RA tag.[3] SCE recommends that the contract between Seller and Buyer provide that SCE would only pay "for the cost of the replacement tag" rather than the DR-backed resource.

TURN agrees in principle that if the DR provider cannot find replacement RA tags from DR, it should reimburse the utility for any price difference to prevent arbitrage. However, such a provision is a major change to the existing DRAM contract. The utilities have just recently submitted a proposed contract for the 2018 DRAM pilot. TURN presumes that a revised standard DRAM contract would be vetted and authorized prior to the launch of any permanent DRAM program. TURN recommends that the PD be modified to direct Energy Division to lead a process that would address the details of how to apply the RA penalty structure to demand response contracts in advance of the next change in the DRAM contract.

6 The Role of the DRAM in 2019 Should be Clarified

Many parties note that the timeline in the Proposed Decision leaves 2019 as a gap year, though the 2017 auction for the 2018 DRAM Pilot would authorize contracts for terms of up to two years. This construct appears to set the existing 2018 budget limits and megawatt targets unchanged for 2019. TURN assumes that the budget limit for 2018 would apply also for 2019, not for both years combined.

Depending on the responses of other parties, TURN could also support addressing this issue expeditiously as part of the 2018 program applications.

[3] The Commission can take judicial notice of its own reports showing the monthly prices of short-term RA tags, which generally average less than $30/kW-year, much lower than the price of the RA tags purchased through the DRAM.

TURN recommends that the Commission clarify whether it expects another solicitation in 2018, or whether the 2017 solicitation will fulfill all DRAM procurement obligations for both 2018 and 2019, and if so, what is the annual budget and registration limit. TURN shares the concern that leaving 2019 unchanged will make it more difficult for the market to scale up to the megawatt targets set for 2020 and beyond. TURN thus recommends that the Commission either authorize another solicitation for delivery in 2019, or direct the utilities to propose budgets and limits for DRAM in 2019 in their program applications.

####

September 26, 2016

Respectfully submitted,

____________/S/____________

Marcel Hawiger

Staff Attorney
THE UTILITY REFORM NETWORK
785 Market Street, Suite 1400
San Francisco, CA 94103
Phone: 415-929-8876 x311
marcel@turn.org