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AEMA Comments on 2015 Draft IEPR

Additional submitted attachment is included below.

ADVANCED ENERGY MANAGEMENT ALLIANCE

COMMENTS ON THE

CALIFORNIA ENERGY COMMISSION

2015 DRAFT INTEGRATED ENERGY POLICY REPORT

The Advanced Energy Management Alliance (“AEMA”) appreciates the opportunity to provide comments on the California Energy Commission’s (“CEC’s”) *2015 Draft Integrated Energy Policy Report* (“IEPR”).

AEMA is a trade association under Section 501(c)(6) of the Federal tax code whose members include national demand response and advanced energy management service and technology providers, as well as some of the nation’s largest demand response resources, who support advanced energy management solutions due to the electricity cost savings those solutions provide to their businesses. This filing represents the opinions of AEMA rather than those of individual association members.

AEMA is focused on policies and programs that promote demand response and advanced energy management, and ways demand response can help meet California’s efficiency goals. As detailed below, AEMA is interested in the IEPR as it helps provide the foundational information for demand response policy discussions in California, and has direct impact on the eligibility and valuation of some types of demand response in upcoming regulatory proceedings. As a state preferred resource, the inclusion of demand response in forecasting and planning scenarios is critical to meeting California’s efficiency goals.

AEMA appreciates the IEPR's attention to energy efficiency, including benchmarking and building energy efficiency standards. We applaud CEC's efforts to develop the roadmap to reach the Governor's expressed goal to double the efficiency of existing buildings and SB 350 which codified this goal into law. The CEC's *Existing Buildings Energy Efficiency Action Plan* establishes goals that encourage the state to explore innovative program areas, such as behavioral energy efficiency for business customers. Delivering energy savings through business benchmarking, energy analytics and low- or no-cost operational recommendations provides a clear opportunity to deliver value to a customer set which has been underserved by traditional approaches. AEMA agrees that it is critical to have these stretch goals for energy efficiency.

While AEMA agrees with the energy efficiency goals, we also believe it is equally important to have stretch goals for demand response, which is at the top of the state's preferred loading order with energy efficiency, is specifically called out in SB 350 as part of the solution to achieve a doubling of energy efficiency savings by 2030, and is under-represented in this IEPR. We appreciate the IEPR's inclusion of demand response as one of the solutions to 1) help integrate renewable generation;¹ 2) meet goals for deep greenhouse gas (GHG) emissions reductions while increasing system flexibility and lowering costs;² 3) address over-generation;³ and 4) be coupled with other technologies to help ensure the grid operator has the capability to shed or call load when needed without compromising customers' electricity needs.⁴ AEMA is concerned, however that we are on the verge of potentially losing a valuable resource, "load-modifying demand response," because of a combination of recent actions at the California

¹ Draft IEPR at p. 3

² Draft IEPR at p. 11

³ Draft IEPR at p. 74

⁴ Draft IEPR at p. 85

Public Utilities Commission (“CPUC”) and the fact that this valuable resource is not currently included in the state’s demand forecast in the IEPR. In our comments, below, we highlight recent proposed decisions at the CPUC that we believe force the issue of needing to include demand response in the IEPR forecast as soon as possible in order to retain the value of this significant resource California has built up over the past decade. Getting placeholder language in the 2015 IEPR to indicate that *all* demand response needs to be forecasted in order to meet the objectives of SB 350 will be a crucial component of the value proposition.

In 2014, the CPUC issued D.14-03-026, which “bifurcated” demand response into two categories of “supply side demand response” and “load-modifying demand response”. Supply side was defined as demand response that was integrated into the CAISO’s market; load-modifying was demand response that can reduce or reshape the net load curve.⁵ Subsequently, the CPUC established a mechanism to provide capacity payments to supply side demand response resources that will be bid into California Independent System Operator (“CAISO”) via pilot programs in 2016 and 2017 if the resource met the resource adequacy obligations.⁶

On October 15th, prior to the due date for submitting responses to the Demand Response Auction Mechanism (“DRAM”) 1 Requests for Offer (“RFOs”), the CPUC issued a Proposed Decision (“PD”)⁷ and an Alternate Proposed Decision (“APD”)⁸ in the Demand Response Rulemaking (R.13-09-011) that would eliminate any avoided capacity value associated

⁵ D.14-03-026, Ordering Paragraphs 2 and 3, at p. 28.

