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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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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)

**COMMENTS OF
THE DIVISION OF RATEPAYER ADVOCATES**

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July 29, 2008

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As requested by the July 16, 2008 *Administrative Law Judge Ruling Setting Workshops on Specific Issues Related to Cost-Effectiveness*, the Division of Ratepayer Advocates (“DRA”) provides the following comments on the two issues raised in Section 3.2 of the ruling.

DRA applauds the Commission’s determination to develop a reasonable record on different aspects of cost effectiveness calculations in the investor owned utilities’ (“IOU”) 2009-2011 program applications: (1) understanding exactly how the IOUs calculated avoided costs of DR programs (2) the exact assumptions IOUs used in their cost effectiveness calculations and, (3) the value of different notification times and program triggers that should be considered in evaluating DR program cost effectiveness. DRA believes the July 31 and August 1 workshops scheduled by ALJ Hecht to address these issues are both timely and necessary.

With respect to the two issues raised in Section 3.2 of the ruling, DRA takes the view that, ultimately, the value of a Demand Response (“DR”) program can only be

assessed by determining what benefits it provides to the California Independent System Operator (“CAISO”) with respect to providing reliable electric service. DRA would like to see all DR programs – those proposed in the IOUs’ 2009-2011 applications, as well as programs previously approved by the Commission – provide maximum possible value to CAISO while avoiding duplication of ratepayer costs as a result of any mismatch between CAISO’s requirements and DR program designs. In that regard, DRA argues that in addressing these issues, the Commission should focus on how CAISO would use a given DR program in its operations and what costs the CAISO would be incurring if the DR program is not available.

DRA, therefore, examines what CAISO has stated previously in relationship to the questions asked in the ALJ ruling.

Issue 1: Do DR programs with inflexible triggers *i.e.*, emergency/reliability programs) have the same value as DR programs with more flexible triggers (ignoring the differences in program availability, cost, etc.)? Why or why not?

With respect to this issue the CAISO has stated,

1. Emergency demand response programs do not relieve the CAISO of the obligation to commit capacity, on a daily basis, for the component of demand that they purport to curtail. So it bears repeating that these DR resources do not serve the function of reducing total forecasted demand and do not avoid generation capacity. Therefore, these resources should have different treatment and evaluation criteria.¹
2. Some level of emergency-triggered DR can be applied as emergency response for purposes of protecting the Spinning Reserve portion of the operating reserve requirement.... If the operating reserves needed to support the load were degraded, then an alternative way to balance the system is to drop load, rather than to add spinning reserve capacity. Emergency

¹ Reply Comments of the California Independent System Operator ALJ Ruling Regarding Cost-Effectiveness Framework, p. 9, dated May 2, 2008.

triggered DR, if triggered at a Stage 2 Emergency, does serve this function, providing its capability as a hedge against a Stage 3 Emergency declaration and, therefore, firm load shedding.²

3. At the CAISO, we plan to issue our first Planning Reserve Requirements Study (PRRS) in the third quarter of 2009 (Q3 2009) timeframe ... One such parameter and possible sensitivity analysis is the level of reliability improvement that could be achieved for the average bundled customer if emergency-triggered demand response were used as a “safety valve,” to reduce system load, under different scenarios. In this way, policy makers could evaluate the cost benefit of differing levels of emergency-triggered DR on system reliability.³

Regardless of what other parties postulate, CAISO views the use and value of emergency-triggered DR programs differently from DR programs that have more flexible triggers. More importantly, the fact that emergency-triggered DR programs do not play any part in the CAISO’s Residual Unit Commitment (“RUC”) process itself serves as proof of this difference in value to CAISO.

DRA believes one of the items for discussion at the July 31, 2008 workshop should be to assign an interim value to the role emergency-triggered DR programs play – either as protection for CAISO’s operating reserves or as a hedge against a CAISO Stage 3 Emergency. As CAISO states, a more comprehensive evaluation of emergency-triggered programs will be available when CAISO completes its PRRS study.

Issue 2: What values should be placed on the various trigger attributes and why? What methods should be used to determine those values?

With respect to this issue CAISO has stated,

² Comments of the California Independent System Operator Re: ALJ Ruling Requesting Information on Emergency-Triggered Demand Response, p. 11, dated June 25, 2008.

³ Id, p. 17.

1. In comparing the proxy to a DR resource, we believe that the notice component of the DR resource (i.e. how quickly it can be called) is the parallel to the quick start capability of the CT. This concept is tightly bound to the “value of notification timing.” Accordingly, should the Commission decide to incorporate a notification timing value into the protocols, then the valuation methodology should include the potential to discount programs that do not have a short notification timeframe (such as a day-ahead only DR program).⁴
2. The CAISO believes that further investigation is needed before placing a value on notification timing and incorporating that value into the cost-effectiveness protocols. For this round, SCE’s analysis of the relative value of program notification timing may be a starting point, if the analysis conveyed in Table IV-4 of SCE’s Comments is based only on a non-spin price curve.⁵

In reply comments on the Staff Cost-Effectiveness Framework,⁶ DRA pointed out that DRA, SCE and SDG&E have a similar perspective: that DR programs with longer notification period (than that required to start a combustion turbine (“CT”)) should have a smaller value than a CT, and DR programs with a shorter notification period should have a larger value than a CT. CAISO also appears to agree with SCE’s analysis of the relative value of program notification timing based on CT start up time. Only PG&E argues the notification period itself has no value but the commitment to provide DR resources well in advance of the need has value.⁷

⁴ Reply Comments of the California Independent System Operator ALJ Ruling Regarding the Cost Effectiveness Framework, p. 8.

⁵ *Id.*

⁶ Reply Comments Division of Ratepayer Advocates, p. 3, dated May 2, 2008.

⁷ Comments of Pacific Gas and Electric Company on Staff Cost-Effectiveness Framework and Related Issues, Appendix 1, pp. 22-23, dated April 25, 2008.

The issue of valuing notification period is more complex compared to the issue of valuing emergency-triggered programs because CAISO has not provided any qualitative analysis of how CAISO factors in the notice period for procuring generation resources in its grid operations. It would be useful if CAISO provides some analysis on this issue at the August 1, 2008 workshop.

Finally, DRA would like to reiterate if the Commission adopts the Energy Division staff's proposed goal to facilitate "wholesale market participation by Demand Response providers and small aggregated load,"⁸ and transitions most of the current utility-based DR programs to CAISO markets, many of these issues including the two issues for the upcoming workshops will be moot. There will be no need to determine the value of DR program attributes. Rather, DR will be integrated into the CAISO's markets just as conventional generation resources are currently. In such an integrated system, DR providers can bid directly into the CAISO's wholesale markets and receive market prices for their products.

⁸ October 1, 2007, "Assigned Commissioner's and Administrative Law Judge's Ruling Revising Phase II Activities And Schedule" in Rulemaking 07-01-041, Attachment, Energy Division's Proposed Demand Response Goals, Section V, p. A-13.

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July 29, 2008

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the **COMMENTS OF THE DIVISION OF RATEPAYER ADVOCATES** in **R.07-01-41** by using the following service:

E-Mail Service: sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

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Executed on **July 29, 2008** at San Francisco, California.

/s/ HALINA MARCINKOWSKI
Halina Marcinkowski

N O T I C E

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