

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

Order Instituting Rulemaking to Enhance
the Role of Demand Response in Meeting
the State's Resource Planning Needs and
Operational Requirements.

Rulemaking 13-09-011
(Filed September 19, 2013)

**COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE
TO THE DECISION ADOPTING GUIDANCE FOR FUTURE DEMAND
RESPONSE PORTFOLIOS AND MODIFYING DECISION 14-12-024**

Donald C. Liddell
DOUGLASS & LIDDELL
2928 2nd Avenue
San Diego, California 92103
Telephone: (619) 993-9096
Facsimile: (619) 296-4662
Email: liddell@energyattorney.com

Counsel for the
CALIFORNIA ENERGY STORAGE ALLIANCE

September 19, 2016

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

Order Instituting Rulemaking to Enhance
the Role of Demand Response in Meeting
the State’s Resource Planning Needs and
Operational Requirements.

Rulemaking 13-09-011
(Filed September 19, 2013)

**COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE
TO THE DECISION ADOPTING GUIDANCE FOR FUTURE DEMAND
RESPONSE PORTFOLIOS AND MODIFYING DECISION 14-12-024**

Pursuant to the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the California Energy Storage Alliance (“CESA”)¹ hereby submits these comments to the *Decision Adopting Guidance for Future Demand Response Portfolios and Modifying Decision 14-12-024*, issued by Administrative Law Judge Kelly A. Hymes on August 30, 2016 (“Proposed Decision”).

I. INTRODUCTION.

CESA strongly supports the Proposed Decision, which charts a viable path for California to move toward further integration of demand response (“DR”) resources into the California

¹ 1 Energy Systems Inc., Adara Power, Advanced Microgrid Solutions, AES Energy Storage, Amber Kinetics, Aquion Energy, Bright Energy Storage Technologies, Brookfield, California Environmental Associates, Consolidated Edison Development, Inc., Cumulus Energy Storage, Customized Energy Solutions, Demand Energy, Eagle Crest Energy Company, East Penn Manufacturing Company, Ecoult, Electric Motor Werks, Inc., ElectrIQ Power, ELSYS Inc., Enphase Energy, GE Energy Storage, Geli, Gordon & Rees, Green Charge Networks, Greensmith Energy, Gridscape Solutions, Gridtential Energy, Inc., Hitachi Chemical Co., Ice Energy, Innovation Core SEI, Inc. (A Sumitomo Electric Company), Invenergy LLC, Johnson Controls, K&L Gates, LG Chem Power, Inc., Lockheed Martin Advanced Energy Storage LLC, LS Power Development, LLC, Mercedes-Benz Research & Development North America, Nature & PeopleFirst, NEC Energy Solutions, Inc., NextEra Energy Resources, NGK Insulators, Ltd., NRG Energy LLC, OutBack Power Technologies, Parker Hannifin Corporation, Powertree Services Inc., Qnovo, Recurrent Energy, RES Americas Inc., Saft America Inc., Samsung SDI, Sharp Electronics Corporation, Skylar Capital Management, SolarCity, Sovereign Energy, Stem, SunPower Corporation, Sunrun, Swell Energy, Trina Energy Storage, Tri-Technic, UniEnergy Technologies, Wellhead Electric, Younicos. The views expressed in these Comments are those of CESA, and do not necessarily reflect the views of all of the individual CESA member companies. (<http://storagealliance.org>).

Independent System Operator (“CAISO”) market and to ensure that DR resources adhere to the state’s energy and environmental goals. In CESA’s July 1, 2016, Comments in response to an Administrative Law Judge’s Ruling’s questions regarding 2018 and beyond DR programs, CESA stressed the importance of setting market transformation as a programmatic goal, linking the performance attributes of DR dispatches with the appropriate level of compensation and incentives, and fostering market competition from third-party DR providers.² Importantly, our positions and recommendations are largely reflected in the Proposed Decision and CESA therefore recommends approval of the Proposed Decision.

There are two areas of the Proposed Decision, however, where CESA recommends modest changes. First, CESA is concerned about the Commission’s view of the role of the utilities in future DR programs. While the Proposed Decision defers this determination until a later time, it indicates that the Commission envisions utility-administered Demand Response Auction Mechanisms (“DRAM”) should be the primary means for DR resource market participation in California. Second, CESA recommends the procedural schedule for developing guidance for fast-response DR programs begin sooner than laid out in the Proposed Decision. The Proposed Decision stipulates that this work should begin in 2019, instead of 2018, via a two-track Guidance, Application, and Decision cycle.

