CPUC Staff comments on Revised Straw Proposal and June 18, 2026 discussion

Initiative: Demand and distributed energy market integration

1. Please provide your organization's feedback on the DDEMI meeting discussion on June 18, 2026 and the "Demand and Distributed Energy Market Integration Track 1: Revised Straw Proposal: Reflecting End-User Exports in Demand Response" paper

Energy Division staff (ED staff or staff) of the California Public Utilities Commission (CPUC) develop and administer energy policy and programs to serve the public interest, advise CPUC decision makers, and ensure compliance with CPUC decisions and statutory mandates. ED staff provide objective and expert analyses that promote reliable, safe, and environmentally sound energy services at just and reasonable rates for the people of California.

ED staff appreciates the productive discussion with stakeholders on June 18th and the continued dialogue in this and other venues on how to efficiently and cost-effectively utilize clean distributed energy resource capabilities to support affordability and reliability. In these comments ED staff reiterates its concerns on how the straw proposal would provide double compensation for retail Net Energy Metering (NEM)/Net Billing Tariff (NBT) credits and wholesale market energy revenues for the same energy exports from behind-the-meter (BTM) resources.

NEM and NBT are retail tariffs that compensate exporting BTM solar and solar+storage resources in investor-owned utility (IOU) territory for every kWh of energy exported to the distribution grid by a NEM/NBT customer.

The existence of retail compensation for exported energy from BTM solar and solar+storage resources (on a per kWh basis) raises significant concerns about wholesale compensation for exported energy (also on a per kWh basis) simply being double compensation for the same energy. NEM and NBT export compensation function as feed-in tariffs for behind-the-meter solar and solar+storage resources, with distribution utilities in a must-take position for all energy exported to the distribution grid with compensation levels administratively set in advance.

The NBT retail tariffs of the three large IOUs calculate customer export credits using the avoided cost of energy for all 8,760 hours of the year, as well as hourly values for avoided capacity, avoided greenhouse gas emissions, and other attributes. In other words, NBT customers already receive energy payments for their exports based on the value of each kWh of energy they export to the grid. Similarly, NEM tariffs compensate customers one-to-one for exports with retail energy credits. The value of those energy credits is the retail rate the customer would otherwise pay, and those retail rates are designed to recover all utility cost components, including specific cost components based on marginal energy and marginal capacity costs that recover generation costs. In other words, **existing NBT and NEM tariffs compensate customers for the energy value of their exports to the grid.**

Under the straw proposal, a market award and resulting dispatch of an aggregated resource would incentivize customers in that resource to export additional energy to the distribution grid. However, it is important to state clearly that **every kwh of export of an end-user with a NEM/NBT tariff under the proposed modification for PDR/RDRR would inherently be paid twice**: 1) for energy value as exports to the grid under the administratively paid framework under NEM/NBT; and 2) as wholesale energy payments.

The avoided energy and generation capacity are also accounted for in the California Energy Commission's (CEC) Integrated Energy Policy Report (IEPR) demand forecast, which are used to determine resource adequacy requirements for Load Serving Entities (LSEs).

Particularly in light of the affordability crisis facing Californians and particularly California ratepayers, ED staff urges CAISO to incorporate appropriate guardrails into the revised proposal to ensure that ratepayers of the large IOUs do not pay twice (once through retail tariffs and again through wholesale market payments) for the same energy. In order to mitigate potential ratepayer impacts, ED staff suggests that the initial approval of the export proposal exclude NEM/NBT customers while potential solutions to double compensation concerns can be more fully considered. Similarly, ED staff suggests further delaying approval of the export proposal for Reliability Demand Response Resources (RDRR) until the implications on cost and reliability for these resources can be more fully assessed.

2. Please submit your organization's overall comments on Track 1

ED staff does not object in principle to permitting end-user exports to be counted in the market settlement of DR resources as outlined in the proposal. However, there remains the critical issue of appropriate guardrails to ensure no double compensation, which must be addressed before implementation of this proposal at scale.

