

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to
Enhance Demand Response in
California.

Rulemaking _____

**ORDER INSTITUTING RULEMAKING TO ENHANCE DEMAND
RESPONSE IN CALIFORNIA****Summary**

This Order Instituting Rulemaking (OIR) seeks to evaluate and enhance the consistency, predictability, reliability, and cost-effectiveness of demand response resources. The Commission will accomplish this enhancement by updating our demand response guiding principles, policies, and data system and process requirements.

Various terms have been used to describe the ability of customers to adjust electricity consumption in response to price signals and/or grid conditions. In this rulemaking, we will use the term demand response, as defined in Commission Decision 17-12-003:

[R]eductions, increases, or shifts in electricity consumption by customers in response to either economic signals or reliability signals. Economic signals come in the form of electricity prices or financial incentives, whereas reliability signals appear as alerts when the electric grid is under stress and vulnerable to high prices.

Opening comments on the preliminary scoping memo and the proposed demand response Guiding Principles, appended to this OIR, are due no later than 45 days after the issuance of this OIR. Reply comments are due no later than 60 days after the issuance of this OIR.

1. Background

1.1. Statutory Requirements

Public Utilities Code (Pub. Util. Code) § 454.5(b)(9)(C)(i) states “[t]he electrical corporation shall first meet its unmet resource needs through all available energy efficiency and demand reduction resources that are cost effective, reliable, and feasible.”

Demand response is also discussed in Pub. Util. Code § 380, which outlines the California Public Utilities Commission’s (Commission) responsibilities for establishing resource adequacy requirements.¹ Some pertinent Commission responsibilities regarding resource adequacy and demand response include:

- Pub. Util. Code § 380(b)(2): “Establish new, or maintain existing, demand response products and tariffs that facilitate the economical dispatch and use of demand response that can either meet or reduce an electrical corporation’s resource adequacy requirements, as determined by the commission.”
- Pub. Util. Code § 380(h)(7): “Ensuring that investments are made in new and existing demand response resources that are cost effective and help to achieve electrical grid reliability and the state’s goals for reducing emissions of greenhouse gases.”

¹ In consultation with the California Independent System Operator (CAISO).

- Pub. Util. Code § 380(j): “The commission shall ensure appropriate valuation of both supply and load modifying demand response resources. The commission, in an existing or new proceeding, shall establish a mechanism to value load modifying demand response resources, including, but not limited to, the ability of demand response resources to help meet distribution needs and transmission system needs and to help reduce a load-serving entity’s resource adequacy obligation pursuant to this section. In determining this value, the commission shall consider how these resources further the state’s electrical grid reliability and the state’s goals for reducing emissions of greenhouse gases. The commission, Energy Commission, and Independent System Operator shall coordinate to jointly ensure that changes in demand caused by load modifying demand response are expeditiously and comprehensively reflected in the Energy Commission’s Integrated Energy Policy Report forecast and in planning proceedings and associated analyses, and shall encourage reflection of these changes in demand in the operation of the grid.”

1.2. Federal Energy Regulatory Commission Orders

In 2008, the Federal Energy Regulatory Commission (FERC) issued Order Number (No.) 719, to eliminate barriers for demand response to participate in organized energy markets.² The reforms paved the way for demand-side resources to actively participate in wholesale markets; however, in most markets demand response was still compensated differently than other resources. In 2011, FERC issued Order Nos. 745 and 745-A to ensure demand response resources are compensated comparably when providing comparable services and benefits to

² FERC Order No. 719, Wholesale Competition in Regions with Organized Electric Markets, October 17, 2008, available at <https://ferc.gov/media/order-no-719>.

wholesale markets.³ The orders require regional transmission operators (RTOs) and independent system operators (ISOs) to pay the market locational marginal price for demand response energy services. In 2020 and 2021, FERC issued Order Nos. 2222 and 2222-A, respectively, to eliminate qualification and performance requirements that posed barriers to the participation of distributed energy resources (DERs) in RTO and ISO markets.⁴ The orders further enable aggregations of DERs to participate in wholesale markets.

