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California Energy Commission

**DOCKETED**

**13-IEP-1A**

**TN 72294**

**OCT 29 2013**

October 25, 2013

California Energy Commission  
Re: Docket No. 13-IEP-1A  
1516 Ninth Street  
Sacramento, CA 95814  
VIA EMAIL ([docket@energy.ca.gov](mailto:docket@energy.ca.gov))

**RE: EnerNOC'S Comments on the CEC's Draft 2013 Integrated Energy Policy Report**

EnerNOC, Inc. ("EnerNOC") is pleased to provide comments on the California Energy Commission's ("CEC's") October 15, 2013 *Draft 2013 Integrated Energy Policy Report* ("Draft IEPR"). We commend Commissioner McAllister and the CEC staff for conducting such informative and productive workshops in the compressed timeframe of the IEPR process and producing a draft report that places preferred resources at the forefront of energy policy.

**GENERAL COMMENTS**

EnerNOC participated in several of the IEPR workshops this year, and it is encouraging to see the state agencies working together throughout this process to incorporate preferred resources in a consistent and efficient manner to address the immediate and future needs of California. We echo concerns shared by other stakeholders throughout the workshop process and reflected in the Draft IEPR that it is vital for the state energy agencies to be on the same page and prioritize preferred resource activities in the same manner. Broad consensus among the state agencies is critical to ensure a consistent understanding and approach to energy efficiency ("EE") and demand response ("DR") activities within the state. California's clean energy goals have to be reflected in the California Public Utility Commission ("CPUC") rules and requirements, the CEC load forecasts, and the California Independent System Operator ("CAISO") planning processes or those goals will be undercut.

**ENERGY EFFICIENCY RECOMMENDATIONS**

EnerNOC appreciates the Draft IEPR's policy recommendations to support a strong and viable EE market and encourage advancement. Our comments on several of the specific EE recommendations are included below.

### Recommendations for Comprehensive EE Programs for Existing Buildings

- *Implement the Action Plan for the Comprehensive EE Program for Existing Buildings.*  
EnerNOC agrees with this recommendation and believes that having this action plan become a core component of the long term EE strategic plan and a critical component of efforts to replace the San Onofre Nuclear Generating Stations with 50 percent preferred resources is an important step in EE policy.
- *Leverage Proposition 39 efforts.*  
While EnerNOC also supports the recommendation to leverage Proposition 39 efforts, there is insufficient detail in the Draft IEPR to determine whether this would be accomplished within the existing K-12 and community college program funding or if this would require additional funding to expand the use of the tools being developed to have broader applicability across the clean energy marketplace. Clarification on this point would be helpful.

### Investor Owned Utility Progress Toward Achieving All Cost-Effective Efficiency Targets

As the CPUC, CEC and CAISO look forward to the post-2014 EE program cycle, EnerNOC would encourage the agencies to ensure that future versions of the *Energy Efficiency Potential Study* better address operational efficiency measures such as retro-commissioning, monitoring-based persistent commissioning, and strategic energy management. In addition, we would like to see a statewide EE potential study utilize a more granular level of analysis for industrial EE opportunities, which tend to be undercounted in most EE potential studies due to the lack of site-specific data to support the analysis.

- *Advance Financing Mechanisms*  
EnerNOC supports financing mechanisms; however, from our experience, access to financing does not necessarily result in massive customer acceptance and scaling of EE savings. While customer access to financing is helpful in overcoming barriers in some customer segments, such as the multi-family segment, it has not been proven to work as promised in other non-capital constrained markets.
- *Advance Locational and Peak Period Energy Efficiency*  
As with DR, EnerNOC supports efforts to develop data and tools to advance EE in specific, targeted areas to avoid development or upgrades to transmission and distribution systems as well as generation.

