



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE **FILED**

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)

**SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) NOTICE OF EX PARTE  
COMMUNICATIONS**

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Dated: **August 7, 2012**

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COMMUNICATION**

Pursuant to Rules 1.8(d) and 8.4 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), Southern California Edison Company (SCE)—on behalf of itself and Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), EnerNOC, North America Power Partners (NAAP), California Large Energy Consumers Association (CLECA), and EnergyConnect—hereby gives notice of the following *ex parte* communication.

The communication occurred on the fifth floor of the Commission’s headquarters in San Francisco, California on Thursday, August 2, 2012 at approximately 2:30 p.m. Mona Tierney-Lloyd of EnerNOC initiated the communications and attended the meeting with Damon Franz, advisor to President Peevey, and Matthew Tisdale, advisor to Commissioner Florio. The following people were also in attendance: David Reed (SCE), Ulric Kwan and Ken Abreu (PG&E), George Katsufrakis (SDG&E), Brian Cragg (NAPP), Barbara Barkovich (CLECA), and David Wiedberg (EnergyConnect).

The meeting lasted approximately one hour. The communciations were both oral and written. During the meeting, Ms. Tierney-Lloyd and others walked through the power point in Appendix A, which gave a procedural overview and near-term road map for demand response in California, including concerns that the wholesale market will not provide adequate revenue to support DR goals, which may necessitate continuation of utility contracts in addition to utility tariffs. Ms. Tierney-Lloyd also expressed the importance of advance resolution of outstanding DR issues before expiration of DR contracts in 2014. Ms. Barkovich talked about the need for program certainty for customers to minimize confusion and maintain support of the programs. Mr. Cragg and Mr. Wiedberg expressed the importance of having a roadmap for business planning purposes. Mr. Kwan discussed a timeline for resolving outstanding issues, supported by Mr. Abreu, Mr. Reed and Mr. Katsufrakis.

To receive a copy of this *ex parte* notice, please contact:

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Respectfully submitted,

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August 7, 2012

**Appendix A**

**California Demand Response Near Term Roadmap**

# California Demand Response

## Near Term Roadmap

August 2, 2012



# Working Group

## Parties attended DR Workshops 3/15/12 and 5/17/12:

➤ Input from all participants considered, however, presentation represents those companies with logos on cover

- Pacific Gas and Electric
- Southern California Edison
- San Diego Gas and Electric
- EnerNoc
- Constellation
- EnergyConnect
- ECCO
- CLECA
- Division of Ratepayer Advocates
- California Public Utilities Commission
- California Independent System Operator
- ColorPower
- Akuacom-Honeywell
- EnDimensions
- Olivine
- Siemens
- Viridity
- Alliance of Retail Energy Markets
- APX Power Markets
- North America Power Partners
- California Energy Storage Alliance
- Lawrence Berkeley National Laboratory
- Energy Curtailment Specialists
- Comverge

# Executive Summary

- **Current Wholesale Market Structure Will Not Support Significant DR:** Continue support for Third Party DR Contracts and IOU retail programs as parties are concerned that the wholesale market cannot support DR by itself.
- **Decisions needed by 2013 to Ensure Continuity for Third Party DR Contracts for 2015:** Delay will result in similar regulatory and customer challenges as the 2012-2014 DR Budget Application
- **Road Map Required to Enable Transition to Wholesale Market:** The transition from current DR state to increased integration with wholesale market requires a clear path
  - *Wholesale Market Integration:* Resolve FERC Order 745 and then complete Rule 24
  - *Framework To Value DR:* Determine Resource Adequacy valuation mechanism and Cost-Effectiveness of DR resource types
  - *Mechanism To Pay For DR Contracts:* Allow new RFO for DR Contracts by end of 2013



# Proposed Strategy for Near-Term

## Stable Regulatory Environment

- Continue support for Cost-Effective DR Contracts and IOU Retail Programs
  - » This maintains stability at retail level while wholesale integration continues
  - » Provide adequate advance notice of market shifts, with all rules in place
  - » Allows for testing of market rules
  
- Resolve outstanding issues for Wholesale Market Participation
  - » Rule 24 – progress in orderly manner after FERC 745 resolved
  - » Resource Adequacy
  - » Cost Effectiveness
  - » Meter Data Access and Settlements / Ancillary Service Limitations
  - » Identify Market Structure Issues
  
