BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Establish Policies, Processes, and Rules to Ensure Reliable Electric Service in California in the Event of an Extreme Weather Event in 2021.	Rulemaking 20-11-003 (Filed November 19, 2020)

REPLY BRIEF OF THE DR COALITION

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Greg Wikler
Executive Director
California Efficiency + Demand Management Council
1111 Broadway, Suite 300
Oakland, CA 94607
Telephone: (925) 286-1710
E-mail: policy@cedmc.org

Luke Tougas
Consultant for
California Efficiency + Demand Management Council
1111 Broadway, Suite 300
Oakland, CA 94607
Telephone: (510) 326-1931
E-mail: l.tougas@cleanenergyregresearch.com

Daniel W. Douglass
Douglass, Liddell & Klatt
5737 Kanan Road, Suite 610
Agoura Hills, CA 91301
Telephone: (818) 961-3001
E-mail: douglass@energyattorney.com
On Behalf of Google LLC

Andrew Hoffman
Chief Development Officer
Leapfrog Power, Inc.
1700 Montgomery Street, Suite 200
San Francisco, CA 94111
Telephone: (415) 409-9783
E-mail: marketdev@leap.energy

Travis Kavulla
Vice President, Regulatory Affairs
NRG Energy, Inc.
804 Carnegie Center
Princeton, NJ 08540
Telephone: (609) 524-4696
E-mail: travis.kavulla@nrg.com

John Anderson
Director of Energy Markets
OhmConnect, Inc.
610 16th Street, Suite M20
Oakland, CA 94612
Telephone: (415) 697-1271
E-mail: john@ohmconnect.com

Charlie Buck
Director, Regulatory Affairs – West
Oracle
475 Sansome Street, 15th Floor
San Francisco, CA 94111
Telephone: (415) 767-8784
E-mail: charlie.buck@oracle.com

Damon Franz
Managing Policy Advisor
Tesla, Inc.
901 Page Avenue
Fremont, CA 94538
Telephone: (650) 339-6091
E-mail: dfranz@tesla.com

Allison Wannop
Director of Legal and Regulatory Affairs
Voltus, Inc.
2443 Fillmore St.
San Francisco, CA 94115
Telephone: (415) 463-4236
E-mail: awannop@voltus.co

Dr. Ken Skinner
Policy Advisor
Willdan Group, Inc.
2401 E. Katella, Suite 300
Anaheim, CA 92806
Telephone: (513) 265-7185
E-mail: kskinner@willdan.com

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California Efficiency + Demand Management Council ("the Council"), Google LLC ("Google"), Leapfrog Power, Inc. ("Leap"), NRG Energy, Inc. ("NRG"), OhmConnect, Inc. ("OhmConnect"), Oracle, Tesla, Voltus, Inc. ("Voltus"), and Willdan ("the DR Coalition") respectfully submit this Reply Brief in Rulemaking (R.) 20-11-003 (Extreme Weather). In this Rulemaking, the Commission seeks to establish policies, processes, and rules to ensure reliable electric service in California in the event of an extreme weather event in 2021. The DR Coalition's Reply Brief is timely filed and served pursuant to the Commission's Rules of Practice and Procedure (Rule 13.11) and the Assigned Commissioner's Scoping Memo and Ruling (Scoping Memo), dated December 21, 2020.

I.
SUMMARY

The DR Coalition appreciates the Commission's consideration of its proposals and urges the Commission to take bold steps to expand the amount of demand response ("DR") available in summer 2021 and 2022. Though the Commission has already directed the investor-owned utilities ("IOUs") to procure additional capacity for the summer of 2021 and 2022, that does not and should not preclude fortifying DR programs and resources, especially when compared against the economic losses associated with a blackout. Though DR is not a perfect resource, it has demonstrated its value throughout the decades, including during the 2020 heat events; DR resources dramatically increased California's ability to handle the extreme heat events by reducing the magnitude of the August 14 and 15 blackouts, and it will continue to increase the State's reliability and resilience.

The DR Coalition's Reply Brief can be summarized as follows:

- Adopting a bid cap on Proxy Demand Resources ("PDR") would be premature and would not address the factors that depressed day-ahead market ("DAM") prices during the 2020 heat events;
- The Commission should adopt DR program changes based on their merits and work with the IOUs to develop the appropriate implementation schedule;
- Public Advocates Office ("PAO") grossly mischaracterizes the DR Coalition's smart thermostat proposal by omitting that incentives would be conditioned on pre-enrollment in an IOU or third-party DR program and would be subject to IOU confirmation of device activation; and
- Temporarily raising the Capacity Bidding Program ("CBP") and Demand Response Auction Mechanism ("DRAM") day-of adjustment cap to 100 percent is essential to ensure that DR participants are being fairly compensated.