## DEMAND RESPONSE RECOMMENDATIONS

EnerNOC agrees with the Draft IEPR's focus on making DR "a vibrant part of California's electricity market,"<sup>1</sup> and agrees that "there is an urgency to expand DR as a frontline resource for maintaining system reliability and taking full advantage of the contributions of low-carbon renewable generation."<sup>2</sup> We also strongly agree that there must be "a clear and consistent regulatory structure under which the necessary market designs and business models can take root and thrive."<sup>3</sup> EnerNOC also appreciates the Draft IEPR's support for aggregators and the specific advantages of aggregation to "manage customer fatigue,"<sup>4</sup> "allow additional flexibility for customers,"<sup>5</sup> and "produce more reliable, more consistent, and more flexible performance than can be achieved with individual participating loads."<sup>6</sup> Our comments on the five specific DR recommendations are included below.

### Resolve Rule 24 Issues to Enable DR Participation in the ISO Market

The Draft IEPR correctly notes that there are a number of outstanding issues affecting direct participation of DR in the CAISO market, including the need for rules for retail customer participation and changes to DR compensation.<sup>7</sup> The Draft IEPR also prioritizes the need to resolve Rule 24 issues as a condition for expanding DR opportunities for new customers and opening opportunities for third-party aggregators to participate in wholesale markets. Progress has been made by the parties to address the regulatory hurdles to direct participation in the CAISO through Rule 24 negotiations and workshops. For example, the CPUC issued a Proposed Decision (PD) on October 25, 2013<sup>8</sup> that would allow customers to be automatically un-enrolled from Critical Peak Pricing/Peak Day Pricing programs if they are registered with a DR Provider in a resource registration with CAISO. The PD also assigns a liability to the meter services provider for failing to provide timely and accurate meter data and levels the playing field between utilities and DR Providers in the CAISO's Demand Response System customer registration process. These steps toward removing the existing regulatory barriers to unbundled, retail customer participation in the wholesale market are welcome and could be approved by the end of the year.

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<sup>1</sup> Draft IEPR, at p. 40.

<sup>2</sup> Id., at p. 42.

<sup>3</sup> Id., at p. 42.

<sup>4</sup> Id., at p. 49.

<sup>5</sup> Id., at p. 50.

<sup>6</sup> Id. at p. 49.

<sup>7</sup> Id., at p. 48.

<sup>8</sup> CPUC Proposed Decision addressing Petitions to Modify Decision 12-11-025, October 25, 2013.

The Draft IEPR also correctly notes that while resolving Rule 24 issues is a critical step, it is likely not sufficient to develop robust wholesale market participation.<sup>9</sup> There are “technical and process barriers to customer participation . . . in both investor-owned utility managed [programs] and wholesale markets.”<sup>10</sup> EnerNOC is actively engaged in several proceedings at the CPUC including the Resource Adequacy and Long-Term Planning proceedings as well as the CPUC’s new rulemaking (R.13-09-011) to address these barriers to customer participation and enhance the role of DR to meet the state’s planning needs. As we have noted throughout the IEPR workshop process, however, EnerNOC remains skeptical that this robust participation will develop absent changes in the incentives to participate in the wholesale market.

### Develop and Pilot Test Market Products

One of the recommendations in the Draft IEPR is for CAISO to implement a multi-year forward DR auction in the region impacted by San Onofre.<sup>11</sup> While EnerNOC appreciates the recommendation to develop an auction mechanism that could encourage additional preferred resources in Southern California, we have significant concerns about what this mechanism would look like. If the expectation is that this would resemble the CAISO’s market-based capacity auction under the multi-year reliability framework, EnerNOC has serious concerns with that proposal, as outlined in the following section of our comments.

### Resolve Regulatory Barriers

EnerNOC completely agrees with the Draft IEPR’s recommendation that there needs to be a timely conclusion of the CPUC’s new DR Rulemaking (R.13-09-011).<sup>12</sup> This proceeding is expected to be instrumental in resolving the policy and technical issues of DR procurement and program design.

The other recommendation in this section of the Draft IEPR is to continue the development and implementation of a multi-year reliability framework.<sup>13</sup> As EnerNOC has noted in its comments on the Joint Reliability Framework,<sup>14</sup> there are both strengths and weaknesses to this approach that must be considered before determining that this is the appropriate framework to expand the forward resource adequacy obligations of the LSEs and increase transparency for long-term planning. A properly constructed market mechanism is the best way to determine the value of,

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<sup>9</sup> Draft IEPR, at p. 50.