⁶ Demand Response Auction Mechanism (DRAM) Pilots 1 and 2 for 2016 and 2017 to test the mechanism for bidding retail DR programs into CAISO’s market. Resolution E-4728 approved the contract and auction mechanism for DRAM 1, as corrected on August 10, 2015. The IOUs have submitted DRAM 2 advice letters for 2017 that are pending Commission Resolution (SCE AL 3292-E, PG&E AL 4719-E and SDG&E AL 2796-E).

⁷ DRAM 1 RFO submittals were due on October 26, 2015.

⁸ Add citation

with event-based demand response (“DR”) programs, including the Aggregator Managed Portfolio (“AMP”), the Capacity Bidding Program (“CBP”) and the Demand Bidding Program (“DBP”), as of January 1, 2017. Eliminating any avoided capacity cost from DR programs devalues these programs and may eliminate significant amounts of existing demand response, which is counter to the CPUC’s stated purpose in adopting a bifurcated model. However, the Commission is recognizing capacity value for reliability programs that are integrated into the wholesale market and “non-event” based DR that is included in the CEC’s demand forecast. The CPUC defines “non-event” based DR as real-time pricing, time-of-use rates, permanent load shifting and includes critical peak pricing (“CPP”) and peak-day pricing (“PDP”) programs.

While AEMA understands that the CPUC’s decisions are neither final nor the subject of the CEC’s IEPR, the bifurcation treatment is relevant to the development of the IEPR demand forecast and how DR is reflected in that forecast. Because of the bifurcation decision, resources that are load modifying need to be reflected in the IEPR demand forecast. The PD and the APD provide capacity value to *non-event* based demand response to the extent they are included in the CEC’s forecast for the IEPR,⁹ yet that same option is not extended to event-based demand response resources, which can be dispatched on a comparable basis as CPP and PDP Programs, that are already captured in the CEC’s demand forecast. If event-based DR resources reshape or reduce the load curve, as is the definition adopted by the CPUC in D.14-03-026, and if appropriate hard triggers can be developed for event-based DR resources, akin to those for other so-called, non-event based DR programs, such as CPP and PDP, then there certainly is an avoided capacity value associated with event-based DR resources and an accompanying

⁹ PD, at p. x; APD, at pp. 17-18.

reduction in resource adequacy procurement value. Other than the fact that the PD and the APD declined to adopt a hard trigger or to ascribe any avoided capacity value for these resources, there is no readily-apparent reason why a method could not be developed for forecasting when event-based DR resources would be called and how those resources would reliably reshape load in a manner comparable to any other non-event DR resource or to supply-side resources. AEMA strongly recommends that the CEC indicate in the 2015 IEPR that event-based DR will be included in the forecast going forward and CEC will develop a methodology for this forecast as part of the 2016 IEPR Update. It appears to now be critical that this methodology be incorporated into the IEPR forecasts in order to properly assess the contribution of demand response.

Demand response is one of the preferred resources being promoted in the state's policy context; however, it is being virtually ignored for planning purposes. This apparent lack of coordination among the agencies is leading to an untenable situation. Parties, including AEMA's California Members, continually advocate for the inclusion of preferred resources into planning scenarios, when these resources should be included automatically, consistent with the state's loading order policy.

As part of the 2015 IEPR, AEMA strongly encourages placeholder language in the Chapter 5: Electricity Demand Forecast that would indicate that the 2016 IEPR Update will include a section on forecasting demand response to comply with SB 350 and to appropriately recognize event-based load modifying demand response, which, by definition, is not bid into the CAISO. As stated above, the current set of programs included in this category are AMP,

CBP, DBP and Base Interruptible Program (“BIP”), which are dispatchable by either local capacity area or sub-load aggregation point. Absent inclusion in the CEC’s forecast, these actions by the CPUC could result in no recognition of the capacity value of event-based dispatchable demand response that has historically been determined to be cost-effective and flexible.

We welcome any discussion or questions, and encourage you to contact Katherine Hamilton, Executive Director of AEMA, at 202-524-8832 or Katherine@38northsolutions.com should you wish to meet with AEMA members.

Thank you for your consideration.

Submitted by,

A handwritten signature in black ink, appearing to read "Katherine Hamilton". The signature is cursive and somewhat stylized.

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