II.
DR COALITION ARGUMENTS

A. A Bid Price Cap on Capacity Bidding Program Resources Is Shortsighted and Does Not Address the Problem.

The DR Coalition continues to oppose a bid price cap of any form on CBP resources or any other type of resource. PAO claims that Pacific Gas and Electric's ("PG&E's") bid cap proposal "strikes an appropriate balance between allowing providers flexibility and ensuring that CBP resources are actually dispatched during extreme conditions";[1] however, PAO does not consider how a CBP bid cap represents a balanced proposal when it is clear that day-ahead market ("DAM") prices were artificially depressed during the August heat event due to the under-scheduling of load and the large number of financial supply positions under convergence bidding.[2] A bid cap will not solve the problem of depressed DAM prices, only further distort a distorted market.

PG&E argues in favor of its proposed CBP bid cap by presuming that the flaws in the California Independent System Operator ("CAISO") market that led to depressed DAM prices

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[1] PAO Opening Brief, at p. 21.
[2] Final Root Cause Analysis, at p. 62.

will be unresolved.[3] However, the Final Root Cause Analysis identifies steps the CAISO has since taken or will take to improve the accuracy of DAM pricing.[4] The CAISO appears to have a plan in place to address depressed DAM prices, so the Commission should let this process reach its conclusion rather than over-reacting.

Furthermore, any imposition of a bid cap should be thoroughly vetted through the regulatory process. The Joint DR Parties prudently recommend that any potential bid price cap be considered through a holistic examination in Resource Adequacy or Demand Response proceedings.[5]

B. The Commission should Prioritize DR Modifications that can be Achieved by Summer 2021 and 2022.

The DR Coalition agrees with The Utility Reform Network's ("TURN") recommendation that the Commission adopt all worthy proposals to existing IOU DR programs that will improve and expand DR programs "to increase customer participation and promote meaningful load reductions" and direct the IOUs to implement them by June 2021, or by June 2022 if the IOU has good cause for delaying due to IT issues."[6] The DR Coalition takes the IOUs at their word that they are unable to implement some proposals by summer 2021, but that should not be an acceptable reason for rejecting what is otherwise a desirable proposal.

C. PAO Mischaracterizes the DR Coalition Smart Thermostat Proposal.

The PAO urges the Commission to reject the DR Coalition's smart thermostat proposal because, according to PAO, customers would be provided incentives "regardless of the customer's provider or participation in a DR program."[7] PAO's understanding of the DR Coalition's proposal is incorrect. In fact, the language from the DR Coalition's opening testimony that PAO cites clearly does not make this claim. The DR Coalition states:

> "Smart thermostat incentives should be available to all residential customers, regardless of whether they are served by an IOU or community choice aggregators ('CCA') or electric service provider ('ESP'), and **regardless of whether their participation in a DR program or resource** is through an IOU or DRP."[8] (emphasis added)

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[3] PG&E Opening Brief, at pp. 24-25.
[4] Final Root Cause Analysis.
[5] Joint DR Parties Opening Brief, at p. 15.
[6] TURN Opening Brief, at pp. 15-16.
[7] PAO Opening Brief, at p. 23.
[8] DR Coalition Opening Testimony, at p. 28, lines 12-15.

The DR Coalition's proposal clearly requires pre-enrollment in a DR program or resource as a prerequisite for qualifying for a smart thermostat incentive. Under the proposal, the DR provider ("DRP") would provide the rebate up-front to customers, then apply to the IOU for reimbursement upon verification, to the IOU's satisfaction, of customer identifying information and confirmation of device connection.[9] In addition, as the DR Coalition states, the "DRP would…take on the full financial risk of not being reimbursed for a particular purchase if sufficient information is not provided by the customers for any reason or connection does not occur."[10]

Contrary to PAO's claims that "[t]here could be mass distribution of smart thermostats with no ensured prospect of use during DR events," the DR Coalition proposal also clearly conditions a customer receiving a smart thermostat incentive on their pre-enrollment in an IOU or third-party DR program.[11] The DR Coalition clearly proposes to "[p]rovide free thermostats to customers (up to $130 value), **provided a customer pre-enrolls in an existing third-party or IOU DR program**."[12] (emphasis added) It is worth mentioning that the DR Coalition's proposal would also provide an incentive to customers who enroll existing thermostats in a third-party or IOU DR program so as to reduce the number of unenrolled smart thermostats.[13]

D. The DR Coalition Proposal to Increase or Suspend the CBP and DRAM Day-Of Adjustment Cap is Extremely Timely and Highly Appropriate.

