

R E S O L U T I O N

Resolution E-4039. Southern California Edison (SCE) is authorized to revise Schedule I-6 and Schedule TOU-BIP to offer a 15 minute interruptible product.

By Advice Letter (AL) 2032-E Filed on August 24, 2006 by SCE.

SUMMARY

This Resolution approves SCE's proposal to add a 15-minute option to its I-6 program and Base Interruptible Program (BIP).

BACKGROUND

The Base Interruptible Program (BIP) and I-6 program are day-of demand response programs designed to provide load reductions to maintain the reliability of the electric grid. Participating customers agree to reduce their loads to their contracted Firm Service Level (FSL) within thirty (30) minutes of notification of the need to implement load reductions in SCE's service territory.

The BIP is a voluntary program that offers participants a monthly "capacity" bill credit in exchange for committing to reduce power to a minimum predetermined level after receiving 30-minute advance notice during emergency situations. Customers who can reduce demand by 15% or a minimum of 100 kW, whichever is higher, have an advanced (interval) meter, and have telecommunications are eligible to participate. The program is designed for either Direct Access or bundled customers whose monthly demand is at least 200 kW, who have a firm load reduction plan in place and can reduce load with certainty when requested. BIP imposes a significant penalty for non-performance, as the penalty for non-performance is far greater than the incentive. As of September 1, 2006, SCE's BIP program has 98 enrolled accounts with a total of 83 MW enrolled.

I-6 is a voluntary rate discount program that has both bundled and Direct Access customers who are able to provide a minimum demand reduction of 500 kW with 30 minutes notice during an CAISO Stage 2 emergency or a localized system emergency. Participants receive lower energy and demand charges for the amount they are willing to reduce. I-6 has the same penalties for non-performance as BIP. The I-6 program is currently closed to new enrollment and SCE is planning to terminate it after 2007 and transfer customers to BIP. As of September 1, 2006 SCE's I-6 program has 460 enrolled accounts with a total of 609 MW enrolled.

SCE believes that having additional interruptible demand response resources that can be delivered in 15 minutes would provide the California Independent System Operator (CAISO) with needed demand resources that can be called upon more quickly in an emergency. SCE states that in some circumstances the CAISO needs resources to be available in less than 30 minutes to avoid firm load interruption. SCE believes that making additional quick responding demand resources available for these emergencies should minimize or eliminate the need for CAISO to call other interruptible load prior to an actual emergency and should minimize the need to drop firm load.

SCE proposes a 15-minute option for both I-6 and BIP

In response to an August 9, 2006 Assigned Commissioner's Ruling which directed the utilities to propose augmentations to their demand response programs, SCE filed AL 2032-E. SCE proposes to modify its I-6 and BIP programs by adding a new option where customers commit to reducing their loads within 15 minutes of receiving notification of an interruptible event. Failure to reduce load within 15 minutes results in the same excess energy (penalty) charges that are applied for the 30-minute option.

Customers who opt for the 15-minute option would receive a credit of \$7.60 per kW-year in addition to the credits provided under the existing tariff. SCE states that the additional credit represents the incremental value of the faster response 15-minute option over the credit currently provided by the 30 minute option.

SCE estimates that the cost to implement the 15-minute option for the two programs is \$320,000. SCE does not seek additional funding for this cost as it will fund the estimated cost through its currently authorized demand response revenue requirement.

SCE requests an expedited approval process for its advice letter

Participants in the I-6 and BIP programs may adjust their FSLs or opt-out of the programs during the month of November, and SCE proposes that the 15-minute option for both programs be available for participants to consider during that month. Given the time to market and educate customers about the option, SCE requests approval of its proposal by October.

NOTICE

Notice of AL 2032-E was made by publication in the Commission's Daily Calendar. Southern California Edison states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A. SCE distributed AL 2032-E to the parties on the service list for A.05-06-006 et al.

PROTEST

The Commission's Executive Director granted SCE's request for a shortened protest period (14 days) on August 29.

SCE's Advice Letter AL 2032-E was timely protested by the California Large Energy Consumers Association (CLECA), the Division of Ratepayer Advocates (DRA), and EnerNOC, Inc. on September 7, 2006.

SCE responded to the protests of CLECA, DRA, and EnerNOC on September 14, 2006.