1.3. California Load Management Standards

In 2022, the California Energy Commission (CEC) adopted amendments to its Load Management Standards for Investor-Owned Utilities (IOUs) and other non-IOU load serving entities across the state.⁵ The CEC's Load Management Standard requires all large IOUs to offer marginal cost-based rates (dynamic rates) by January 1, 2027, for each customer class.⁶ The Commission recently adopted guidelines for the design of the utilities' demand flexibility rates to comply with the CEC's Load Management Standards.⁷

³ FERC Order No. 745, Demand Response Compensation in Organized Wholesale Energy Market, March 15, 2011, available at <https://www.ferc.gov/sites/default/files/2020-06/Order-745.pdf>; FERC Order No. 745-A, Order on Rehearing and Clarification, December 15, 2011, available at https://www.ferc.gov/sites/default/files/2020-04/E-4_16.pdf.

⁴ FERC Order No. 2222, Participation of Distributed Energy Resource Aggregations in Markets Operated by Regional Transmission Organizations and Independent System Operators, September 17, 2020, available at https://www.ferc.gov/sites/default/files/2020-09/E-1_0.pdf; FERC Order No. 2222-A, Order Addressing Arguments Raised on Rehearing, Setting Aside Prior Order in Part, and Clarifying Prior Order in Part, March 18, 2021, available at <https://cms.ferc.gov/media/e-1-rm18-9-002>.

⁵ 20 California Code of Regulations (CCR) §§ 1621-1623.

⁶ 20 CCR § 1623(a)(2), (d)(2).

⁷ Decision (D.) 25-08-049.

1.4. Previous Demand Response Rulemaking

In the previous demand response rulemaking, Rulemaking (R.) 13-09-011, the Commission established “a set of principles to guide future demand response policies and programs.”⁸ The rulemaking also adopted a landmark bifurcation policy, differentiating between resources integrated into wholesale markets and those affecting overall load; updated resource adequacy eligibility and counting of demand response resources; developed the Rule 24/32 pathway for third party demand response providers to participate in the California Independent System Operator (CAISO) markets; and adopted customer data access policies, among others.⁹

2. Purpose of Proceeding

The California Legislature, the Commission, the CEC, and the FERC have all recognized the critical role of demand response in promoting reliability and reducing costs borne by ratepayers.¹⁰ This rulemaking will enhance the consistency, predictability, reliability, and cost-effectiveness of demand response resources. Moreover, the Commission will accomplish this enhancement by updating our demand response guiding principles, policies, and data system and process requirements.

⁸ D.16-09-056 at 3, Ordering Paragraph (OP) 8.

⁹ D.14-03-026; D.14-12-024; D.15-11-042.

¹⁰ See Pub. Util. Code §§ 380, 454.5(b)(9)(C)(i); FERC Orders Nos. 719, 745, 745-A, 2222, 222A; Energy Action Plan, May 8, 2003; SB 846 Load Shift Goal Report, May 26, 2023, *available at* <https://efiling.energy.ca.gov/GetDocument.aspx?tn=250357&DocumentContentId=85095>.

2.1. Updates to Guiding Principles

Since as early as 2003, demand response guiding principles have informed the Commission's development and evolution of demand response policies in California.¹¹

Appended to this Order Instituting Rulemaking (OIR) is a Guiding Principles staff proposal. The proposed guiding principles are grounded in those most recently adopted by the Commission in 2016,¹² and demand response principles and objectives developed by the Commission, the CEC, and the CAISO in prior interagency collaborations.¹³

The appended Guiding Principles are intended to promote an alignment of statewide demand response policies. Disparate policies can introduce inefficiencies, redundancies, and additional costs to ratepayers. Ultimately, disparate policies hinder the growth of demand response in California, contrary to Pub. Util. Code §§ 380 and 454.5(b)(9)(C)(i), and impede California's clean energy transition.

2.2. Updates to Policies

In the last decade and since the adoption of the major policy initiatives in R.13-09-011, the state has experienced considerable changes in the technical,

¹¹ D.03-06-032 at 7-10, Appendix A.

¹² D.16-09-056 at OP 8.