PAO's characterization of the DR Coalition's request to suspend or increase the CBP retail day-of adjustment as "untimely and inappropriate" is unsupported and should be disregarded.[14] PAO's characterization is inaccurate because it ignores the evidence that the current retail baseline, for both the CBP and Demand Response Auction Mechanism ("DRAM"), is highly inaccurate under extreme weather conditions. The DR Coalition clearly explained this inaccuracy in its Opening Testimony and is supported by Southern California Edison Company's ("SCE") testimony that current DR baselines under-represent the actual performance of its DR

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[9] DR Coalition Opening Testimony, at p. 29, lines 2-14.
[10] *Id*., lines 14-17.
[11] PAO Brief, at p. 23.
[12] DR Coalition Opening Testimony, at p. 30, lines 4-5.
[13] *Id*., lines 6-7.
[14] PAO Opening Brief, at p. 22.

resources.[15,16] The CAISO's Department of Market Monitoring also states this in its Q3 2020 Report on Market Issues and Performance:

> Based on supplier-submitted baseline and meter data, there is some evidence that baseline adjustments could have been limited in the upward direction be defined baseline adjustment cap on these days. That is, there is some evidence based on self-reported meter data, that certain customer loads on high load days may have deviated from historic days' load by factors greater than the ISO's baseline adjustments allowed. This could have resulted in self-reported performance values that were lower than actual load reduction, if baselines could not be adjusted further upward.[17]

PAO is correct that the Retail Baseline Working Group ("RBWG") is scheduled to issue a report by April 1, 2021, but the RBWG's consideration of the day-of adjustment was limited to comparing the accuracy of a +/-20% vs. a +/-40% adjustment during 2018 and 2019 CBP events, none of which occurred under weather conditions that were remotely close to the 1-in-30 conditions that prevailed during the August heat event.[18,19] Therefore, regardless of what is contained in the RBWG report, it will have no impact on summer 2021 and 2022 CBP baselines. On account of this, the DR Coalition proposes to temporarily increase the CBP and DRAM day-of adjustment to 100% while the Commission reassesses the CBP baseline under more extreme weather conditions.[20] This proposal is both timely and appropriate because 1) there is no other regulatory venue through which the proposal can be approved by the Commission in time for summer 2021, and 2) cause has been conclusively demonstrated that this relief is needed.

This performance undercounting issue is not some figment of the DR Coalition's imagination and must be corrected for summer 2021 and 2022; otherwise, as the DR Coalition has testified, DR participants who were under-compensated last summer during the August and September heat events will be less likely to participate again.[21]

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[15] DR Coalition Opening Testimony, at p. 34, line 19 through p. 36, line 17.
[16] SCE Opening Testimony, at p. 40, line 13 through p. 41, line 4.
[17] CAISO Department of Market Monitoring *Q3 2020 Report on Market Issues and Performance*, at p. 125.
[18] Decision 19-07-009, at Ordering Paragraph 19.
[19] Final Root Cause Analysis, at p. 40.
[20] DR Coalition Opening Testimony, at p. 24, lines 12-26.
[21] *Id*., at p. 36, lines 20-24.

E. The DR Coalition Emergency Load Reduction Program ("ELRP") Proposal Will Attract Meaningful Participation and Load Reductions.

The DR Coalition has put forth an ELRP proposal that is much more likely to be successful in delivering significant load curtailments compared to the IOU proposals.[22] The DR Coalition achieves this by opening eligibility to residential and non-residential third-party as well as direct-enrolled customers.[23] In addition, the two compensation options, an energy-only payment and a combination energy payment plus reservation charge, are flexible enough and significant enough to attract a wide range of participants.[24] In criticizing this proposed compensation structure, SCE does not address how its proposed $750/MWh energy payment would deliver a greater amount of load curtailment.[25] The IOU proposals would limit participation to direct-enrolled, non-residential customers, with an inadequate energy-only incentive that, based on historical load impacts of the Demand Bidding Program, is unlikely to provide any significant load curtailment. If the Commission ultimately adopts an ELRP, it should ensure that the effort and cost will be worthwhile.

IV.
CONCLUSION

The DR Coalition respectfully recommends that the Commission adopt the DR Coalition's recommended proposals contained in its Opening Brief and this Reply Brief.

Respectfully submitted,

February 12, 2021

/s/ GREG WIKLER

GREG WIKLER
On behalf of the DR Coalition (California Efficiency + Demand Management Council, Google LLC, Leapfrog Power, Inc., NRG Energy, Inc., OhmConnect Inc., Oracle, Tesla, Voltus, Inc., and Willdan)
1111 Broadway, Suite 300
Oakland, CA 94607
Telephone: (925) 286-1710
E-mail: policy@cedmc.org

[22] DR Coalition Opening Testimony, at p. 12, line 18 through p. 19, line 11.
[23] *__Id__*., at p. 14, lines 20-22.
[24] *__Id__*., at p. 16, line 23 through p. 19, line 11.
[25] SCE Opening Brief, at pp. 9-10.