

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Enhance Demand
Response in California.

Rulemaking 25-09-004
Filed September 18, 2025

**REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) ON
ORDER INSTITUTING RULEMAKING TO ENHANCE DEMAND RESPONSE IN
CALIFORNIA**

ROGER A. CERDA
8330 Century Park Court, CP32D
San Diego, CA 92123-1530
Telephone: (858) 654-1781
Email: rcerda@sdge.com m

Attorney for:
SAN DIEGO GAS & ELECTRIC COMPANY

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I. INTRODUCTION

SDG&E appreciates this opportunity to respond to the issues raised by parties in opening comments on this instant rulemaking (OIR) to enhance and grow demand response (DR). SDG&E will provide comments on several areas that parties have suggested adding to the scope of the OIR, as well as respond to a limited number of discreet topics from other additional parties.

II. SDG&E SUPPORTS PARTIES' DISCUSSION OF DUAL PARTICIPATION AND INCENTIVE LAYERING

Dual participation, or the ability of customers to participate in more than one DR program, for various compensation payments as they provide separate grid services, is already in the current scope of the OIR. Several parties suggested clarifying or even expanding the scope. Their recommendations include providing greater details on multiple incentives, such as allowing incentive stacking rather than requiring customers to choose a single service that provides one payment, and utilizing telemetry to measure device level performance, etc. SDG&E supports the inclusion of these related topics, and also the pertinent discussion that supports it, which is the need and use for telemetry at the device level to indicate when each end use is shifting load. Under such a model, it is possible for one large commercial customer to have multiple distributed energy resource (DER) devices controlling multiple end-uses at a premise, where aggregate consumption is measured by a single meter, and single billing account. Each DER device, in

theory, could provide different services, and respond to different signals at different times. By limiting the customer to one program, DER utilization may not be optimized and may prevent them from realizing the full benefits of their investment. The OIR should include consideration of the role the utility plays in realizing the benefits of load management, including the extent to which the utility directly controls DER devices or provides control indirectly through signaling aggregators. These aggregators, in turn, are responsible for the customer interface to ensure the desired customer response. From a grid services perspective, it is the aggregate performance of all end-use devices behind a customer's meter that matters, as grid impacts are felt at the customer's Point of Common Coupling (PCC) with the utility grid.

SDG&E supports this additional detail being added into the OIR scope, as it directly aligns with the broader topics SDG&E proposed in its opening comments. Specifically, SDG&E emphasizes the critical need for the Commission to establish policies that support the cost-effective deployment of DERs of varying types.¹ The different types of technologies may include photovoltaic solar, electric vehicles, thermostats, water heaters, heating and cooling systems, and energy storage, all at a single premise. The Commission should explore these topics with the goal of identifying cost-effective compensation for measured performance that delivers needed distribution services. To that end, PG&E commented (at page A-2) that the OIR should be reamed to reflect a broader focus, shifting from supporting only DR to using the term "Load Management", with which SDG&E agrees.

SDG&E suggests the Commission explore and eventually update its policies for dual participation and incentive layering to address new DER markets. Many parties commenting on the growth of the DER market highlights the need for policies that address DER visibility and

¹ SDG&E Opening Comments on Rulemaking 25-09-004, pp. 3-4.

control questions. Once policies are set, each IOU can decide if such programs should be offered in their territory, if ratepayers will benefit, and if such programs can be cost-effective within their respective DR portfolios. SDG&E recognizes that since its customer base is much smaller than either PG&E's or SCE's, with a small commercial customer class, it remains to be seen what the best path is for SDG&E's ratepayers. A "one size fits all" approach may not be needed, feasible, or cost effective. Telemetry and back-office systems to manage and compensate for such DER control can be expensive. Therefore, implementation should be considered by each IOU carefully, and in consideration of affordability and of other grid efforts, including considering the cost, benefits, capabilities, viability and timing of developing their respective Distributed Energy Resource Management Systems (DERMS). It is SDG&E's view that program design elements such as incentives and dual participation are critical to help develop and support widespread DER deployments. Such policies will necessarily also support the Commission's activity in the various overlapping proceedings such as the Customer DER OIR (R.22-11-003), and the High DER deployment OIR (R.21-06-017) where technical models using DERMs are being considered more fully.

III. THE SCOPE OF THE OIR SHOULD BE EXPANDED TO CLARIFY RULES FOR RENEWABLE NATURAL GAS IN DR

The rules governing certain renewable energy sources (replacing fossil fueled sources) used as back up generation during DR events may, in some cases be unclear or insufficient. SDG&E supports the inclusion of this topic within the OIR scope. Several parties seek a thorough examination of how renewable natural gas (RNG) could be used in such circumstances.² Enchanted Rock (at page 3) stated that the Commission "should modify the prohibition on fossil-

² Opening comments by Enchanted Rock at p. 3, RNG Coalition at p. 2, California Large Energy Consumers Association (CLECA) at pp. 3-4, and US Ventures at p. 2.

fueled generation to distinguish between high criteria pollutant and greenhouse gas ('GHG') emitting resources and those that meet California's strict emission standards and have a net-neutral or net-negative impact on global GHG emissions." SDG&E notes that any policy changes should also account for existing California Air Resources Board (CARB) regulations governing air quality impacts associated with the use of back-up generation. The Commission therefore could consider holding a workshop to hear stakeholders' concerns and questions. The workshop should include the Energy Division and CARB staff. Issues can be documented, and a regulatory record can be developed for new policies, if needed, upon which the parties may comment in this proceeding.

IV. SDG&E SUPPORTS THE INCLUSION OF BEHIND THE METER BATTERY EXPORT RULES AND VALUATION IN THIS PROCEEDING

The Tesla Corporation stated in its opening comments on the OIR: "The definition of what constitutes Demand Response should be expanded to recognize and encompass exports from behind-the-meter distributed energy resources,"³ Related, The California Solar and Storage Association (CALSSA) urged that:

"...developing a qualifying capacity methodology for exports to the grid from individual sites and at the aggregation level should be scoped into this proceeding. This includes resources participating through the Proxy Demand Resource (PDR) market participation model."⁴

Enphase, another stakeholder, had similar thoughts expressed in its opening comments, and was particularly concerned about the Resource Adequacy (RA) valuation of behind the meter (BTM) storage exports to the grid.⁵

³ Tesla Opening Comments, p. 5.

⁴ CALSSA Opening Comments, p. 6.

⁵ Enphase Opening Comments, p. 2.

SDG&E supports the inclusion of the topics above in this proceeding. Today, SDG&E understands that the current RA-qualifying CAISO DR products allow BTM batteries to participate but they are only compensated for the load reduction provided by the battery without any consideration of export. There is also a new CAISO market product that compensates for exports, but this resource does not count for RA currently. These existing RA limitations on exported energy have resulted in customers with batteries participating in pilots and programs that do not qualify for RA such as The Emergency Load Reduction Program (ELRP), in its customer subgroup A.4, and the California Energy Commission's (CEC) Demand Side Grid Support (DSGS) program. The time is ripe to thoughtfully consider whether the definition of DR should be expanded to include exporting resources, how customers and aggregators utilizing these resources should be compensated, and how the exported energy from these resources should be measured and valued. SDG&E notes that if changes are made to current export policies in this proceeding, further policy changes will likely be needed in other proceedings. For example, new policies may need to be developed to account for the impacts of exported energy on the California Energy Commission's (CEC) load forecasts, such as in the Integrated Energy Policy Report (IEPR). Such policies may include how to treat such resources without double-forecasting impacts (*e.g.*, a lower load forecast and increased supply), and how these resources fit into the slice of day RA framework, etc.

Although SDG&E does not believe this entire topic can be addressed in this proceeding alone, given the large impact this policy has on the design and operation of DR programs, SDG&E believes it is appropriate and valuable to include this topic in this DR-specific proceeding. This topic is timely and closely related to the item SDG&E proposed be added to the scope pertaining to the greater deployment, visibility and control of DERs to serve customers and the grid.

V. IT IS PREMATURE TO ADD CONSOLIDATION OF DR PROGRAM ENROLLMENT AND ADMINISTRATION PROCESSES TO THE SCOPE OF THE OIR

Ava, a community choice aggregator (CCA), commented that a central enrollment database for DR be scoped into the proceeding.⁶ Relatedly, The California Public Advocates Office (CalPA) offered that establishing a statewide administrator for DR is preferable and should be included in this OIR's scope.⁷ Various ideas for centralizing DR (or the IOUs' DR data) have been raised for different purposes; for "standardization", "streamlining", or "to save costs."

These ideas are not new and have been discussed robustly in past DR proceedings as well as in the ongoing Customer DER OIR (R.22.11-013) proceeding resulting, so far, in them being rejected by the Commission.⁸ These topics are not permanently off-the-table. Given the many substantive issues that SDG&E and other parties have identified for inclusion in scope, it appears premature to address consolidated enrollment or administration at this time, for the reasons stated in the comments. It is noteworthy that parties in their comments have advocated that multiple layers of policy should be developed to govern the wide deployment of DERs, co-located with generation, including how such DERS are compensated, valued, how they count for RA, how they might be made more visible on the grid, and even how they may be controlled in a more efficient way to serve both local and system grid needs. Without those issues being addressed first,

⁶ Ava Opening Comments, p. 2.

⁷ CalPA Opening Comments, pp. 6-7.

⁸ For example, California Public Advocates Office's Motion to Dismiss SDG&E's Demand Response Application for Program Years 2024-2027, or alternatively Require Supplemental Testimony, August 2022, A.22-05-004. The motion requested the Commission appoint Southern California Edison (SCE) as the administrator of SDG&E's DR programs (Regional Proposal) or, second, select either SCE or PG&E as the statewide administrator of Demand Response (DR) programs for SCE, SDG&E and PG&E (statewide proposal). The Commission rejected the motion.

SDG&E does not believe consolidating enrollment or administration topics are ready for discussion in any great detail.

For example, the Commission will need to weigh carefully what the value of DR is with its extensive enabling systems in light of all DERs, to whom and when, and at what cost, to determine how much should be spent on consolidating any parts of administration. Determining who has visibility into DERs on the grid and who exercises control over these resources will be critical, and presumably part of any consolidated administration and enrollment, given privacy or other system operating conditions.⁹ For example, the Commission should consider whether such platforms be integrated with the IOUs' various DERMS for optimization and if so, at what stage. It is also important to determine whether a distribution system operator needs visibility into which customers are enrolled in which DR programs, or another designated entity. Additionally, the Commission should consider whether it is necessary to first establish a tipping point or threshold, such as how many programs with how many customers must be enrolled in DERs to justify the value of implementing such a platform. Today, SDG&E has one DR program, open only to commercial customers, plus a pilot which may not be made into a long-term program.¹⁰ It would not be reasonable for SDG&E's ratepayers to contribute funds for the building of a broader DR enrollment platform for one program with limited enrollment.

Before building such platforms with ratepayer funds, the Commission must first determine if distribution system ratepayers will realize the benefits of such platforms. With energy affordability being one of the most pressing challenges in California, SDG&E believes it would be

⁹ SDG&E notes that its DR programs typically are tariffs since they may have bill impacts in the form of payments or bill credits. Each IOU must manage their DR programs for tariff compliance. Third party administration of IOU tariffs has not been approved thus far and has complexities that need to be understood.

¹⁰ SDG&E's Capacity Bidding Program, and the pilot Emergency Load Reduction Program.

imprudent to invest in a major IT system without fully understanding and confirming its value to ratepayers. SDG&E respectfully requests that consolidated enrollment or administration activity be set aside for the time being. This issue could be addressed when larger DER deployment policy issues are established, if they point to the need for such platforms, with a common vision and real cost savings. It will be important to understand initially if the challenges we face today can be solved in constructive ways, so that a robust DER market can be supported with large statewide infrastructure, which will no doubt be expensive.