II. THE PROPOSED DECISION CORRECTLY PROHIBITS FOSSIL-FUELED BACKUP GENERATORS FROM DEMAND RESPONSE PROGRAM PARTICIPATION.

CESA agrees with the Proposed Decision that fossil-fueled backup generators should be prohibited from DR program participation starting on January 1, 2018. This determination is

² *Comments of the California Energy Storage Alliance on Administrative Law Judge’s Ruling Requesting Responses to Questions in Regard to 2018 and Beyond Demand Response Programs*, filed July 1, 2016.

appropriate given the loading order and the state’s energy and environmental goals to reduce greenhouse gas (“GHG”) emissions. Additionally, CESA supports the exceptions made to standalone energy storage and renewables paired with energy storage. Energy storage resources have already-established GHG emission standards for purposes of eligibility in the Self-Generation Incentive Program (“SGIP”), and these Commission-approved standards indicate that the technology meets the program’s GHG reduction goals.³ The prohibition policy is necessary to ensure that DR program funds are reserved for resources that actually reduce GHG emissions in accordance with the loading order, the Commission’s Energy Action Plan, and California law.

III. THE PROPOSED DECISION PROPERLY REFLECTS THE IMPORTANCE OF THIRD-PARTY COMPETITION AND PERFORMANCE-BASED COMPENSATION IN ITS GOAL AND PRINCIPLES.

CESA supports the new goal in the Proposed Decision, which moves beyond the interim goal established in 2014 that set a singular peak-shaving goal for DR programs. Instead, the new proposed goal will incent DR resources to provide a range of useful grid services as long as they meet environmental objectives, are cost-effective, and enable customer choice and savings. As a result, CESA believes that DR programs will prompt more innovative DR configurations and approaches, such as energy storage-enabled DR that provides flexible Resource Adequacy (“RA”) capacity, provides ancillary services, defers or mitigate transmission and distribution upgrades, manages overgeneration, and provides reliability services during emergency events.

The principles proposed in the Proposed Decision also provide the appropriate guidance for DR programs to achieve its primary goals. In particular, the principles that DR programs are responsive to the market and that such programs allow for third-party competition both provide key guidance for DR going forward. Third-party market participants are necessary to elicit

³ Proposed Decision, p. 25.

innovative DR solutions while at the same time bringing down costs and enabling customer choice. The Proposed Decision's preference for "third-parties through performance-based contracts at competitively determined prices" as the last principle is necessary to achieve the new goal for DR programs. Certain resources such as energy storage are not valued or compensated for its unique performance attributes.⁴ This last principle ensures that DR programs properly compensate these high-value attributes.

As the Commission develops future guidance for advanced, fast-response DR programs, CESA recommends that metrics be developed to quantify the flexibility, dispatchability, and availability of DR resources, as well as valuation mechanisms to incentivize and compensate higher-performing DR resources. Performance attributes that should be valued include:

- Ability to be dispatched for extended periods of time
- Ability to be dispatched quickly and instantaneously
- Ability to respond to multiple triggers and be dispatched multiple times per day
- Ability to be dispatched for consecutive days with no customer fatigue
- Ability to be dispatched for different types of services (*e.g.*, both load-modifying and supply-side DR functions)

IV. THIRD PARTIES SHOULD BE ENABLED TO FAIRLY COMPETE IN ADMINISTERING DEMAND RESPONSE PROGRAMS.

Given CESA's view that it is important to preserve third-party market competition, a key issue in the Proposed Decision is the Commission's view of the role of the utilities in future DR programs. The Proposed Decision states that it is premature to dismantle the current DR provider model where the utilities play a key administrative role; however, it indicates that the

⁴ CESA's July 1, 2016 comments, p. 2.

