January 30, 2020

Via U.S. Mail and E-Mail (EDTariffUnit@cpuc.ca.gov)
California Public Utilities Commission
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

RE: Advice Letters (ALs) 4140-E (Southern California Edison), 5736-E (Pacific Gas and Electric) and 3495-E (San Diego Gas & Electric) (2020 Demand Response Auction Mechanism Purchase Agreements)

RESPONSE OF CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL, CPOWER, ENEL X NORTH AMERICA, INC., AND LEAPFROG POWER, INC.

Dear Energy Division Tariff Unit:

On January 10, 2020, pursuant to Decision ("D.") 19-07-009, Southern California Edison Company ("SCE"), Pacific Gas and Electric Company ("PG&E") and San Diego Gas & Electric Company ("SDG&E) submitted for approval the purchase agreements executed by each investor-owned utility ("IOU") with the winning participants in their respective 2020 Demand Response Auction Mechanism ("DRAM"), also known as DRAM 5, auctions. The California Efficiency + Demand Management Council (the "Council"), CPower, Enel X North America, Inc. and Leapfrog Power, Inc. (collectively, "the Joint Parties") appreciate the opportunity to respond to these Advice Letter filings.[1]

The Joint Parties' Response addresses serious concerns regarding SCE's rejection of a majority of its bids and its subsequent failure to commit all of its approved DRAM 5 budget as a consequence of its methodology for comparing bids to the E3 Avoided Cost Calculator's Long Run Avoided Cost of Capacity ("LRAC"). The Commission should approve SCE's DRAM contracts and direct SCE to conduct a partial re-run of its auction for the remaining bids using a revised LRAC comparison methodology until its entire DRAM 5 budget is committed. In addition, the Commission should approve the Joint Parties' recommended LRAC comparison methodology, discussed below, for at least the DRAM 6 auction and consider a long-term methodology in the annual DRAM technical assessment process.

[1] The views expressed by the Council are not necessarily those of its individual members.

The Joint Parties' Response

I. SCE's Method of Comparing Bids to the LRAC Overstated Annual Costs and Left Viable Bids on the Table.

The Joint Parties are highly concerned by SCE's elimination of over half of the unique bids put forth in its auction. According to the Independent Evaluator ("IE"), 59 of the 102 unique bids received by SCE were eliminated from consideration on the basis that they exceeded the LRAC.[2] As affirmed in Decision (D.) 19-07-009, all selected offers must have an average cost below the LRAC, but no methodology was approved for comparing bids to the LRAC.[3] However, as indicated by the IE, SCE's disqualification of so many bids left approximately half of its $5.16 million 2020 DRAM budget uncommitted.[4] This outcome is striking because PG&E, which had a similar budget compared to SCE, committed all of its DRAM budget.[5] Furthermore, SCE received unique offers totaling 207 MW of August 2020 capacity compared to 209 MW for PG&E, and selected 55.75 MW compared to 99 MW for PG&E.[6] It seems reasonable to expect that, given the similarity of PG&E's and SCE's DRAM budgets and the similar amounts of capacity bid into their respective auctions, SCE would award purchase agreements for a similar amount of capacity compared to PG&E.

According to the IE, SCE used the same approach it used in the DRAM 4 solicitation by multiplying the weighted average cost of each offer by 12 to generate a $/kW-year value for each offer. The weighted average cost for the offer on an annualized basis was then compared directly to the LRAC.[7] The shortcoming of this methodology is that, because the DRAM 5 delivery period is fewer than 12 months, it resulted in an artificially high proxy bid price for each of the first five months of the year which were outside the delivery period. When these artificially high proxy bid prices for January through May were added to the actual bid for the last seven months of the year and compared to the LRAC, many bids were pushed above the LRAC and subsequently disqualified. This is particularly concerning because in so doing, SCE rejected and/or passed over bids with positive Net Market Value (NMV).[8]

As a comparison to SCE's LRAC comparison methodology, SDG&E took the LRAC value of $111.95/kW-year and used its monthly loss of load probability factors to determine a monthly avoided capacity cost for each month of 2019. SDG&E then summed up the monthly avoided capacity costs for June through December to get

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[2] Redacted Final Report of the Independent Evaluator on the Bid Evaluation and Selection Process for SCE DRAM 5 by Merrimack Energy Group, Inc., at p. 25, January 10, 2020 which is attached as Exhibit K to SCE Advice Letter 4140-E ("Exhibit K to SCE Advice Letter 4140-E").
[3] D.19-07-009, at p. 45.
[4] Exhibit K to SCE Advice Letter 4140-E, at p. 38.
[5] *Id.*, at p. 43.
[6] PG&E Advice Letter 5736-E, at p. 9 and SCE Advice Letter 4140-E, at p. 8.
[7] Exhibit K to SCE Advice Letter 4140-E, at p. 25.
[8] Exhibit K to SCE Advice Letter 4140-E, at p. 40.