<sup>10</sup> Id., at p. 51.

<sup>11</sup> Id.

<sup>12</sup> Id., at p. 52.

<sup>13</sup> Id.

<sup>14</sup> <http://www.caiso.com/Documents/EnerNOC-Comments-JointStaffProposal-Multi-YearReliabilityFramework.pdf>

need for and location of capacity and other resources. A centralized capacity construct would facilitate the ability for DR resources to obtain capacity payments, which is crucial to the success of DR. However, as noted below, there are a number of weaknesses to the proposed mechanism:

- The voluntary aspect of the LSE demonstration auction creates the potential for market distortions and non-representative clearing prices that may, or may not, send forward resource procurement signals.
- The proposal includes a declining resource adequacy demonstration obligation in years 2 and 3, which would also dampen the amount of capacity that would be transacted in the forward-year auctions, especially if the IOUs are already fully resourced.
- The proposed framework appears to include at least three auctions (local, system, and flexible), but it is unclear if there will be local inflexible, local flexible, system inflexible and system flexible, so there could be more than three. There could be potentially conflicting price signals, both in terms of the voluntary versus mandatory auctions as well as the different product types. Further complicating the number of auction results will be how the CAISO will calculate individual LSE deficiencies versus overall non-LSE based deficiencies. So, unless there is a convergence of prices across these auctions, it is unclear which price signal is indicative. This is also, potentially, an over-complication.

EnerNOC is concerned that if participation in the auction is light, or varies significantly from year-to-year, and clearing prices are low, reflecting a high reserve margin, there will not be a signal to encourage preferred resources to participate. The Joint Staff Proposal recognizes that there are many unanswered questions and issues that would need to be addressed. The discussion must be closely coordinated with the CAISO's development of the Flexible Resource Adequacy Capacity Must Offer Obligation, the CPUC's Resource Adequacy proceeding (R.11-10-032, or its successor), the CPUC's Rule 24 process, the Long-Term Procurement Proceeding, and the DR OIR.

EnerNOC urges the CEC to caveat its recommendation of this framework with a recognition that the weaknesses to the current proposal need to be addressed before this framework would result in meaningful participation in the wholesale market.

Continue the Collaborative Process Among the Energy Commission, the CPUC, the California ISO, and the Governor's Office

EnerNOC supports the Draft IEPR's recommendation to continue the collaborative process among the energy agencies by developing a joint agency work plan to address and resolve timelines and

improving DR forecasting techniques and methodologies. Our caution relates to the recommendation to focus efforts on advancing fast-response DR. There are higher costs, greater coordination and automation required for fast response resources. Not all customer loads can be automated, due to safety or production concerns, although, with adequate notification, even those manual resources can respond in 30 minutes or less. EnerNOC has also found that automation does not equate to higher reliability. Customers can override or disconnect automated equipment. Customer response, even when automated, can vary based upon the conditions of the day. Therefore, it is EnerNOC's belief that even automated resources require management to ensure reliable service. At present, nearly 40 percent of EnerNOC's accounts are automated. However, further automation of customer sites has been halted because Auto-DR funding has been exhausted.

#### Gain Customer Acceptance of DR.

EnerNOC agrees with the concerns expressed throughout the IEPR workshop process that there needs to be consideration for what motivates customers to participate in DR. During the June IEPR workshop on DR, customers were emphatic in expressing the need for clear, simple rules that are developed in a timely manner and provide certainty for customers. In addition, customers expressed concern about high penalty structures for DR resources. EnerNOC agrees and recommends that penalties be no more onerous for DR resources than for other generation resources. Currently, DR resources that fail to meet their capacity commitment are automatically derated and incur significant payment penalties. Other generation resources have their capacity commitments reviewed and adjusted in subsequent delivery years, and their payments are not derated to the same extent as DR resources. This is a significant concern that will be raised in the CPUC's DR Rulemaking. However, any support for this point in the IEPR would be very helpful.

Thank you for consideration of our comments.

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