

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

Application of Pacific Gas & Electric Company (U 39-E) for Approval of Demand Response Programs, Pilots and Budgets for Program Years 2018-2022.	Application 17-01-012 (Filed January 17, 2017)
And Related Matters.	Application 17-01-018 Application 17-01-019

**JOINT REPLY COMMENTS OF  
CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL, CPOWER,  
ENEL X NORTH AMERICA, INC., AND LEAPFROG POWER, INC. ON THE  
FINAL REPORT OF THE DEMAND RESPONSE AUCTION MECHANISM WORKING  
GROUP**

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The California Efficiency + Demand Management Council, CPower, Enel X North America, Inc., and Leapfrog Power, Inc. (collectively referred to as the Joint Parties) respectfully submit these Joint Reply Comments on the Final Report of the Demand Response Auction Mechanism (DRAM) Working Group (DRAM Report) mailed in this proceeding on August 9, 2019. These Joint Reply Comments are timely filed and served pursuant to the Commission’s Rules of Practice and Procedure and the instructions accompanying the DRAM Report.

**I.  
COST-EFFECTIVENESS.**

**A. Avoided Cost of Capacity.**

The Joint Parties would like to clarify that its objections to being subject to a cost-effectiveness requirement pertain to the application of a cost-effectiveness protocol. In an ideal world, Pacific Gas and Electric (PG&E) and Southern California Edison (SCE) would be correct that DRAM contracts should have a positive Net Market Value (NMV), but this standard cannot realistically be applied if DRAM contracts are not correctly valued at the Long Run Avoided Cost (LRAC) of capacity.<sup>1</sup> LRAC is the basis under which the investor-owned utilities’ (IOU) demand response (DR) programs are evaluated for cost effectiveness. If they continue to utilize the Short Run Avoided Cost of capacity (SRAC) to value DRAM contracts, not only will the

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<sup>1</sup> PG&E Opening Comments on DRAM Report, at p. 18; SCE Opening Comments on DRAM Report, at p. 2.

IOUs be inconsistently applying LRAC as between DRAM and their own DR programs, they will be inconsistent with the direction provided in D.15-11-042 as to how to calculate avoided costs for DR.<sup>2</sup>

San Diego Gas & Electric (SDG&E) asserts that DRAM contracts should not be valued at the LRAC because only contracts of five years or greater qualify for this treatment.<sup>3</sup> This position is inconsistent with the treatment of the IOUs' DR programs which, until recently, had been on three-year budget cycles but yet have benefitted from the LRAC treatment. However, the rationale for including LRAC as the appropriate way to value DR goes beyond the budget cycle. Some resources, including DR, have short-term budget cycles but those budgets were reinstated, time after time, to provide the equivalent benefit to the system as a long-term capacity investment. Creating the correct incentives for preferred resources to be procured in the market was an important consideration for requiring long-run versus short-run avoided costs. Clearly, trying to attract cleaner resources and new technologies to participate in providing grid services while forcing those resources to compete against fully depreciated, older, dirtier plants will not achieve the State's clean energy goals.

#### **B. Resource Need.**

The Joint Parties disagree with SCE's argument that a need is required for DRAM resources to be cost effective and for DRAM solicitations to be purely competitive.<sup>4</sup> The DR provided through the DRAM is a preferred resource and, unlike most conventional resources, preferred resources have not traditionally been subject to specific needs. This has been true for the IOU's DR and energy efficiency programs, California Solar Initiative (CSI) and Self-Generation Incentive Program (SGIP), Renewables Portfolio Standard (RPS), and energy storage procurement targets, etc. The benefit of this approach has been the long-term displacement of fossil-fueled generation, which aligns with the State's energy and environmental goals and should be encouraged.

#### **C. DRAM Design.**

PG&E suggests that the Commission redefine the DRAM as an IOU DR Program and subject it to the DR cost-effectiveness protocols.<sup>5</sup> There are many implications to DRAM being

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<sup>2</sup> CEDMC Opening Comments on DRAM Report, at p. 1.

<sup>3</sup> SDG&E Opening Comments on DRAM Report, at p. 3.

<sup>4</sup> SCE Opening Comments on DRAM Report, at p. 3

<sup>5</sup> PG&E Opening Comments on DRAM Report, at pp. 2-3.

redefined as an IOU DR Program. First, one of the intentions behind DRAM was to have third-party delivered services in the wholesale market. DRAM is managed by the DRAM Seller. Turning DRAM into an IOU program would take away that DRAM Seller management, in terms of determining when and under what conditions the resource would be dispatched.