¹³ See D.03-06-032 at 7-10, Appendix A; California Demand Response: A Vision for the Future. Draft issued for discussion June 11, 2008, *available at* https://www.caiso.com/documents/proposedfinalcaliforniademandresponsevisionstatement_up_dated11-jun-2008.pdf.

regulatory, and operational capabilities of demand response resources. The increased adoption of behind-the-meter DERs, transportation electrification, building electrification, and smart controls for appliances have presented new challenges and new opportunities for demand response. New market actors, demand response resource models, and market products have also emerged.

The recent developments in the demand response landscape necessitate re-examination of existing rules and consideration of new policies. In this rulemaking, we intend to re-evaluate several key Commission demand response policies, including our dual participation policy,¹⁴ valuation methodologies and evaluation metrics,¹⁵ and others. We will evaluate these topics in this rulemaking and consider amendments to ensure continued alignment with the evolving demand response landscape and the state's policy goals.

In addition, new demand response topics and proposals need to be evaluated. For example, demand response policies related to resource adequacy and CAISO market integration require further consideration, such as the alternative supply-side demand response qualifying capacity methodology,¹⁶ the proxy demand resource bid cap,¹⁷ and the implementation of the slice-of-day framework.¹⁸

¹⁴ D.09-08-027 at OP 30.

¹⁵ Baseline methodologies and compensation structures will be reviewed to ensure greater reliability and accountability of demand response resources.

¹⁶ Status Update on the Joint Staff Qualifying Capacity Proposal for R.23-10-011, *available at* <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M553/K678/553678792.PDF>.

¹⁷ D.23-06-029 at 81-88.

¹⁸ *See* R.23-10-011.

2.3. Updates to Data Systems and Processes

The availability of accurate, reliable, and timely data is critical to the effectiveness of demand response. Data is also crucial for evaluating performance and verifiable value of demand response resources. In Decision 25-08-049, the Commission noted that issues relating to systems and processes to enable access to dynamic rates to implement Load Management Standards will be addressed in one or more new rulemakings.¹⁹ This rulemaking will address the implementation of dynamic rates by developing the appropriate systems and processes but will not address the rate design aspects of the dynamic rates being used by these systems and processes.

3. Demand Response Staff Proposals

The Commission anticipates several staff proposals will be issued during this proceeding. We anticipate holding workshops on the proposals and issuing rulings to solicit stakeholder comments. Appended to this OIR is the Guiding Principles staff proposal. Next, Energy Division staff will provide a Data Systems and Processes proposal.

4. Preliminary Scoping Memo

This rulemaking will be conducted in accordance with Article 6 of the Commission's Rules of Practice and Procedure (Rules) regarding rulemakings.²⁰ Additionally, as required by Rule 7.1(d), this OIR includes a Preliminary Scoping

¹⁹ D.25-08-049 at 13.

²⁰ Unless otherwise indicated, all subsequent Rule references are to the Commission's Rules of Practice and Procedure.

Memo as set forth below and preliminarily determines the category of this proceeding and the need for hearings.

In this Preliminary Scoping Memo, we describe the initial set of issues to be considered in this proceeding, as well as an initial high-level timeline. Parties to this proceeding will have the opportunity to provide comments on the issues raised in this Preliminary Scoping Memo. After a Pre-Hearing Conference, the assigned Commissioner will issue a formal Scoping Memo and Ruling to confirm the issues and procedural path in greater detail.

4.1. Preliminary Issues

The preliminary scope of this proceeding is as follows:

1. What guiding principles should the Commission adopt for demand response policies?
2. What policies should the Commission adopt or amend to make demand response resources more consistent, predictable, reliable, and cost-effective, including but not limited to:
 - a. Dual participation;
 - b. Valuation methodologies and evaluation metrics;
 - c. CAISO market integration topics; and
 - d. Resource adequacy valuation and slice-of-day implementation?
3. What standardized data systems, communication protocols, and data transfer processes should the Commission adopt or amend to support demand response initiatives, including dynamic rates?