Commission envisions utility-administered DRAM as the primary means for DR resource market participation in California given the utilities' historical operational experience and unique knowledge of distribution system needs.⁵ In CESA's view, utility-administered DRAM should be *one of* the primary means for DR resource market participation in the state, while still allowing for market competition by third-party administered DR programs. With greater customer and grid condition data access such as by means of the new Locational Net Benefit Analysis ("LNBA") and Integrated Capacity Analysis ("ICA") data being developed in the Distributed Resources Plan proceeding (R.14-08-013), third parties will be in a better position to administer DR programs as well. While the Proposed Decision ultimately decides to allow customers to determine the role for utilities in future DR programs,⁶ it will be important for third-party administrators to be given the same tools and data to ensure a level-playing field to allow this market competition to play out.

As the Commission seeks to preserve third-party market competition, it should evaluate existing dual DR program participation rules, which currently limit third-party providers to choosing between enrolling in a utility-run DR program versus direct DR participation via Rule 24. Customers should be encouraged to participate in multiple programs with DR resources, especially as advanced DR resources today have the capability of performing multiple functions and participating in multiple DR markets. In addition to supporting the market transformation and innovation goals of DR programs, encouraging participation in multiple DR programs to provide multiple grid services will deliver a greater return on investment to ratepayers.

⁵ Proposed Decision, p. 63.

⁶ Proposed Decision, pp. 48-49.

When developing the guidance for existing and advanced DR programs, CESA therefore recommends that the Commission include principles and measures that overcome some of these third-party participation barriers and ensure fair market competition.

V. **THE PROPOSED DECISION ESTABLISHES A REASONABLE TRANSITION PATH FOR THE DEMAND RESPONSE AUCTION MECHANISM.**

The proposed plan for the transition of the DRAM from pilot to full program status is reasonable and should be adopted. After reviewing pilot data for the three DRAM auctions, the Proposed Decision proposes to adopt five criteria to determine the success of the DRAM. CESA supports the five criteria because they ensure market competitiveness and performance, while at the same time encouraging market transformation. The market transformation criteria are reflected in whether new third-party providers and new customers are engaged. Rather than supporting a few select market players, CESA believes it is important to support a range of business models and technologies to truly transform the market. In doing so, utilities and third-party DR providers will gain experience and a better understanding of developing optimal portfolios of DR resources and end-use customers to meet grid needs and DR program goals.

There are a number of other aspects of the DRAM transition that CESA supports. First, requiring of the same penalty structure for DRAM contracts as RA contracts is fair and reasonable, and ensures that DR resources are measured according to their actual performance and delivery, rather than just availability. Second, the prohibition of utilities participating in the DRAM is reasonable given the inherent conflict of interest in administering and participating in an auction mechanism. Third, DRAM contracts are allowed to range from one to five years, which provides long-term market revenue certainty for DR providers using energy storage. The higher costs of securing customers and installing energy storage systems may make it cost

prohibitive for certain DR providers to participate in the DRAM under one-year contracts, as it apparently was under the first and second DRAM auctions.

VI. A PROCEDURAL PATH SHOULD BE SET FOR ADVANCED DEMAND RESPONSE PROGRAMS TO BE IMPLEMENTED BY 2018.

An important concern for CESA regarding the Proposed Decision is the procedural path outlined for future DR Applications, which would be filed separately and much later than for existing DR programs. Under this two-track approach, the Commission would not issue a decision adopting new advanced DR programs until summer 2019, while the decision adopting 2018 portfolios for existing DR programs and activities would be issued by fall 2017. CESA finds this approach to be unnecessary and would unduly delay opportunities for future DR products from being implemented in 2018. In CESA's March 18, 2016 Comments on an Administrative Law Judge's Ruling CESA supported the 'Supplemental Application Scenario, which would lead to a supplemented, amended, or enhanced DR Application and a Proposed Decision by September 2017.⁷ CESA again urges the Commission to take this approach rather than to take a two-track approach, which would lead to administrative burden and potentially duplicative efforts. More importantly, third parties are able to provide these advanced, fast-response DR services *today*.

⁷ *Comments of the California Energy Storage Alliance in the Administrative Law Judge's Ruling Requesting Responses to Questions in Regard to 2018 and Beyond Demand Response Programs*, filed March 18, 2016.

VII. CONCLUSION.

CESA appreciates the opportunity to submit these informal written comments on the Staff Concept Paper and looks forward to working with the Commission.

Respectfully submitted,



Donald C. Liddell
DOUGLASS & LIDDELL

Counsel for the
CALIFORNIA ENERGY STORAGE ALLIANCE

Date: September 19, 2016