



February 20, 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) 5746-E (Pacific Gas and Electric), 4152-E (Southern California Edison) and 3503-E (San Diego Gas & Electric)
(2021 Demand Response Auction Mechanism Pilot)**

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

Dear Energy Division Tariff Unit:

On January 31, 2020, pursuant to Ordering Paragraph (OP) 29 of Decision (“D.”) 19-12-040, investor-owned utilities (“IOUs”) Pacific Gas and Electric Company (“PG&E”), Southern California Edison Company (“SCE”), and San Diego Gas & Electric Company (“SDG&E”) (jointly, the “IOUs”) requested approval of the 2021 Demand Response Auction Mechanism (“DRAM”) Pilot (“2021 DRAM Pilot”) with an auction in 2020. The California Efficiency + Demand Management Council, CPower, Enel X North America, Inc., Leapfrog Power, Inc., and OhmConnect, Inc. (collectively, “the Joint Parties”) appreciate the opportunity to respond to these Advice Letter filings.¹

The Joint Parties’ Response addresses concerns regarding the IOUs’ proposed revisions to the DRAM Pro Forma Purchase Agreement (“DRAM Purchase Agreement”) and the Long Run Avoided Cost of Capacity (“LRAC”) comparison methodology. The Commission should direct the IOUs to revise the DRAM Purchase Agreement per the Joint Parties’ recommendations and adopt the proposed principles when approving a uniform LRAC comparison methodology for all of the IOUs.

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

The Joint Parties' Response

I. Explanations Are Needed for Supply Plan De-rates and Rejection of Bids Based on Project Viability.

Pursuant to Decision (“D.”) 19-12-040, Ordering Paragraph (“OP”) 20, the IOUs propose project viability criteria that would be applied to the Qualifying Capacity (“QC”) data provided by DRAM auction bidders (“Bidders”) to support their bids.² For each qualifying bid, the IOUs would assess the viability of each QC estimate based on the load reduction per customer, historical performance, and the number of existing and forecasted customers.³ As described in the joint Advice Letter, an IOU could reject a bid if it is deemed non-viable based on the associated QC data.⁴ Similarly, an IOU can de-rate a DRAM Seller’s (“Seller”) year-ahead or monthly Supply Plan if QC data provided by the Seller is deemed inadequate by an IOU to support the Supply Plan.⁵ In this instance, the Seller has the option to either accept the IOU’s de-rate or undertake a full market dispatch or test event to substantiate the QC value.⁶

Though these proposals were approved by the Commission, how the IOUs propose to implement them is problematic. First, in both instances it is not clear how the IOUs will weight each of the criteria in making a determination. Second, the IOU should be required to provide some rationale and support to the Bidder/Seller to support their decision to either reject a bid based on its perceived non-viability or de-rate a Supply Plan. If the Bidder/Seller has provided supporting material as to the amount of load reduction it can provide and a reasonable plan for adding customers (the latter being applicable only to the DRAM bid and year-ahead Supply Plan), the IOU should not reject a bid or de-rate a contract’s QC unless there is significant countervailing information that challenges the Bidder’s/Seller’s data. This unilateral capability should not be wielded indiscriminately and without significant cause and justification. There is a great deal of latitude that is provided here to the IOUs that could significantly increase the risk to the Seller and without any definition or process.

Bidders/Sellers should have an opportunity to respond to the IOU’s rationale or confer with the IOU to 1) ask clarifying questions as needed so that the Bidder/Seller can avoid a similar outcome in the future, and 2) provide the necessary clarification to the IOU to potentially reverse the IOU’s assessment. The IOUs have been granted another 15 days to review QC data for Sellers’ Supply Plans so there should be a sufficient amount of time within this timeframe for Seller responses to de-rates.

The Joint Parties are also concerned by the IOUs’ proposed revision to Section 3.1(b) of the DRAM Purchase Agreement that appears to give discretion to the IOU on whether to officially notify the DRAM Seller in the event of a de-rate. Section 3.1(b)

² Advice Letter, at pp. 6-7.

³ Ibid.

⁴ Ibid.

⁵ DRAM Purchase Agreement, Sections 1.6(b)(iii) and 3.1(b).