DISCUSSION

DRA recommends extending the period in which customers can enroll and/or change program options from one month to two. Energy Division concludes that this extension is not necessary.

SCE requests that this advice letter be expedited, so as to have this matter resolved before November, which is the one-month period in which BIP and I-6 customers can change program options. DRA suggests that rather than expedite the advice letter, SCE should extend the one-month window beyond November 30 to December 31 to allow for proper review. SCE replies that "if the need to call on other interruptible load prior to an actual emergency is not minimized or eliminated prior to the November window, some customers may opt out of the interruptible programs in November. Extending the opt-out window through

December, as DRA proposes, will not address the need to have a resolution *prior* to the time customers can *begin* opting out of the interruptible programs.”

Energy Division initially recommended that for 2006, SCE be directed to extend the window to December 31 to give customers additional time to receive and respond to information about the 15-minute option. However, because the draft resolution was available prior to the beginning of the opt-out period, SCE was able to inform its customers that there was a likelihood that the 15 minute option would be available, and provided customers with a bill comparison analysis of all the options. In their comments on the draft resolution, SCE states that extension of the opt-out window is no longer necessary because customers “have already been informed of the pending approval of the 15-minute product.”

Energy Division is persuaded that extending the opt-out period is unnecessary.

DRA argues customers choosing the 15-minute option would be free riders, since 50% of I-6 customers already respond within 20 minutes when an event is called. Energy Division finds this argument to be without merit.

DRA points out that during a workshop on August 25 that SCE stated that about 50% of its I-6 load already responds within 20 minutes of notification. DRA argues that it is likely that the other 50% of customers can not respond quickly and that therefore the proposed option pays customers for actions which they are already taking. DRA suggests discouraging this sort of free-ridership by increasing the non-performance penalty. SCE responds that “Although these customers have shown they are capable of performing within 15 minutes without this new participation option, there is no guarantee they will always perform in this manner. Under the new 15-minute participation option, customers will have a *new obligation* to shed load within 15 minutes of a called event. If they fail to meet this obligation, they will be subject to substantial excess energy charges. This arrangement is not tantamount to free ridership, because the customers must be willing to take on new obligations and face new risks associated with the 15-minute participation option.”

Energy Division agrees with SCE that the 15-minute option will be valuable despite the quick response already achieved by many customers. A demand response program in which customers are **required** to respond within 15 minutes has more value than a program in which a 15 minute response is **possible but not required**.

DRA argues that, according to the analysis presented by SCE, the I-6 and BIP programs are not cost-effective. SCE replies that the program is cost-effective based on the Total Resource Cost (TRC) test. Cost-effectiveness is outside the scope of this resolution.

Energy Division agrees the cost-effectiveness of a program is one of the most important aspects to be considered in determining the program's merits. However, this resolution is not the proper forum for parties to debate the cost-effectiveness of demand response programs, as there are other proceedings currently underway which will provide the proper forum to determine a cost-effectiveness method for demand response programs.

In addition, the issue of measuring cost-effectiveness of demand response programs is a complex undertaking and deserves an evaluation much more comprehensive than what can be provided via these advice letters. While the TRC and other cost-effectiveness tests used by SCE are Commission-accepted tests for the cost-effectiveness of energy efficiency programs, demand response programs provide additional benefits to ratepayers, particularly in increased reliability of the system, that were not taken into account by either SCE or DRA. It is clear that there are costs and benefits of demand response programs that are omitted by the rudimentary analyses that can take place within the context of these advice letters.

DRA also argues that it is essential that staff develop preliminary cost-effectiveness standards for 2007 DR programs. SCE responds that the development of cost-effectiveness standards is very important, but that it should not delay approving this Advice Letter. Energy Division believes that the proposed 15-minute program option is needed by the summer of 2007 and that approval cannot wait for development of even preliminary cost-effectiveness standards.

CLECA argues that many customers will only be able to shed part of their load in 15 minutes, and asks that customers be allowed to divide their load into the two options. SCE responds that the billing and metering of these programs is too complicated for one account to be divided between options, at least for 2007.

CLECA objects to SCE's "all or nothing" requirement that an account enroll in either the 15-minute or the 30-minute option. SCE points out that it is not an "all or nothing" situation for many customers, because any customer with more than one account can divide accounts between the two options. Energy Division

notes that according to information provided by SCE, the majority of customers only has one account, but agrees that the billing and metering expense involved in dividing one account among two options is likely to be difficult but should be considered by SCE in future years.