VI. CARE MUST BE GIVEN TO DEVELOPING GUIDING PRINCIPLES THAT ARE REASONABLE, ACHIEVABLE AND INCLUDE THE RIGHT PRIORITIES TO PROTECT RATEPAYERS

LeapFrog, Inc. (Leap) suggests a new DR principle as follows: “Demand response resources in California shall be cost-effective by providing services at market-driven, competitively determined prices or otherwise demonstrating clear value by delivering measurable system and ratepayer benefits.”¹¹ Leap’s new proposed principle seeks to define cost-effectiveness, as stated, by prices only related to the markets, or by delivering ratepayer benefits without metrics (*e.g.*, comparing ratepayer “benefits” to ratepayer costs). While SDG&E appreciates Leap’s desire to ensure cost-effectiveness, the proposed new guiding principle reinforces SDG&E’s opening comments that guiding principles need to be examined with a full robust regulatory record developed that informs the Commission on specific wording.¹²

Delivering some ratepayer benefits is certainly not sufficient, nor does it make a program cost-effective, contrary to Leap’s principle above. Historically, the benefits to ratepayers must be quantifiable, as well as equal to, or exceeding, the costs to provide that program and in

¹¹ Leap Opening Comments, p. 14.

¹² SDG&E’s Opening Comments, pp. 1-2.

relationship to market costs (which is why the Avoided Cost Calculator is used in such cost-effectiveness methods as approved by the Commission). What Leap proposes is much less stringent than the current measuring stick. Again, SDG&E encourages the Commission to give the parties ample time to review, debate, and refine the proposed guiding principles included in the OIR. Additionally, any cost-effectiveness protocol changes should be examined as part of the reopening of the protocols as SDG&E has requested in opening comments.

VII. TO PROTECT RATEPAYERS, THERE MUST BE SOME FLEXIBILITY IN HANDLING FUNDING REQUESTS GIVEN CURRENT DR CHALLENGES

It is not clear to SDG&E how quickly some of the larger policy issues that parties suggest be scoped into the present proceeding can be resolved. If these issues are adopted into scope, there will be a need for separate tracks. SDG&E does not support a DR funding bridge-year without seeing the final scoping memorandum of this proceeding since a bridge-year may not be needed. Not having a bridge-year funding proceeding would work best for SDG&E, since it would like to make changes to its portfolio sooner rather than later.

The IOUs could, next fall, file for complete funding cycles as currently ordered. Alternatively, a bridge-year, or shorter proceeding providing upfront funding, could be utilized instead of a full 5-year application cycle. In the latter approach, SDG&E would have funding approved by January 1, 2028 (when current funding ends). SDG&E requests some flexibility in the changes it requests for any bridge or shorter duration.¹³ It would not be in ratepayers' interests to require SDG&E to be locked into its current programs for additional time as they are not cost-

¹³ As a reminder, SDG&E's DR funds for the DR portfolio are not able to be carried over into a new DR cycle. The current cycle ends Dec. 31, 2027. To operate programs, respond to data requests, and file DR reports, SDG&E would need new/additional funding for those ongoing activities starting January 1, 2028. SDG&E does not ever refund DR portfolio funds, since it only collects in rates what it spent the previous year up to an approved budget cap.

effective. SDG&E needs flexibility to seek approval to modify or even end programs for reasonable cause; and particularly if they are not cost-effective.

Lastly, while the OIR's current scope aims to develop policies and guiding principles, it may result in the IOUs being ordered to implement something differently or entirely new. Should the Decisions in this proceeding contain such orders, SDG&E requests that the Commission be mindful of additional costs associated with such orders, and that any orders include direction and authorization to track and recover the associated costs appropriately.

VIII. CONCLUSION

SDG&E appreciates the opportunity to review the parties' comments and provide its own comments in response. SDG&E looks forward to seeing how stakeholder input will be utilized to improve upon the initial OIR.

Respectfully Submitted,

/s/ Roger A. Cerda

Roger A. Cerda

8330 Century Park Court, CP32D

San Diego, CA 92123-1530

Telephone: (858) 654-1781

Email: rcerda@sdge.com

Attorney for:

San Diego Gas & Electric Company

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