⁶ DRAM Purchase Agreement, Section 3.1(b).

states, “Buyer may issue a Notice to Seller in the event Buyer intends to include in Buyer’s applicable compliance filings any amount less than the quantities in Seller’s Supply Plan submitted to Buyer (“QC De-Rate Notice”).”⁷ The IOUs should be required to issue a QC De-Rate Notice when applicable.

The Joint Parties propose that Section 3.1(b) be revised as follows:

Buyer ~~may~~ shall issue a Notice to Seller in the event Buyer intends to include in Buyer’s applicable compliance filings any amount less than the quantities in Seller’s Supply Plan submitted to Buyer (“QC De-Rate Notice”). The QC De-Rate Notice will include an explanation for the De-Rate specifying the shortcoming in the additional information provided by the Seller pursuant to Section 3.1(a)(ii). If Buyer issues a QC De-Rate Notice, then Seller shall provide Notice to Buyer, no later than ten (10) Business Days after receipt of such QC De-Rate Notice, that in the absence of adequate supplemental information addressing any shortcomings in the information provided pursuant to Section 3.1(a)(ii), Seller will either:

- (i) reduce the quantities in its Supply Plan for the applicable Showing Month to conform to the quantities shown in the QC De-Rate Notice (or such other amount as may be agreed in writing by Buyer and Seller); or
- (ii) perform a DC Dispatch or DC Test during the applicable Showing Month. In all cases, if the Parties do not agree upon the reduction in Seller’s Supply Plan quantities under subsection 3.1(b)(i) above, then a DC Dispatch or DC Test shall be required for each and every Showing Month for which Buyer has issued a QC De-Rate Notice.

II. Provisions Are Needed to Address the Minimum Energy Dispatch Requirement If Revenue Quality Meter Data (“RQMD”) Is Incomplete.

Decision 19-12-040, OP 3 adopted a 30 MWh Minimum Energy Dispatch Requirement (“MEDR”) for each megawatt of the average of the three highest QC months on the month-ahead Supply Plan. DRAM Seller compliance with the MEDR is contingent on the timely delivery of RQMD to know the number of MWhs provided and how many more remain. If an IOU does not provide 95% of a DRAM Seller’s RQMD needed to invoice the IOU, it will not be possible for the DRAM Seller to comply with the MEDR. Decision 19-12-040 was silent on how to address this situation, so the Joint Parties propose that a DRAM Seller be exempt from the MEDR if the contracting IOU is unable to timely provide complete RQMD for all months during the Delivery Period.

The Joint Parties propose that Section 1.7 be revised as follows:

⁷ Ibid.

1.7. Minimum Energy Dispatch Requirements

(a) Seller shall comply with the energy dispatch requirements set forth on Exhibit E, "Minimum Energy Dispatch Requirements".

(b) Concurrently with the submission of its final invoice under this Agreement (or earlier, if Seller has received sufficient Revenue Quality Meter Data), Seller shall submit to Buyer documentation showing CAISO settlements for the delivery of the Required Energy Quantity, as calculated in accordance with Exhibit E and Section 1.7(c) below. Seller may omit price and revenue data from the documentation submitted under this Section 1.7(b).

(c) If Seller has not received 95% of the Revenue Quality Meter Data, pursuant to Section 4.2, for any month within the Delivery Period by the end of the Delivery Period, the Seller shall be exempt from the Minimum Energy Dispatch Requirement for the Delivery Period.

(~~e~~) If Seller fails to meet any of the requirements of Sections 1.7(a) and (b) above, Seller shall pay to Buyer an "Undelivered Energy Penalty" equal to: $\$10,000/\text{MW} \times \text{AQC} \times (1 - \text{DEQ}/\text{REQ})$ Where:

AQC = the average Qualifying Capacity (in MW) for each of the three highest Showing Months on the month-ahead Supply Plans delivered hereunder

DEQ = delivered energy quantity (in MWh) during the Showing Month with highest energy deliveries

REQ = $30 \text{ MWh} \times \text{AQC}$

(~~e~~) The Undelivered Energy Penalty may be netted by Buyer against amounts that would otherwise be due to Seller under this Agreement. Seller's payment of the Undelivered Energy Penalty shall be secured by the Performance Assurance as specified in Article 5.