- Permit, don't mandate, Wholesale Market Participation as Supply

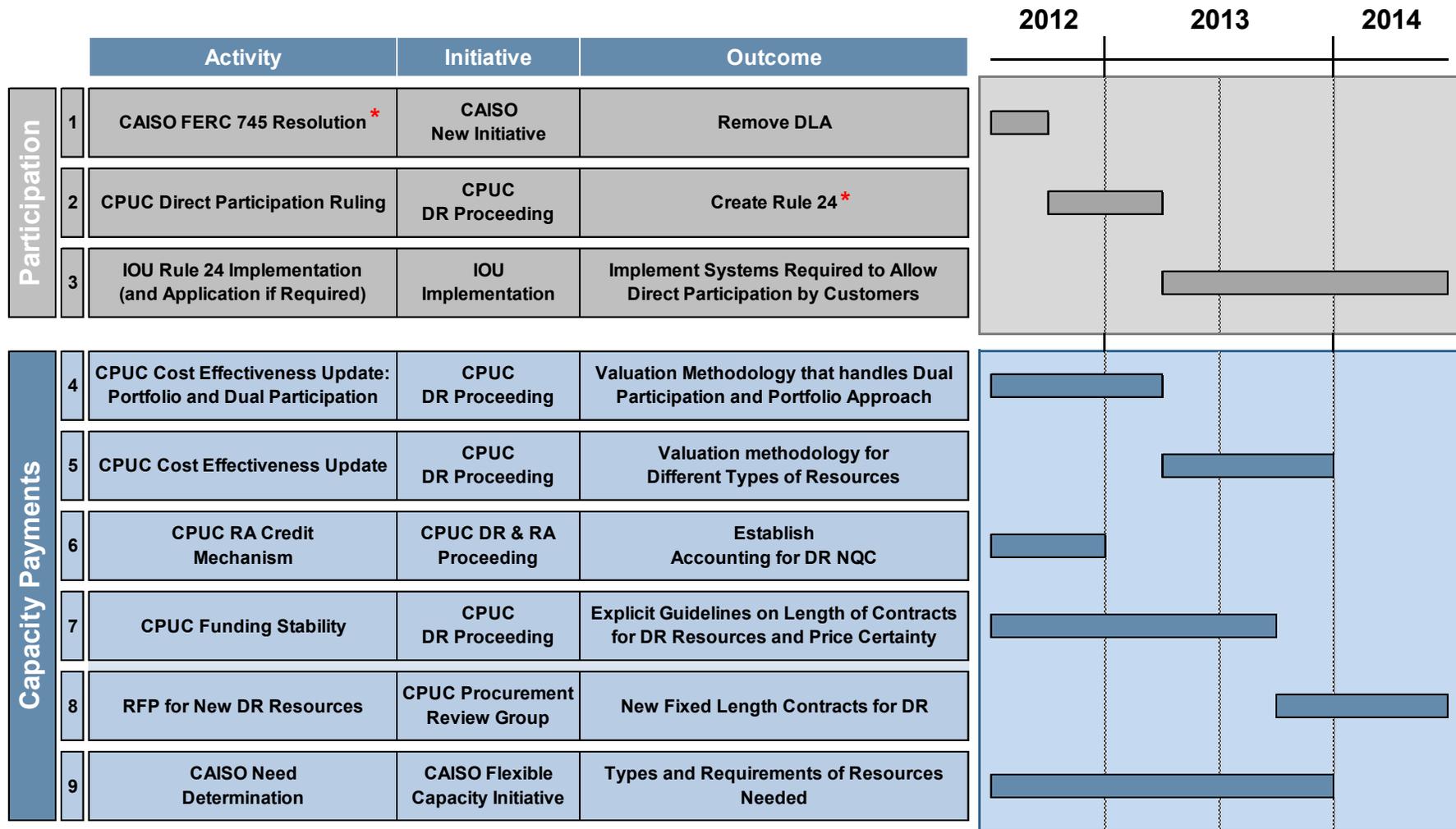
# Concerns with CAISO Markets

- Revenue Inadequacy
  - » 30% reserve margins; low notional value of capacity
  - » Energy prices are often < \$100/MWh (Short duration spikes; how to predict/participate ?)
  - » Adding 4,600 MW of Flexible Capacity would exacerbate situation
  - » Market Revenues based on marginal gas prices will not support energy policy priorities (currently not supporting existing, fossil-fuel generation)
- Market Access Limitations
  - » Not all A/S markets available to DR
  - » Telemetry/Settlement could be barriers
- DR is not primary consideration for CAISO Planning
  - » CPM
  - » Flexible Capacity
  - » Local Capacity Requirements
- Most resources are not procured through markets, but through PPAs

# Value to Customers / Benefit to System

- Customers need an economic incentive to curtail consumption that is commensurate with their opportunity costs
  - » If incentives are inadequate or unpredictable, no one will participate
  - » Must maintain degree of flexibility – customers will not cede control
  
- Value to system needs to be reflected in incentive and Cost Effectiveness Methodology
  - » Reducing peak demands, deferring new investment, displacing less efficient plants, balancing the system
  
- Regulators/System Operators want more from DR, but benefits in Cost Effectiveness Methodology do not match
  - » Locational dispatch, frequent dispatch, annual dispatch
  - » Fast response / Automation

# Roadmap to Achieve Near Term Goals



\* The CAISO recently issued a Market Notice that the FERC 745 stakeholder process will be postponed pending the outcome of the Appeals Court decision. Thus the schedule for Rule 24 will extend based on this postponement.

# Proposed CPUC Issue Resolution Dates (1)

## In order to provide certainty in advance of next DR cycle

- Request CAISO resolve settlement implications of FERC Order 745 in FERC filing by 8/31/12 with group support \*
- Request CPUC issue Final Decision on Direct Participation Rule by Q2 2013 \*
- Request CPUC issue Final Decision on methodology of how 3<sup>rd</sup> Parties receive Net Qualifying Capacity credit for DR resources, with group filing a proposal by 12/31/12
- Request CPUC issue Final Decision on how Cost Effectiveness Methodology handles Dual Participation and portfolio level analysis by Q1 2013
- Request CPUC allow Funding Application for Direct Participation by Q3 2013 with implementation deadline 12 months after approval

\* The CAISO recently issued a Market Notice that the FERC 745 stakeholder process will be postponed pending the outcome of the Appeals Court decision. Thus the schedule for Rule 24 will extend based on this postponement.

# Proposed CPUC Issue Resolution Dates (2)

## In order to provide certainty in advance of next DR cycle

- Request CPUC establish initial needs for renewable integration to be used in an updated Cost Effectiveness methodology by Q3 2013
- Request CPUC issue Final Decision on how Cost Effectiveness Methodology incorporates value of future CAISO needs for renewable integration by Q4 2013
- Request CPUC issue Final Decision on mechanism to ensure customers and 3<sup>rd</sup> Parties receive funding stability for providing DR resources by Q4 2013
- Request CPUC allow IOUs to issue new RFPs for DR resources by Q4 2013

# Next Steps