$96.46/kW-term and compared this value to the weighted average bid price multiplied by 7.[9] Using this methodology, no bids were rejected that were selected based on NMV.[10]

PG&E took the approach that since all of the LRAC allocation factors identified in E3's model were allocated to the July through September period, which are within the delivery period, it could compare the offer pricing over the contract term to the LRAC.[11] As such, PG&E divided the total discounted cost of the offers by the total discounted quantity (effectively the weighted average monthly price) and multiplied this by 7 to account for the seven months in the contract term.[12] This generated a weighted average cost for the offer over the 7-month delivery term that was lower than applying the annualization methodology (i.e. multiply by 12). This cost was then compared to the LRAC value of $111.95/kW. According to the IE, this method did not result in the elimination of any offers due to the offer pricing exceeding the LRAC and allowed PG&E to select offers in rank order up to the budget cap.[13]

The Joint Parties illustrate these three methods below using a fictitious bid to demonstrate the impact of each IOU's methodology.

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[9] Redacted Final Report of the Independent Evaluator on the Bid Evaluation and Selection Process for SDG&E DRAM 5 by Merrimack Energy Group, Inc., at p. 25, January 10, 2020 ("Attachment B to SDG&E Advice Letter 3495-E").
[10] *Id.*
[11] Final Report of the Independent Evaluator on the Bid Evaluation and Selection Process for PG&E DRAM 5 by Merrimack Energy Group, Inc., at pp. 34-35, January 10, 2020 ("Exhibit D to PG&E Advice Letter 5736-E").
[12] The Joint Parties' explanation of PG&E's methodology is not an endorsement. While PG&E's methodology is preferable to SCE's in this instance, as discussed further below, the Joint Parties recommend that the Commission, through the Energy Division's technical review process, review and adopt a consistent methodology for comparing bids to LRAC for all three utilities.
[13] *Id.*, at pp. 34-35.

Table 1 – Hypothetical DRAM Offer

Month	Hypothetical DRAM Offer Quantity (MW)	Hypothetical DRAM Offer Price ($/kW-mo)	SCE Derived Monthly LRAC (Weighted Average) ($/kW-mo)	PG&E and SDG&E Derived Monthly LRAC (Effective Weighted Average for 7 months)	Generation Capacity Value (from E3 2019 Avoided Cost Calculator)
1			10.50		0.00%
2			10.50		0.00%
3			10.50		0.00%
4			10.50		0.00%
5			10.50		0.00%
6	2	5.00	10.50	10.50	0.00%
7	4	15.00	10.50	10.50	4.00%
8	4	15.00	10.50	10.50	26.90%
9	3	10.00	10.50	10.50	69.10%
10	3	10.00	10.50	10.50	0.00%
11	2	5.00	10.50	10.50	0.00%
12	2	5.00	10.50	10.50	0.00%
Totals	20	**73.50**	**126.00**	**73.50**	
Total Cost		$210,000	$210,000	$210,000	

Table 2 – Comparison of LRAC Value to Derived Offer Value for Each IOU Method

Summary	LRAC Value	Derived Offer Value
PG&E	$111.95	$73.50
SCE	$111.95	**$126.00**
SDG&E	$96.46	$73.50

In Table 1, SCE's methodology would assign a $10.50/kW-month proxy bid to January-May which are months when the 2019 Avoided Cost Calculator assigns no generation capacity value. The CPUC's 2018 Resource Adequacy Report also demonstrates that monthly capacity values are significantly lower in January through May compared to the July through September period.[14] As can be seen in Table 2, SCE's methodology would disqualify this hypothetical bid because it would exceed the LRAC whereas for PG&E and SDG&E, this hypothetical bid would fall far below (in PG&E's case, very far below) the LRAC. In fact, SCE's methodology would value the bid at over 70 percent higher than PG&E and SDG&E.

Among the 59 disqualified offers were some that would otherwise have been selected based on their NMV.[15] As the IE noted, SCE bypassed 14 highly ranked bids.[16]

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[14] 2018 Resource Adequacy Report, August 2019, at pp. 29-30.
[15] Exhibit K to SCE Advice Letter 4140-E, at p. 25.
[16] _Id_., at p. 36.

