

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION
ITEM#42 I.D.# 6267
RESOLUTION E-4059
February 15, 2007

R E S O L U T I O N

Resolution E-4059. Southern California Edison (SCE) is authorized to add a Day-Of option to its Capacity Bidding Program.

By Advice Letter (AL) 2057-E Filed on November 8, 2006.

SUMMARY

This Resolution approves SCE's proposal to add a Day-Of option to the Capacity Bidding Program (CBP). Adding a Day-Of option to the CBP will add additional demand response capability in California at a time when additional capacity is necessary in the face of increasing demand for electricity and the possibility of future heat storms.

The proposed Day-Of CBP should be modified to provide more incentives for customers to participate. The Resolution modifies the proposed program to offer incentives to customers at a level which more accurately reflects the value of Day-Of demand reductions and inspires customer response.

BACKGROUND

On October 19, 2006, the Commission approved Resolution E-4020¹, which authorized SCE, Pacific Gas & Electric (PG&E), and San Diego Gas & Electric (SDG&E) to implement the Capacity Bidding Program (CBP) to replace the California Power Authority Demand Reserves Partnership program, which expires in May 2007.

The CBP program is one of a spectrum of demand response programs, which together are designed to offer customers a wide choice of compensation,

¹ http://www.cpuc.ca.gov/PUBLISHED/FINAL_RESOLUTION/61087.htm

commitment, and risk levels. The CBP is available to retail commercial, industrial and agricultural customers, who can choose to enroll in CBP through an aggregator or directly with the utility. Customers can choose from three different “products,” which allow them to choose the most appropriate range for the minimum and maximum number of hours that could occur for each event. Each month, at least 5 days before the end of the month, CBP customers can nominate the amount of demand reductions they will make in the following month if a CBP event is called.

CBP participants receive capacity payments, based on the amount of capacity nominated each month. If the program is not called during a given month, the participant receives the full capacity payment. If one or more events are called, participants receive the full capacity payment if they succeed in reducing their demand to the nominated amount. If a customer does not reduce demand by the amount nominated the capacity payment is reduced, and if the demand reduction is less than 50% of the amount nominated, the customer incurs a penalty. Customers also receive energy payments, based on their reduction in energy consumption in kWh, when an event is called.

The CBP is triggered by a 15,000 BTU heat rate. In other words, the program will be triggered when the market anticipates the use of generation resources that are the equivalent of a gas-fired power plant that takes 15,000 BTUs of natural gas to generate one kWh of electricity.

Additional details of the CBP program are contained in Resolution E-4020. Resolution E-4020 approved both Day-Of and Day-Ahead options for SDG&E, and ordered SCE and PG&E to submit new advice letters proposing a Day-Of option for their CBP programs. Hence, SCE filed AL 2057-E which adds a Day-Of option to its CBP.

The only differences in the Day-Of and Day-Ahead CBP options are in the capacity incentive prices paid to customers and in the customer notification. For the Day-Ahead program, customers are notified by 3 p.m. if a CBP event has been called for the following weekday. For the Day-Of program, customers are notified at least ½ hour before CAISO’s Hour-Ahead market is scheduled, or approximately 3 hours before an event.

The capacity incentive prices approved in Resolution E-4020 and subsequently corrected in Resolution E-4045 are shown in Table 1.

Table 1

PG&E Capacity Price (\$/kW-Month)						
Product	May	June	July	August	September	October
1-4 Hour	0.00	3.71	15.60	21.57	13.30	0.00
2-6 Hour	0.00	3.71	15.60	21.57	13.30	0.00
4-8 Hour	0.00	3.71	15.60	21.57	13.30	0.00
SCE Capacity Price (\$/kW-Month)						
Product	May	June	July	August	September	October
1-4 Hour	4.05	6.30	14.85	17.10	9.45	2.25
2-6 Hour	4.95	7.70	18.15	20.90	11.55	2.75
4-8 Hour	4.95	7.70	18.15	20.90	11.55	2.75
SDG&E Day-Ahead Capacity Price (\$/kW-Month)						
Product	May	June	July	August	September	October
1-4 Hour	5.37	7.35	13.54	15.11	9.77	4.71
2-6 Hour	5.51	7.54	14.07	15.63	10.06	4.81
4-8 Hour	5.65	7.76	14.71	16.23	10.49	4.94
SDG&E Day-Of Capacity Price (\$/kW-Month)						
Product	May	June	July	August	September	October
1-4 Hour	6.44	8.82	16.25	18.13	11.72	5.65
2-6 Hour	6.64	9.04	16.89	18.75	12.07	5.78
4-8 Hour	6.79	9.31	17.66	19.48	12.59	5.93

As shown in Table 1, the capacity incentive offered by SDG&E for its Day-Of option is 20% higher than that of its Day-Ahead option.

In its Advice Letter 2057-E, SCE offers capacity prices as shown in Table 2.

Table 2

SCE Day-Of Capacity Price (\$/kW-Month)						
Product	May	June	July	August	September	October
1-4 Hour	4.43	6.88	16.23	18.68	10.33	2.46
2-6 Hour	5.33	8.28	19.53	22.48	12.44	2.96
4-8 Hour	5.33	8.28	19.53	22.48	12.44	2.96

The Day-Of capacity prices offered by SCE are 7% to 9% greater than those offered by SCE for their Day-Ahead option, such that Day-Of participants receive \$5/kW-year more than Day-Ahead participants.

NOTICE

Notice of AL 2057-E was made by publication in the Commission’s Daily Calendar. SCE states that a copy of the Advice Letter was mailed and

distributed in accordance with Section III-G of General Order 96-A. SCE also notified the service list of A.05-06-006 et al. by email.

PROTESTS

SCE's Advice Letter 2057-E was timely protested by EnerNoc on November 28, 2006. SCE responded to the protest of EnerNoc on December 5, 2006.

DISCUSSION

EnerNoc states in its protest that **the 7%-9% price differential between the capacity incentives for the Day-Of and Day-Ahead CBP options is too small to induce customers to participate in the Day-Of option.** Energy Division recommends that SCE offer a capacity price for its Day-Of option that is 20% greater than those offered for its Day-Ahead option. This is the same differential that was approved in Resolution E-4020 for SDG&E's customers.

SCE states its belief that the incremental value of day-of over day-ahead products is between \$2.50 and \$5/kW-yr, and offers the high end of this range as a capacity incentive for the CBP. SCE references its BIP and I6 programs, in which customers are paid an additional \$7.60/kW-yr for a 15 minute response than they are paid for a 30 minute response, and states its belief that the value of the 15 minute response over the 30 minute response is larger than the value of a day-of response over a day-ahead response.

EnerNoc points out that while there are few benchmarks to determine the relative values of day-of and day-ahead demand response, that it seems counterintuitive that the increased value of a day-of response over a day-ahead response is smaller than the difference in value of the two day-of response times discussed above. EnerNoc also states its belief the price differentials offered for other types of demand response programs suggest that the value of day-of demand response is up to twice the value of day-ahead. EnerNoc also argues that customers will not be attracted to a day-of option that offers only a small premium over a day-ahead option, and proposes making the capacity incentive price for the Day-Of CBP program 30% higher than that of the Day-Ahead CBP option.

SCE responds that they relied on expert judgment in setting the day-of CBP capacity price, and determined that the differential between day-of and day-

ahead CBP is less than the increased value of the 15 minute BIP/I6 response over the 30 minute response.

Given the lack of any additional information about SCE's expert analysis, it is difficult to determine its accuracy. Energy Division agrees with EnerNoc that the additional value of a same-day demand reduction over day-ahead response is more than that offered by SCE, and recommends that the Commission order SCE to provide the same 20% premium for its Day-Of CBP as SDG&E is paying its CBP customers.

Also at issue in this advice letter is **whether a customer with more than one account can participate in both options**. It is unclear whether or not SCE has structured the CBP program to allow this. However, Energy Division sees no reason why a CBP customer with multiple accounts should not, if the customer desires, be able to nominate Day-Of amounts for one or more accounts and Day-Ahead amounts for other accounts, and recommends that the Commission direct SCE to provide this type of participation in its CBP proposal.

It is also unclear whether SCE would permit a **single account to nominate demand reductions to both the Day-Of and Day-Ahead CBP programs**. Energy Division believes that SCE should decide whether or not they will allow customers to do so, but that in either case SCE should *clearly* state this. In any case, customers should not be permitted to nominate the same demand reductions to both the Day-Of and Day-Ahead options at the same time.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. Resolution E-4020 directed Southern California Edison and Pacific Gas & Electric to file Advice Letters proposing Day-Of options for the Capacity Bidding Program.
2. SCE filed AL 2057-E which proposes a Day-Of option for its Capacity Bidding Program.
3. SCE 's proposed Day-Of option does not provide sufficient incentives to attract customers to that option. The capacity incentive prices offered to customers for the Day-Of option should be 20% higher than those offered to customers for the Day-Ahead option.
4. SCE has not clarified certain aspects of customer participation in the Day-Of and Day-Ahead options, such as whether customer can participate in both options.

THEREFORE IT IS ORDERED THAT:

1. The request of Southern California Edison to add a Day-Of option to its Capacity Bidding Program, as requested in Advice Letter AL 2057-E is partially approved, subject to the modifications adopted in this Resolution.
2. The modifications stated below will apply to SCE's Capacity Bidding Program. Southern California Edison shall file a supplemental advice letter with the modifications described below within 10 days of the effective date of this Resolution:
 - The capacity incentive prices offered to customers for the Day-Of option should be 20% higher than those offered to customers for the Day-Ahead option.
 - Customers with multiple accounts who want to participate in both options should be permitted to nominate demand reductions from some of their accounts to the Day-Of option and also to nominate demand reductions from other accounts to the Day-Ahead option.
 - SCE may permit customers to nominate demand reductions to both options from a single account, at SCE's discretion. SCE should clearly state

in the supplemental advice letter if it wants to permit this. However, customers may not nominate the same demand reductions to both the Day-Of and Day-Ahead options at the same time.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on February 15, 2007; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director