CLECA also argues that the incentive is not high enough for customers to want to invest in equipment that would enable them to shut down in 15 minutes.

SCE did not respond to CLECA's assertion on this issue. CLECA does not suggest what incentive level would be required. Given that a substantial percentage of I-6 customers already have the ability to respond quickly, Energy Division concludes that higher incentives¹ than those already proposed by SCE are not necessary at this time.

EnerNOC supports SCE's 15 minute option but asks that it be opened to aggregator participation. SCE responds that BIP is not suitable for aggregators at this time.

The issue of aggregator participation in the BIP program has been addressed by parties in the formal proceeding where augmentations to the existing DR programs are being considered (A.05-06-006 et. al.) for summer 2007. Energy Division defers this issue to the formal proceeding.

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 or reduced. Accordingly, this draft resolution was mailed to parties for comments,

¹ SCE points out, in its comments on the draft resolution, that it should be made clear that this recommendation should be re-stated so as to make it clearer that by "higher incentives," what is meant is incentives higher than those already proposed by SCE. Energy Division concurs with SCE's comment and Finding of Fact 13 has been changed accordingly.

and will be placed on the Commission's agenda no earlier than 30 days from today.

Southern California Edison filed comments on October 27, 2006. SCE argued that the opt-out window extension is no longer needed, and requested modification of Finding of Fact 13 for clarification purposes. The details of SCE's comments are further elaborated and addressed in the Discussion section of this resolution.

No reply comments were filed.

FINDINGS

1. The Base Interruptible Program (BIP) and I-6 program are day-of demand response programs designed to provide load reductions to maintain the reliability of the electric grid.
2. SCE believes that having additional interruptible demand response resources that can be delivered in 15 minutes would provide the California Independent System Operator (CAISO) with needed demand resources that can be called upon more quickly in an emergency.
3. In response to an August 9, 2006 Assigned Commissioner's Ruling which directed the utilities to propose augmentations to their demand response programs, SCE filed the subject advice letter.
4. SCE proposes to modify its I-6 and BIP programs by adding a new option where customers commit to reducing their loads within 15 minutes of receiving notification of an interruptible event.
5. Customers who opt for the 15-minute option would receive a credit of \$7.60 per kW-year in addition to the credits provided under the existing tariff. SCE states that the additional credit represents the incremental value of the faster response 15-minute option over the credit currently provided by the 30 minute option.

6. SCE estimates that the cost to implement the 15-minute option for the two programs is \$320,000 and does not seek additional funding for this cost as it will fund the estimated cost through its currently authorized demand response revenue requirement.
7. SCE's Advice Letter 2032-E was timely protested by the California Large Energy Consumers Association (CLECA), the Division of Ratepayer Advocates (DRA), and EnerNOC, Inc. SCE responded to the protests of CLECA, DRA, and EnerNOC on September 14, 2006.
8. There is no need for SCE to extend the annual FSL adjustment/opt-out window to December 31 (for 2006 only) to give customers additional time to receive and respond to information about the 15-minute option, as customers have been timely advised of the likelihood of availability, as well as the billing impact of the 15-minute option.
9. A demand response program in which customers are required to respond within 15 minutes has more value than a program in which a 15 minute response is possible but not required.
10. This resolution is not the proper forum for parties to debate the cost-effectiveness of demand response programs, as there are other proceedings currently underway which will provide the proper forum to determine a cost-effectiveness method for demand response programs.
11. Energy Division believes that the proposed 15-minute program option is needed by the summer of 2007 and that approval cannot wait for development of even preliminary cost-effectiveness standards.
12. SCE should consider ways to allow customers to divide one account between the 15-minute and 30-minute options of the I-6 and BIP programs in future years.
13. Given that a substantial percentage of I-6 customers already have the ability to respond quickly, higher incentives than what SCE proposed for the 15-minute option are not necessary at this time.
14. The issue of aggregator participation in the BIP program will be addressed by Commission in A.05-06-006.

THEREFORE IT IS ORDERED THAT:

1. The request of Southern California Edison to add a 15-minute option as requested in Advice Letter 2032-E is approved.

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 November 9, 2006; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
GEOFFREY F. BROWN
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners