

Commissioner McAllister  
Vice Chari Siva Gunda  
California Energy Commission  
Docket Unit, MS-4  
Docket No. 21-IEPR-04  
1516 Ninth Street  
Sacramento, CA 95814-5512

December 17, 2021

## **CEC Docket # 21-IEPR-04 – CEDMC Comments on the Integrated Energy Policy Report Commissioner Workshop on Supply-Side Demand Response**

Dear Commission McAllister and Vice Chair Gunda:

The California Efficiency + Demand Management Council (“Council”)<sup>1</sup> appreciates the opportunity to provide comments to the California Energy Commission (“CEC”) regarding the December 3, 2021 Integrated Energy Policy Report (“IEPR”) Commissioner Workshop on Supply-Side Demand Response (“December 3 Workshop”). This workshop presented a constructive opportunity for a broad array of stakeholders and agencies to share their perspectives on how to properly account for demand response in the Resource Adequacy framework. The Council looks forward to continued discussions on this topic within the CEC’s Supply-Side Demand Response working group.

### **I. Background**

The Council is a statewide trade association of non-utility businesses that provide energy efficiency, demand response, and data analytics services and products in California.<sup>2</sup> Our member companies employ many thousands of Californians throughout the state. They include energy efficiency (“EE”), demand response (“DR”), and grid services technology providers, implementation and evaluation experts, energy service

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<sup>1</sup> The views expressed by the California Efficiency + Demand Management Council are not necessarily those of its individual members

<sup>2</sup> Additional information about the Council, including the organization’s current membership, Board of Directors, antitrust guidelines and code of ethics for its members, can be found at <http://www.cedmc.org>. The views expressed by the Council are not necessarily those of its individual members.

companies, engineering and architecture firms, contractors, financing experts, workforce training entities, and manufacturers of EE products and equipment. The Council's mission is to support appropriate EE and DR policies, programs, and technologies to create sustainable jobs, long-term economic growth, stable and reasonably priced energy infrastructures, and environmental improvement.

## **II. It Is Critical That a New DR Qualifying Capacity (“QC”) Methodology Be Workable for Third-Party DR Providers**

The CEC's overriding goal in its Supply-Side DR QC working group process should be to develop a DR QC methodology that works well for third-party DR providers and investor-owned utilities (“IOUs”) while ensuring that DR programs and resources are delivering value commensurate with their QC values. The current DR Load Impact Protocols (“LIPs”) act as a barrier to third-party DR growth because they lack transparency, are very time-consuming, and bear a large cost with no guarantee of cost-recovery - all without necessarily demonstrating greater accuracy than other approaches. For third-party DR to grow, a new approach is needed that will accurately reflect the capabilities of each DR provider and IOU, be transparent in how a DR portfolio QC value is determined, incur a reasonable cost, and require little time to implement. At the very least, the CEC and stakeholders should ensure that the adopted approach is not *more cumbersome* than the existing process.

The current LIPs were developed for IOU DR programs which tend to be larger and more static than third-party DR providers' portfolios primarily due to generally stable or more predictable participation levels. In California Public Utilities Commission (“CPUC”) Decision (“D.”) 19-06-026, the CPUC directed that third-party DR providers use the LIPs to determine their QC values beginning with the 2020 RA year. Since then, it has become very apparent that the LIPs are highly problematic for DR providers for several reasons which has created a significant barrier to third-party DR participation in California:

1. The accuracy of the LIPs is questionable for more dynamic portfolios. Unlike IOU programs, DR provider portfolios can significantly change from one year to the next because they have a financial interest in sizing their portfolios to meet market commitments and take advantage of market opportunities. Because of the uncertainty inherent in executing contracts, portfolios may differ widely from year to year, both in size and customer composition. In addition, the extended timeframe of the LIP process leads to performance data being used from up to two years prior to the Resource Adequacy (“RA”) delivery year.

2. The LIP process lacks transparency and is very time-consuming. The LIPs entail a four-month process beginning in December with a final report due on April 1 of each year. There is a two-year lag between the data used for LIP analysis and QC determination, and the RA delivery year. For example, the LIP process that kicked off in December 2021 will use data from the 2021 RA year to derive QC values for the 2023 RA delivery year. Following submission of the final LIP report on April 1, it is then assessed by the California Public Utilities Commission (“CPUC”) Energy Division over the following 3-5 months to determine the QC values of these DR programs.
3. The LIP process is costly with no guarantee of cost recovery for third parties. The LIP process requires extensive analysis and reporting which requires the use of specialized consultants which is very costly, even for comparatively small portfolios. IOUs can recover these costs through their DR program budgets but DR providers do not have that luxury. Therefore, this represents a significant investment that some DR providers choose not to make without a reasonable expectation that they will recover these costs.
4. The requirement that consultants be used to perform the LIP analysis acts as a bottleneck. There are a limited number of consultants who are able to perform the LIP analysis and, due to the intensive nature of this work, many consultants are limited in the number of IOUs and DRPs they can take on. This leads to many IOUs and DR providers chasing a limited number of consultants which can lead to DR providers being frozen out of the LIP process and therefore unable to sell their capacity.

The Council believes that future DR growth will occur primarily through third parties, so a more-streamlined DR QC methodology is needed that better suits the more dynamic nature of third-party DR portfolios. In many ways, the shortcomings of the LIPs represent the opposite of what the new DR QC methodology should look like. Specifically, the new methodology should:

1. Reflect actual IOU and DR provider capabilities based on the most current information possible. The LIP process utilizes data from up to two years prior to the RA delivery year which rarely reflects current and expected DR portfolios.
2. Minimize the time required to receive a QC value from the Energy Division. This will ensure higher quality information is used in the QC valuation and require fewer resources.
3. Be as transparent as possible. It is critical that IOUs and DR providers understand the reasoning behind Energy Division assessments of their QC values.

4. Minimize the cost to DR providers. Such a significant cost can be a barrier to entry in the DR market, especially to new entrants.
5. Avoid or minimize the need for outside consultants. As stated above, this creates a bottleneck in the QC valuation process and can leave some DR providers unable to receive a QC value, thus preventing them from selling their RA capacity.
6. Reduce the Energy Division workload to determine DR QC values. This is a critical issue from the perspective of allocating precious Energy Division resources. The sheer volume of the April 1 LIP reports creates a substantial burden on the Energy Division staff who must sort through them. This time can be better spent on important policy issues.

To a large extent, the proposed principles that were presented at the December 3 Workshop reflect many of these requirements, which the Council generally supports with a few exceptions.

### **III. The Council’s “PJM/NYISO” Proposal Addresses a Majority of the CEC Supply-Side DR QC Methodology Principles**

At the December 3 workshop, the Council presented two DR QC methodology proposals to replace the LIPs - the “PJM/NYISO” method and the “Streamlined LIPs” method - both of which address DR provider needs to varying degrees. As the Council discussed during its presentation, the PJM/NYISO method is the preferred method in the interim and long-term because it addresses almost all of the six needs listed above, and because it can be easily implemented comparatively quickly. This method is closely related to the general approach currently used by the PJM, NYISO, and ISO-NE wholesale capacity markets, so there is a track record for this approach. The Streamlined LIPs method also addresses the six needs, but would require time and resources to develop as a long-term approach. Therefore, its suitability as an interim method is less apparent.

#### **A. The PJM/NYISO Method**

The PJM/NYISO method would replace the current approach of the LIPs that uses rigorous up-front analyses to estimate QC values with a more straightforward approach that allows DR providers to make their own assessments of the QC value of their portfolios while being subject to an after-the-fact penalty structure to ensure that contracted capacity is delivered, while retaining Energy Division oversight as is currently the case with the LIP process. The finer details of the Council’s proposal are still under development, but it is based on the following key elements which are subject to change:

- A DR provider performs its own internal analysis to estimate the QC value of its DR portfolio; the output of this analysis as well as specified inputs are provided to

the Energy Division for assessment and final QC value determination within one month of receiving the data. This process could be performed as frequently as quarterly.