In addition, ED staff requests that CAISO cap the day of adjustments for all PEMs at 100% maximum value (or maximum adjustment factor of 1.0), when resources/resource aggregations include end-user exports. In doing so, ED staff seeks to mitigate any risk of strategic manipulation of load adjustment factors by aggregators of export-capable end-users.

3. Does your organization support, support with caveats, oppose, or oppose with caveats the proposal? Please explain the rationale for your position.

Support with caveats. Please see responses to Questions 2 and 4

4. What key change(s) would your organization recommend to improve the proposal?

ED staff propose the following recommendations for CAISO's consideration:

- Limit the initial roll-out of the proposal to non-NEM/NBT end-users only (exclude NEM/NBT end-users until the double compensation concerns are resolved);
- Implement the proposal for 2028 (the CAISO board adoption may be earlier);
- Defer the inclusion of RDRR resources to a later stage;
- Cap day of adjustments for all PEMs at 100% maximum value (or maximum adjustment factor of 1.0); and
- Clarify that these end-user exports must conform to the CPUC's prohibited resource policy.

The above recommendations would allow time for CAISO, CPUC, CEC, and IOUs to continue coordinating on outstanding issues and address areas requiring alignment between CAISO and CPUC proceedings.

5. Please provide your organization's feedback on the applicability of the Track 1 proposal to: 1.) All Balancing Authority Areas (BAAs) 2.) Both Proxy Demand Resource (PDR) and Reliability Demand Response Resource (RDRR) market models.

ED staff have no comments on issue 5.1 at this time.

On item 5.2, in addition to the changes requested in response to Question 4, ED staff also share the concern raised by PG&E and SDG&E from their initial round of comments that the proposal may create an inadvertent incentive to recruit high load customers into aggregations that provide "limited or no load reduction capabilities", just so that those customers can absorb the others' exports and avoid reaching exports caps for the overall aggregation.

6. Please provide your organization's feedback on the ISO BAA deliverability discussion, including any operational or market implications.

ED staff have no further comments on issue 6 at this time.

7. Please provide your organization's feedback on the proposal to limit participation to customers with an approved interconnection for export onto the distribution system, including the implementation of this requirement as an attribute in CAISO's Demand Response Registration System (DRRS).

ED staff supports this aspect of the proposal.

8. Please provide your organization's feedback on the proposed design to zero out at the resource-level and allow the Scheduling Coordinator (SC) to determine which end-use customers are zeroed out.

ED staff have no comments on issue 8 at this time.

9. Please provide your organization's feedback on the applicability of this proposal to all Performance Evaluation Methodologies (PEMs).

ED staff have no comments on issue 9 at this time.

10. Does your organization have concerns with how baselines will be calculated or adjusted when end-use exports are netted out? Please describe any implications for measurement, verification, or settlement accuracy.

ED staff requests CAISO cap day of adjustments for all PEMs at 100% maximum value (or maximum adjustment factor of 1.0), when resources include end-user exports. The day-ahead notice in scheduling of DR resources and the ability of exporting customers or their aggregators to adjust day-of consumption allows for potential baseline gaming. Day of adjustments higher than 100% create a perverse incentive for the aggregator and should be disallowed for exporting resources and/or resource aggregations.

11. Please provide any additional comments, feedback, or examples. You may upload examples or data using the Attachments field below.

ED staff notes that FERC Order 2222 addresses retail and wholesale double counting and compensation concerns for Distributed Energy Resources, inclusive of demand response.[1] CAISO's tariff amendment in compliance of FERC Order 2222 explicitly notes its DERA market model is compliant with FERC 2222 because resources NEM/NBT resources are excluded from participation in the DERA market model that compensates resources for exports in the wholesale market.[2]

ED Staff appreciates CAISO's diligence in ensuring that resources in the DERA market model are not getting compensated for the same services through the wholesale and retail markets and request that the same diligence be applied to PDR/RDRR market models as CAISO considers allowing end-user export compensation in PDR/RDRR market models.

[1] FERC Order 2222, section IV.C.3, paragraphs 147-164.

[2] "A Distributed Energy Resource Aggregation may not receive compensation for capacity, energy, or other services it provides in CAISO's markets if it provides the same services in retail programs." CAISO Open Access Transmission Tariff at 4.17.3(g)