4.2. Invitation to Comment on Preliminary Scoping Memo and Guiding Principles

This OIR solicits party comment on the Preliminary Scoping Memo and issues identified in this document. We invite parties to comment on:

- Whether there are additional issues or details that should be included in the scope of this proceeding;
- Whether any specific issues previously addressed or underway in other Commission proceedings require coordination with this rulemaking; and
- Whether the proposed Guiding Principles appended to this OIR should be adopted or if any modifications are needed.

Opening and reply comments shall be filed and served no later than 45 days and 60 days after the issuance of this OIR, respectively.

5. Preliminary Schedule

The preliminary schedule of this proceeding is presented below.

EVENT	DATE
Opening Comments on OIR filed and served	Within 45 days of the issuance date of this OIR
Reply Comments on OIR filed and served	Within 60 days of the issuance date of this OIR
Pre-Hearing Conference held	Within 90 days of the issuance date of this OIR
Scoping Memo and Ruling issued	Quarter 1 of 2026
Staff Proposal (Data Systems and Processes)	Quarter 1 of 2026
Staff Proposal Workshop	Quarter 1 of 2026
Party Comments on Staff Proposal	Within 30 days of the issuance of the Staff Proposal
Proposed Decision issued (Data Systems and Processes; Guiding Principles)	Quarter 3 of 2026
Commission Decision issued	No sooner than 30 days after the issuance of the Proposed Decision

The assigned Commissioner or the assigned Administrative Law Judge (ALJ) may change the schedule to promote efficient and fair administration of this proceeding. Later in the proceeding, the Commission expects additional record development on other demand response policies to inform another proposed decision.

Despite the complexity and number of issues in this proceeding, our intent is to complete this proceeding within 24 months of the date this OIR is adopted, in accordance with Pub. Util. Code § 1701.5(b).

Notice of workshops and public meetings in this proceeding will be served to the service list of this proceeding and posted on the Commission's Daily Calendar. The public will be informed if a decision-maker or advisor may be present at those meetings or workshops.

6. Category of Proceeding; *Ex Parte* Communications; and Need for Hearing

The Rules require that an OIR preliminarily determine the category of the proceeding. As a preliminary matter, we determine that this proceeding is quasi-legislative because our consideration and approval of this matter would establish policy or rules affecting a class of regulated utilities. This determination shall be confirmed or changed by a ruling by the assigned Commissioner.

The Rules require that an OIR preliminarily determine the need for hearing. We anticipate many of these issues can be addressed by filed comments, public meetings, or workshops. Therefore, we preliminarily determine that no hearings will be needed. The Assigned Commissioner's Scoping Memo and Ruling, after considering the comments and recommendations of parties, will make a final determination of the need for hearing.

7. Respondents

Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company are named as respondents to this proceeding.

8. Service of Order Instituting Rulemaking

This OIR shall be served to all proceeding respondents. In the interest of broad notice, this OIR will be served on the official service lists for the following proceedings: A.22-05-002, *et al.* (Demand Response 2023-2027 Program Budget Cycle); R.13-09-011 (Previous Demand Response Rulemaking); R.22-07-005 (Demand Flexibility); R.23-10-011 (Resource Adequacy); R.21-06-017 (High Distributed Energy Resources Future); R.25-04-010 (Energy Efficiency); R.24-01-018 (Energization); A.24-09-014 (PG&E General Rate Case Phase II); R.19-01-011

(Building Decarbonization); R.20-05-012 (Self Generation Incentive Program); A.24-06-014, *et al.* (SCE Commercial & Industrial Dynamic Pricing); R.23-12-008 (Transportation Electrification); R.22-11-013 (Distributed Energy Resource Cost-Effectiveness Issues, Data Access and Equipment Performance Standards); A.18-11-015, *et al.* (Cost Recovery for Improvements to the Click-Through Authorization Process); and A.24-10-014 (PG&E Billing Modernization Initiative).

Other than respondents, service of the OIR does not confer party status or place any person who has received such service on the official service list for this proceeding. Instructions for obtaining party status or being placed on the official service list are given below.