III. The Definition of Delivered Energy Quantity Should Be Corrected

In the context of calculating the Seller's obligation to comply with the MEDR, Section 1.7(c) of the DRAM Purchase Agreement defines the Delivered Energy Quantity (DEQ) as the "delivered energy quantity (in MWh) during the Showing Month with the highest energy deliveries". The MEDR can be satisfied throughout all Showing Months, so the DEQ definition should be revised to:

DEQ = delivered energy quantity (in MWh) during ~~the~~ all Showing Months with the highest energy deliveries in the Delivery Period

IV. The Rationale for the Undelivered Energy Penalty Collateral Requirements Needs to Be Clarified.

The IOUs propose to revise Section 5.1(a) of the DRAM Purchase Agreement by requiring an additional payment by the DRAM Seller to the IOU if, during the term of the contract, the DRAM Seller no longer has a credit rating or if the credit rating falls below a certain level.⁸ This additional payment would be equal to 20% of the estimated Undelivered Energy Penalty based on the associated Monthly Contracted Quantity. The IOUs provide little explanation for the purpose of this added penalty other than it is associated with the MEDR, penalties, and associated credit and collateral requirements.⁹ The Joint Parties question the appropriateness of this additional payment unless the IOUs can provide a justification for collecting collateral on a requirement that would not subject the IOUs to any penalties. In the absence of this, this new collateral requirement should be rejected.

V. A Due Date Is Needed If Additional Collateral Is Required

Section 5.1(a) of the DRAM Purchase Agreement specifies conditions under which an additional collateral payment is due by the Seller during the Delivery Period. However, no due date for the additional collateral payment is provided. The Joint Parties recommend that, consistent with Section 5.1(c), Sellers be given 10 business days to provide the additional collateral.

VI. PSPS Events

Public Safety Power Shutoff (PSPS) events in PG&E's service area territory occurred for the first time in 2019 and are likely to continue into 2020 and beyond. PSPS events are completely at the discretion of the IOUs to determine and execute, although there is coordination with public officials over the deployment of these events. During these events, the ability of DR resources to respond to a market dispatch is impacted because the underlying DR participants affected by a PSPS event have no load to shed. As a result, the DR resource cannot respond to DR dispatch instructions due to a market award or fulfill its Must-Offer Obligations (MOO). Furthermore, PSPS events can affect a DR resource's baseline due to the absence of load during the PSPS event.

The Joint Parties submit that PSPS event days should be excluded in baseline calculations for DR customers that are affected by a PSPS outage. Further, the risk to revenue erosion should not be borne exclusively by the Seller. In other words, if the DR resource is offline due to a PSPS event that is beyond the control of the DR customer or the Seller, they should not be penalized by losing revenue as a result, since the unavailability was a consequence of a decision made by the IOU.

⁸ Advice Letter, at p. 8 and DRAM Purchase Agreement, Section 5.1(a).

⁹ Advice Letter, at p. 8.

VII. Deadlines for Data Delivery

Section 1.7(b) of the DRAM Purchase Agreement fails to link the deadline for a Seller to submit an invoice to the IOU requirement to provide 95% of the Revenue Quality Meter Data. Section 1.7(b) of the DRAM Purchase Agreement loosely reflects that invoicing is required when a sufficient level of RQMD is supplied. This section should include a specific reference to Section 4.2(a), which is more specific in stating the requirement that Sellers must only submit an invoice within 30 days once 95% of the RQMD requirement has been provided by the IOU.

VIII. LRAC Methodology

As the Joint Parties explained in their January 30, 2020 response to SCE's AL 4140-E, PG&E's AL 5736-E, and SDG&E's AL 3495-E, the IOUs should utilize a consistent LRAC methodology when assessing DRAM bids.¹⁰ This is especially important so that Sellers can know in advance that their bids will not be disqualified. Developing bids requires a significant amount of time and resources, so Sellers should have certainty that they are not wasting their time in developing their bids.

There are several different possible approaches to comparing DRAM bids to the LRAC. However, the Joint Parties recommend that any methodology should align with the following principles:

- The LRAC is spread over a transparent 12-month curve with each month weighted using a proxy at least approximately reflecting the IOU's capacity value in each month.
- The LRAC against which DRAM bids are compared should be prorated for partial-year bids.
- The methodology should not involve inserting proxy bids for months for which no bid was submitted.

CONCLUSION

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

¹⁰ *Response of California Efficiency + Demand Management Council, CPower, Enel X North America, Inc., and Leapfrog Power, Inc.*, at p. 6, January 30, 2020.

Respectfully submitted,

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