Later in its report, the IE stated that SCE bypassed offers in the NMV rank, so clearly at least some of these 14 bids should have been selected.[17]

In the face of the distorted auction results, the IE was critical of SCE's approach. The IE states in reference to SCE's LRAC comparison methodology, "[t]he Cons were lower number of MWs selected, fewer offers selected, and some bids that would have been selected in rank order were disqualified."[18] The IE further stated that one of its chief concerns was that it did not feel comfortable utilizing an approach that would eliminate a majority of bids for consideration when the approach was not explicitly stated in a decision, nor had consensus amongst the IOUs, IE, and ED.[19] The Joint Parties contend that this result is disproportionately damaging to California's DR market since the total 2020 DRAM budget is already substantially less than the budget approved for the 2019 delivery year.

Based on the skewed results of SCE's auction and the IE's reservations regarding SCE's LRAC methodology, it is clear that CPUC action is required and warranted.

II. SCE Should Be Directed to Conduct a Partial Re-run of the Auction.

To correct this situation, the Joint Parties recommend that SCE be directed to perform a partial re-run of its auction as soon as is reasonable. This would <u>not</u> entail changing SCE's auction results for those companies already awarded contracts, but it would entail SCE conducting a supplemental auction to include any bids that had been disqualified because their cost exceeded the LRAC due to SCE's LRAC comparison methodology. This supplemental auction would use SCE's uncommitted 2020 DRAM budget (less administrative costs) and would use the same LRAC comparison methodology used by PG&E in the DRAM 5. Because approximately two months will have passed since the initial awards were given, it may be difficult for some winning bidders in the supplemental auction to deliver on their bids. Therefore, winning DRAM Bidders from the supplemental auction should be allowed to decline an award with no future negative impact in the qualitative criteria approved in D.19-07-009. In such an event, SCE should go down the NMV merit stack until its budget is fully committed, consistent with how winning DRAM bids are typically determined by the IOUs.

There is precedent for conducting a supplemental auction. In Advice Letter 4946-E, PG&E submitted additional 2017 DRAM contracts for approval when the CPUC ordered PG&E to procure additional MW up to PG&E's $6 million budget cap.[20] Similarly, in Advice Letter 3004-E, SDG&E submitted additional 2017 DRAM contracts for approval up to its $1.5 million budget cap. As it did for PG&E and SDG&E in 2016,

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[17] *Id.*, at p. 40.
[18] *Id.*, at p. 36.
[19] *Id.*, at p. 25.
[20] PG&E Advice Letter 4946-E.

the CPUC should direct SCE to procure additional 2020 DRAM contracts up to its $5.16 million budget cap. This would be all the more appropriate because it was SCE's choice of LRAC comparison methodology that directly led to a shortage of cost-effective bids and subsequent under-procurement. Had SCE chosen a different methodology, it likely would have procured MW to the maximum of its budget.

III. The IOUs Should Apply a Consistent LRAC Methodology for Partial-year Bids.

To avoid a repeat of this situation, the Joint Parties strongly recommend that a consistent and transparent methodology be utilized to compare bids to the LRAC before the DRAM 6 RFO is issued. In fact, this is one of the recommendations made by the IE who expresses concern that "a lack of consistency in the methodology may cause issues with bidders and damage potential bidders' trust in the program."[21] The IE states, "[t]he IE is concerned about the application of the Long Run Avoided Cost for assessing whether offers should be eliminated as high cost offers. In particular, the methodologies applied yielded very different results. The IE suggests that review and design of an appropriate and consistent methodology to compare offer costs to the LRAC is needed prior to issuance of the DRAM 6 solicitation."[22]

To that end, the Joint Parties recommend that for DRAM 6, all bids should be compared to the LRAC in the same manner as follows: the total discounted cost of the offer, divided by the total discounted quantity (i.e. weighted average monthly price) multiplied by the number of months in the bid. So, for a six-month bid in a twelve-month delivery period, the weighted average monthly price would be multiplied by six and then compared to the LRAC. For a twelve-month bid, the weighted average monthly price would be multiplied by twelve and then compared to the LRAC.

This is a simple, straightforward approach that reflects the months for which capacity is most valuable according to the Avoided Cost Calculator. Because this methodology would only be used to disqualify over-priced bids and not select winning bids, a simple approach is sufficient. Beyond the DRAM 6 auction, the Energy Division may want to more comprehensively consider an LRAC comparison methodology for future DRAM auctions in the annual DRAM technical review process.

CONCLUSION

The Joint Parties recommend that the Commission take the actions recommended above.

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[21] Exhibit K to SCE Advice Letter 4140-E, at p. 43.
[22] *Id*., at pp. 25-26.

Respectfully submitted,

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