9. Filing, Service, and Service List

Persons may become a party pursuant to Rule 1.4, including filing comments in response to the OIR. Parties should confirm that their information on the service list is correct and serve notice of any errors on the Commission's Process office, the service list, and the ALJ.²¹

When serving any document, each party must ensure that it is using the current official service list on the Commission's website.

This proceeding will follow the electronic service protocol set forth in Rule 1.10, with one exception, such that all parties are excused from the Rule 1.10 requirement to serve on the ALJs both an electronic and a paper copy of filed or serviced documents. Therefore, when serving documents on Commissioners,

²¹ The form to request additions and changes to the Service list may be found at <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/administrative-law-judge-division/documents/additiontoservicelisttranscriptordercompliant.pdf>

their personal advisors, and the ALJ, parties must only provide electronic service, unless otherwise instructed by the ALJs. All parties to this proceeding shall serve documents and pleadings using electronic mail, whenever possible, transmitted all documents no later than 5:00 p.m., on the date scheduled for service to occur.

Persons who are not parties but wish to receive electronic service of documents filed in the proceeding may contact the Process Office at process_office@cpuc.ca.gov to request addition to the “Information Only” category of the official service list pursuant to Rule 1.9(f).

The Commission encourages those who seek information-only status on the service list to consider the Commission’s subscription service as an alternative. The subscription service sends individual notifications to each subscriber of formal e-filings tendered and accepted by the Commission. Notices sent through subscription service are less likely to be flagged by spam or other filters. Notifications can be for a specific proceeding, a range of documents and daily or weekly digests.

10. Receiving Electronic Service from the Commission

Parties and other persons on the service list are advised that it is the responsibility of each person or entity on the service list for Commission proceedings to ensure their ability to receive emails from the Commission. Please add “@cpuc.ca.gov” to your email safe sender list and update your email screening practices, settings and filters to ensure receipt of emails from the Commission.

11. Public Advisor

Any person interested in participating in this proceeding who is unfamiliar with the Commission's procedures or has questions about the electronic filing procedures is encouraged to obtain more information at <https://www.cpuc.ca.gov/about-cpuc/divisions/news-and-public-information-office/public-advisors-office> or contact the Commission's Public Advisor at 866-849-8390 or 866-836-7825 (TTY), or send an e-mail to public.advisor@cpuc.ca.gov.

12. Response to Public Comments

Parties may, but are not required to, respond to written comments received from the public. Parties may do so by posting such response using the "Add Public Comment" button on the "Public Comment" tab of the online docket card for the proceeding.

13. Intervenor Compensation

Pursuant to Public Utilities Code Section 1804(a)(1), a customer who intends to seek an award of compensation must file and serve a notice of intent to claim compensation within 30 days after the prehearing conference is held.

O R D E R

IT IS ORDERED that:

1. This Order Instituting Rulemaking is adopted pursuant to Rule 6.1 of the Commission's Rules of Practice and Procedure.
2. The preliminary categorization is quasi-legislative.
3. The preliminary determination is that hearings are not needed.
4. The preliminary scope of issues is as stated above in Section 4.1.
5. The preliminary schedule described above in Section 5 is adopted.

6. Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company, are respondents to this Order Instituting Rulemaking.

7. Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company, shall, and any other person may, file opening comments responding to this Order Instituting Rulemaking (OIR) and the appended Guiding Principles within 45 days of the issuance of this OIR. Reply comments are due within 60 days of the issuance of this OIR.

8. The Executive Director will cause this Order Instituting Rulemaking to be served on all respondents and on the service lists for the following Commission proceedings: Application (A.) 22-05-002, *et al.*; Rulemaking (R.) 13-09-011; R.22-07-005; R.23-10-011; R.21-06-017; R.25-04-010; R.24-01-018; A.24-09-014; R.19-01-011; R.20-05-012; A.24-06-014, *et al.*; R.23-12-008; R.22-11-013; A.18-11-015, *et al.*; and A.24-10-014.

9. Any party that expects to claim intervenor compensation for its participation in this rulemaking must file its notice of intent to claim intervenor compensation within 30 days after the prehearing conference is held.

This order is effective today.

Dated _____, at San Francisco, California