

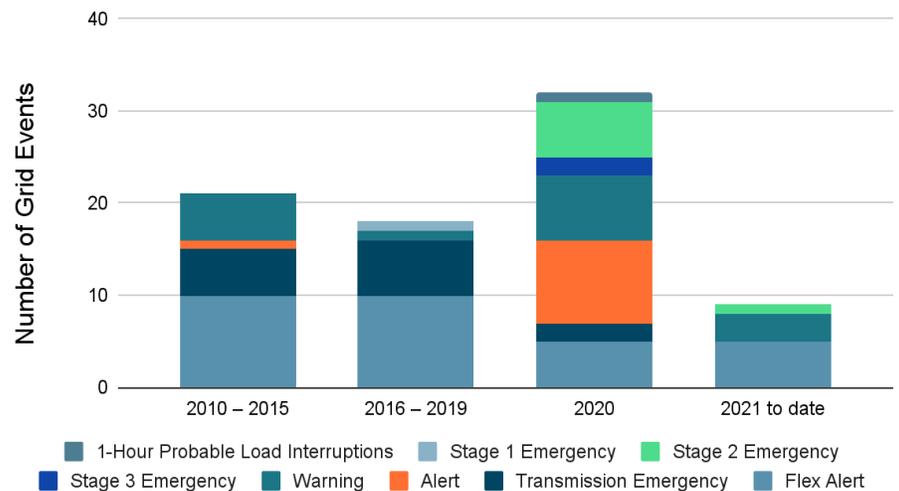
Flexible Demand Resources Need New Rules

August 2021

Current Regulatory Regime Does Not Account for New Grid Reality

California's regulatory process for demand response (DR) were not designed to meet the current urgent reliability needs of California's grid. Our new reality is numerous major grid events per year far surpassing the previous norm, requiring flexible and rapidly available capacity, as well as the ability to easily procure as necessary. This chart drastically illustrates an increasing number of grid

CAISO Grid Events Increasing in Frequency*



emergencies relative to the past decade. Unfortunately, the existing DR regulatory processes are inadequate to meet our current grid needs. Here are the key issues we currently face:

1. Outdated methods for quantifying DR program cost-effectiveness
2. Byzantine regulatory rules that limit DR procurement and slow DR market qualification and quantification
3. Complex and confusing DR program designs
4. Limited opportunities for third-party DR providers to offer their market-friendly solutions
5. End-use customers are becoming frustrated and less willing to participate

As the August 2020 outages illustrate, our current energy grid requires significantly greater levels of flexible demand resources (e.g., demand response, energy efficiency, and other behind-the-meter distributed energy resources). Many of these resources provided valuable demand reduction and even more stood ready but were unable to participate due to the current regulatory structures that constrained their participation.

Here is our Proposed Solution: Nimbleness and Flexibility

It is imperative that we develop and implement a market that appropriately values and compensates flexible resources for California's current and future energy demands. We need to move from a carbon-centric world where supply is expected to be available to meet whatever energy demand requires, to a world where energy use can be encouraged to more closely follow the supply available from a carbon-free grid.

Here are the solutions that the Council strongly recommends for immediate action:

- Request the leadership from the three energy agencies – CPUC, CEC and CAISO – to pressure their own teams and those they regulate to embrace and champion demand-side resources as a pathway to both achieving reliability and meeting climate goals.
- Require the CPUC to allow behind-the-meter resources to fairly compete for resource adequacy opportunities with fewer limitations.
- Direct the CPUC to create a nimbler DR program and quantification framework that appropriately harnesses the flexibility of customer loads.
- Mandate the CPUC and CAISO to prioritize flexible loads and behind-the-meter distributed energy resources in procurement decisions.

The Council stands ready and willing to collaborate with the elected leadership, regulatory agencies, and stakeholders to bring solutions to bear that solve the ongoing reliability issues that California is facing.

Greg Wikler, Executive Director • gwikler@cedmc.org • www.cedmc.org