- Once a DR provider receives its QC value, it is free to sell its capacity as Resource Adequacy. The DR provider would provide a collateral payment to be held by the Energy Division based on the amount of capacity sold. Those DR providers with a strong track record of reliable capacity deliveries may be subject to lower or no collateral payments.
- On an annual basis, the Energy Division would assess the DR provider's monthly performance delivering its contracted capacity based on its performance in the CAISO market relative to the quantity in its monthly supply plans. Any shortfalls would be subject to penalty payments which would be deducted from the DR provider's collateral held by the Energy Division. To the extent the held collateral is insufficient, the DR provider would be required to provide additional payment. Any penalty payments would be transferred to the contracting load-serving entity ("LSE").

This PJM/NYISO method addresses the key requirements in a new DR QC methodology. Specifically, it 1) better reflects actual DR provider capabilities rather than relying on a series of regression analyses using historical data to determine what it can provide, 2) significantly reduces the timeline for QC value determination, 3) may improve the transparency of the Energy Division assessment, 4) minimizes the cost to DR providers because they will not be required to retain a consultant, and 5) reduces Energy Division workload. In addition, this method ensures that capacity deliveries are directly measured against CAISO market performance, and maintains the Energy Division's role as an "emergency brake" to ensure that DR providers' claimed QC values are realistic.

## **B. The Streamlined LIPs Method**

The Streamlined LIPs method would retain the LIPs as the foundation for the assessment but would significantly reduce the analytical and procedural requirements to only those needed to estimate the QC value. Many of the current LIPs relate to reporting requirements, estimating QC values under various weather conditions, and estimating long-term load impacts to be used for long-term planning. These applications are unnecessary for developing short-term QC values based on 1-in-2 weather conditions (the current standard by which the CPUC determines the System RA Requirement). In addition, rather than each DR provider retaining a consultant to perform the extensive range of regression analyses, this approach could involve the creation of a universal set of publicly-available models that DR providers would use to perform their QC value estimates. The CPUC Energy Division would maintain its

current role of assessing DR provider QC values based on the model inputs and outputs, but this assessment role would be significantly easier because the effectiveness of the models would have been approved by the Energy Division in advance. DR providers would be able to update their QC values as frequently as quarterly.

This Streamlined LIPs method addresses the key requirements in a new DR QC methodology to a certain extent, but less so than the PJM/NYISO method. Specifically, it 1) better reflects actual DR provider capabilities because it can be performed more frequently and much closer to the RA delivery year than the current LIPs, 2) significantly reduces the timeline for QC value determination because the DR providers can simply enter in the inputs to receive a new QC value (subject to Energy Division assessment), 3) improves the transparency of the Energy Division assessment because the models would be approved by the Energy Division in advance, 4) minimizes the cost to DR providers because they will not be required to retain a consultant, and 5) reduces Energy Division workload because each DR provider will use the same set of models whose output will be significantly more succinct than the current Load Impact evaluations. In addition, though this approach is not optimal from the perspective of many DR providers, the Council acknowledges that the continuation of a LIP-based approach may provide some degree of comfort to the CPUC and some parties compared to a completely new approach. However, this method is not suitable as an interim approach because a significant amount of time will be needed to develop and test the models.

#### **IV. The Council Supports the Testing of Interim Solutions that Meet the Needs of the IOUs and DR Providers**

The Council appreciates and supports the remarks made by Simon Baker of the CPUC Energy Division in his Panel 4 discussion that contemplate the possibility of testing two different new interim DR QC approaches. He correctly noted that there is already a two-track approach with Demand Response Auction Mechanism (“DRAM”) resource QC values being assessed in a similar manner to the Council’s PJM/NYISO method and IOU and all other third-party DR contracts being subject to the LIP process. Therefore, allowing multiple new methods to be tested as interim measures would not be a departure from this general structure. DR QC determination is a complicated topic that, if done incorrectly, can do significant damage to the California DR market, so cultivating a competition of ideas in this area is preferable to approval of a theoretical methodology with no track record of actual effectiveness.

The Council notes that any interim approaches be compatible with the Slice-of-Day framework that is currently being developed in the CPUC's RA proceeding. Both the PJM/NYISO and Streamlined LIP methods can easily work with Slice-of-Day because QC values and performance can be applied at the "slice" level, however that is defined, rather than the current Availability Assessment Hours.

## **V. Conclusion**

The Council appreciates the opportunity to provide comments on this extremely important issue that will have real impacts on the proliferation of the DR industry in California.

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Respectfully,

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