

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



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Application of Pacific Gas and Electric
Company (U39E) for Approval of Demand
Response Programs, Pilots and Budgets for
Program Years 2018-2022.

Application 17-01-012
(Filed January 17, 2017)

Application 17-01-018
(Filed January 17, 2017)

Application 17-01-019
(Filed January 17, 2017)

And Related Matters.

**REPLY COMMENTS OF THE CALIFORNIA INDEPENDENT SYSTEM
OPERATOR CORPORATION**

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Table of Contents

I.	Introduction.....	1
II.	Discussion.....	1
	A. The Commission Need Not Specify an Energy Requirement in the DRAM contract Because Resource Adequacy Resources Must Comply with the CAISO’s Must-Offer Obligation.	1
	B. SCE Correctly Notes that DRAM Resources Must be Fully Compliant with CAISO Market Rules and Regulations.	3
III.	Conclusion	3

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I. Introduction

The California Independent System Operator Corporation (CAISO) hereby provides reply comments in response to the February 28, 2019, *Administrative Law Judge's Ruling Directing Responses to Questions Resulting from the February 11-12, 2019 Demand Response Auction Mechanism Workshop and Comments on Proposals to Improve the Mechanism* (Ruling), issued in this proceeding.

II. Discussion

The CAISO's comments primarily address the application of CAISO market rules and regulations to Demand Response Auction Mechanism (DRAM) resources. Specifically, the CAISO clarifies that (1) all resource adequacy resources—including DRAM resources—must comply with CAISO must-offer obligations and (2) DRAM resources must fully comply with all CAISO market rules and regulations

A. The Commission Need Not Specify an Energy Requirement in the DRAM contract Because Resource Adequacy Resources Must Comply with the CAISO's Must-Offer Obligation.

Ruling Question 12 asked parties to comment on whether the Commission should adopt an energy requirement in the DRAM contract. In opening comments, the Joint DR Parties assert

that “it is not appropriate to adopt an energy requirement at this time” because “no policy guidance has come that DRAM should be more than what it currently is – at its core, it is fundamentally a resource adequacy product composed of non-emitting customer locations rather than power plants.”¹ The CAISO agrees that the Commission should not incorporate a specific energy requirement into the DRAM contract, but the CAISO clarifies that all resource adequacy resources are subject to CAISO must-offer obligations that require the resource to submit energy bids and deliver energy when dispatched by the CAISO. Though investor-owned utilities (IOUs) only buy resource adequacy capacity from DRAM resources, DRAM resources—like all resource adequacy resources—must comply with the CAISO tariff must-offer obligations. For demand response and other preferred resources to displace greenhouse gas emitting power plants, they must replace the energy served by those plants because homes, businesses, and industry run on energy, not capacity. The Commission and DRAM providers must understand that even though the DRAM secures a capacity contract, DRAM energy performance (via load curtailment) when dispatched by the CAISO is paramount to achieving the state’s energy policy goals.

The Joint DR Parties also note their expectation “that high demand is not highly correlative with high energy prices due to the high levels of solar production during those times. As such, if [demand response] is not being dispatched during times of high demand, it is because energy prices are not indicating a need for dispatch.”² To clarify, the CAISO’s energy market prices are highly correlated with net load (*i.e.*, load less wind and solar output). The CAISO Department of Market Monitoring *2017 Annual Report on Market Issues and Performance* discusses energy market prices, and concludes that “[a]verage hourly prices move in tandem with the average net load.”³ System marginal energy prices in the CAISO’s day-ahead and real-time markets clearly follow the average hourly net load.⁴ The CAISO recommends that the Commission review demand response dispatch performance during times of high net load. The Commission should be secure knowing that the market is functioning properly and prices are

¹ *Joint Responses and Comments of CPower, Enel X North America, Inc., and EnergyHub (Joint DR Parties) on Questions, Demand Response Auction Mechanism (DRAM) Proposals, and Energy Division Final DRAM Evaluation Report Pursuant to the Administrative Law Judge’s Ruling of February 28, 2019* March 29, 2019, p.15 (Joint DR Parties Opening Comments).

² Joint DR Parties Opening Comments, p. 16

³ CAISO Department of Market Monitoring, *2017 Annual Report on Market Issues and Performance*, June 2018, p. 70. Available at: <http://www.caiso.com/Documents/2017AnnualReportonMarketIssuesandPerformance.pdf>.

⁴ *Id.* Figure 2.3 Hourly System Marginal Energy Prices (2017), p. 72.

properly tracking and reflecting supply and demand considerations.

B. SCE Correctly Notes that DRAM Resources Must be Fully Compliant with CAISO Market Rules and Regulations.

Southern California Edison Company (SCE) notes that the customer performance objectives listed in Ruling Table 2 are unclear. Specifically, SCE states that:

As far as the objective to have customers be 100 percent compliant with CAISO reliability criteria by 2025, all market participants who bid Demand Response or Resource Adequacy into the Federal Energy Regulatory Commission's (FERC) wholesale markets must currently be 100 percent compliant with the FERC rules and regulations, including all CAISO reliability criteria. There is no waiver or permissible "grace period" for wholesale market participants that the Commission could authorize until 2025... Therefore, SCE does not support the objective to have "monthly demonstrated capacity equal 90 percent by 2025" because it runs counter to current CAISO requirements.⁵

The CAISO strongly agrees with SCE. Resources that provide resource adequacy capacity to the CAISO must comply with all CAISO tariff requirements and FERC rules and regulations. The Commission should not suggest (1) that DRAM resources are exempt from CAISO or FERC requirements, (2) that there is a "grace period" for compliance, or (3) that full compliance is a goal to be achieved by 2025. Full compliance is an obligation for all market participants.

III. Conclusion

The CAISO appreciates the opportunity to provide reply comments and clarify the CAISO market participation rules.

Respectfully submitted

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⁵ Southern California Edison Company (U 338-E) *Response to Administrative Law Judge's Ruling Directing Responses to Questions Resulting From The February 11-12, 2019 Demand Response Auction Mechanism Workshop and Comments on Proposals to Improve the Mechanism*, p. 11.

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