Further, the DRAM design should be revised to ensure that it can meet the cost-effectiveness requirements. The DR cost-effectiveness protocols were not developed for wholesale market integrated resources. There may be a need to review the cost-effectiveness methodology to see if it is adequately valuing DRAM, relative to other DR programs.

When the cost-effectiveness methodology was first adopted in D.10-12-024, it was not immediately applied to the IOUs' DR programs. Instead, the Commission directed that they be applied during the next DR program cycle so that the IOUs could make adjustments to their programs as necessary to comport with the protocols.<sup>6</sup> A similar allowance should be made for the DRAM rather than immediately assessing DRAM cost effectiveness for the purpose of deciding whether to continue it.

## **II. QUALITATIVE CRITERIA.**

The Joint Parties strongly disagree with SCE's proposal that the IOUs should have the latitude to develop non-public qualitative criteria.<sup>7</sup> For transparency purposes, qualitative criteria should be public and approved by the Commission before being applied. Bidders should know how their bids will be evaluated. Given the unreasonably harsh qualitative criteria recently proposed by SCE in joint Advice Letter 4504-E et al, it is clear that new qualitative criteria should be subject to Commission approval before they can be applied. In the advice letter, SCE has proposed two new prior performance qualitative criteria:

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<sup>6</sup> Decision 10-12-024, at Ordering Paragraph 2.

<sup>7</sup> SCE Opening Comments on DRAM Report, at p. 7.

<b>Prior Performance Qualitative Criteria</b>	<b>Percent increase in cost for bid evaluation purposes</b>
If you delivered, in aggregate, less than X percent of the contracted capacity (as measured by coincident peak load reduction) across either of your 2019 DRAM contract(s) or your 2018-2019 DRAM contract(s)	100 > X > 75: +10 percent 75 >= X > 50: +25 percent 50 >= X: +50 percent
If you did not have a 2018-2019 DRAM contract or a 2019 DRAM contract, but delivered, in aggregate, less than X percent of the contract capacity (as measured by coincident peak load reduction) across your 2017 DRAM contract(s)	100 > X > 75: +10 percent 75 >= X > 50: +25 percent 50 >= X: +50 percent

Should the above proposed criteria be approved, DRAM bidders will have their bids increased by 10% simply for delivering 99% of their contracted capacity in their prior contract. By all standards, 99% delivery should be considered a very strong performance. Furthermore, the escalation of the qualitative factor to +25% for performance below 75% and +50% for performance below 50% is similarly excessive. This would result in incumbent DRAM Sellers being penalized in favor of new entrants, who have no history of performance with the DRAM and no indication that they will be able to perform better than the incumbents. Though SCE's proposed qualitative criteria are not at issue here, they do serve as a warning of the potential consequences if qualitative criteria are not subject to a transparent process and Commission approval.

### **III. DR-RELATED RESOURCE ADEQUACY (RA) ISSUES.**

The Joint Parties share OhmConnect's concern that DR-related RA issues are not given full consideration in the RA proceeding.<sup>8</sup> As OhmConnect highlighted, this most recently occurred in the RA rulemaking when the Commission inserted Section 3.6.3 in D.19-06-026 regarding the counting methodologies for third-party DR resources only after opening and reply comments were submitted on the proposed decision. Because this section was apparently an afterthought, parties were not given the opportunity to comment on this issue prior to approval.<sup>9</sup>

<sup>8</sup> OhmConnect Opening Comments on DRAM Report, at p. 6.

<sup>9</sup> D.19-06-026, at p. 41, Ordering Paragraph 18.

The RA proceeding occurs annually so if the June RA decision neglects to rule on outstanding DR issues, another year will pass before interested parties have another opportunity to bring forth the same issues. If the Commission chooses not to address DR-related RA issues in the DR proceeding, then steps are needed to ensure that DR issues will be addressed in the RA proceeding going forward. For example, Energy Division DR Staff should participate in the RA proceeding to represent DR interests that Energy Division RA Staff may not fully appreciate.

**IV.  
REVENUE QUALITY METER DATA (RQMD) PENALTY/CONTRACT REMEDY.**

In arguing against the OhmConnect proposal for greater clarity in IOU responsibilities for providing timely and complete RQMD, PG&E cites IOU liability as being limited to penalties imposed upon the DRP or its SC due to the non-compliance.<sup>10</sup> This may be the case now, but there are other costs to DRAM Sellers for late RQMD beyond CAISO penalties that should be addressed. For example, resettlement using actual RQMD is quite costly with the CAISO, but being forced to settle without actual RQMD data can result in revenue loss for DRAM Sellers. This is entirely unfair to the DRAM Seller to suffer revenue loss as a result of a failure of the IOU to meet its obligation to deliver accurate and timely data to allow the DRAM Seller to settle with CAISO. In addition, disputes over incomplete RQMD data can delay invoices thereby delaying receipt of revenue by the DRAM Seller. Uncertain cash flow and revenue streams, including the ability to timely pay customers, reflects negatively on participating in a DR program. Just as the Commission is approving more rigorous rules regarding the performance of DRAM Sellers, it should also require greater rigor on data delivery to ensure the IOUs are fulfilling their obligations under Electric Rule 24/32. The Commission take the steps recommended by OhmConnect and the Joint Parties to accelerate the IOU delivery of complete RQMD.

**V.  
BID FEES.**

The Joint Parties reiterate that SDG&E was the sole workshop participant to express a preference for bid fees. As an initial step toward addressing concerns expressed in the DRAM Evaluation Report, the Commission should adopt the Council's proposal.<sup>11</sup>

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<sup>10</sup> PG&E Opening Comments on DRAM Report, at p. 14.

<sup>11</sup> Final Report of the Demand Response Auction Mechanism (DRAM) Working Group, at pp. 25-26.

## VI. MINIMUM DISPATCH REQUIREMENT.

There is broad opposition to a minimum dispatch requirement. The Joint Parties, PG&E, SDG&E, California Energy Storage Alliance (CESA), and the California Independent System Operator (CAISO) agreed in their opening comments that a minimum dispatch requirement is unnecessary while the DRAM is an RA-only product.<sup>12</sup> The Joint Parties particularly appreciate SDG&E's explanation for why high energy bids are not necessarily less "competitive."<sup>13</sup>

In addition to the Joint Parties' opposition to PG&E's proposal to require DRAM Sellers to provide bidding behavior and the associated rationale to the CPUC, the Joint Parties also do not support the CAISO's proposal that DRAM Sellers provide the marginal costs for their resources to the Commission.<sup>14</sup> Similar to when the DRAM Evaluation Report was developed, the CAISO can provide the bid history of the DRAM Sellers to the Energy Division's consultant without the DRAM Seller being involved in the process. But requiring DRAM Sellers to substantiate their marginal costs to the Commission is a bridge too far.

The Joint Parties also are perplexed why the CAISO sees the Commission as having the role of determining the marginal costs and opportunity costs of DRAM resources for energy market bids rather than the Department of Market Monitoring (DMM). As OhmConnect states, "investigating a market participant whose bidding behavior is believed to be suspicious is an existing role of the CAISO's Department of Market Monitoring."<sup>15</sup>

CESA's position in favor of voluntary bid parameters contradicts its position on minimum dispatch requirements. CESA has acknowledged DRAM as an RA-only product that should not be subject to a minimum dispatch requirement.<sup>16</sup> CESA correctly states that RA resources are "only required to meet their must-offer obligations while having the California Independent System Operator optimize the dispatch based on energy bids submitted into its day-

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<sup>12</sup> Joint Parties Opening Comments on DRAM Report, at pp. 2-3; PG&E Opening Comments on DRAM Report, at p. 12; SDG&E Opening Comments on DRAM Report, p. 10; CESA Opening Comments on DRAM Report, at p. 3; and CAISO Opening Comments on DRAM Report, p. 2.

<sup>13</sup> SDG&E Opening Comments, at pp. 9-10.

<sup>14</sup> Joint Parties Opening Comments on DRAM Report, at p. 3 and CAISO Opening Comments on DRAM Report, at p. 3.

<sup>15</sup> OhmConnect Opening Comments on DRAM Report, at p. 4.

<sup>16</sup> CESA Opening Comments on DRAM Report, at p. 3.

ahead and real-time markets.”<sup>17</sup> However, CESA’s subsequent support for PG&E’s recommendation that DRAM participants submit bidding data and information to assess the reasonableness of energy market bids seems contradictory to CESA’s definition of DRAM resources being “only required to meet their must-offer obligations.”<sup>18</sup> If DRAM is an RA-only product as CESA claims, it does not explain why energy bid pricing should be a consideration in bid selection.

## VI. CONCLUSION

The Joint Parties appreciate the opportunity to comment on the DRAM Report.

Respectfully submitted,

August 30, 2019

/s/ MEGAN M. MYERS

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On Behalf of

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<sup>17</sup> CESA Opening Comments on DRAM Report, at p. 3.

<sup>18</sup> *Id.*, at p. 4.