BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Reforms and Refinements, and Establish Forward Resource Adequacy Procurement Obligations.	Rulemaking 21-10-002 (Filed October 7, 2021)

OPENING COMMENTS OF
THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL,
ENEL X NORTH AMERICA, INC., AND LEAPFROG POWER, INC.
ON PHASE 2 PROPOSALS

Dated: February 14, 2022

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I. INTRODUCTION

The California Efficiency + Demand Management Council ("the Council")[1] and Enel X North America, Inc., and Leapfrog Power, Inc. (collectively "the DR Coalition") appreciate this opportunity to submit its Opening Comments on the Phase 2 Proposals, submitted in this resource adequacy ("RA") proceeding on January 21, 2022. These Opening Comments have been timely filed and served pursuant to the Commission's Rules of Practice and Procedure and the instructions contained in the Assigned Commissioner's Scoping Memo and Ruling ("Scoping Memo"), issued on December 2, 2021.

II. SUMMARY

The Scoping Memo identified several issues to be addressed in Phase 2 of this resource adequacy ("RA") proceeding.[2] The issues to be considered in Phase 2, excluding local capacity requirement ("LCR") and flexible capacity requirement ("FCR"), are modifications to the Planning Reserve Margin ("PRM") and Qualifying Capacity ("QC") Counting Conventions.[3] Lastly, the Scoping Memo directed parties and Energy Division to submit Phase 2 Proposals, excluding LCR and FCR, on January 21, 2022.[4] The QC proposals were permitted to address enhancements to the Load Impact Protocols ("LIPs") methodology and process.[5]

[1] The views expressed by the California Efficiency + Demand Management Council are not necessarily those of its individual members.
[2] Scoping Memo, at p. 4.
[3] *Id.*, at pp. 4-5.
[4] *Id.*, at p. 9.
[5] *Id.*, at p. 4.

On January 21, 2022, several parties and the Energy Division submitted Phase 2 Proposals. On the same date, the Council submitted a Letter to the Commissioners and the service list in this proceeding.[6] In this Letter, the Council stated that the California Energy Commission ("CEC") has convened a working group which will submit a report in February 2022 on potential interim DR QC methodologies, some of which involve the LIPs.[7] As such, the Council requested "that the Commission consider potential changes to the LIPs or LIP process in the context of the CEC's interim working group report due February as well as in the final working group report expected to be submitted in summer 2022."[8]

In these Opening Comments, the DR Coalition recommends that the Commission provide an opportunity for parties to comment on the CEC's Supply Side DR QC Working Group Interim Report ("DR QC Interim Report") once it is filed this week. In addition, the DR Coalition provides comments on the California Independent System Operator's ("CAISO's") proposal for a LIP-informed Effective Load Carrying Capability ("ELCC") DR QC methodology and the Energy Division's proposal on revisions to DR testing requirements.

III. THERE MUST BE AN OPPORTUNITY FOR PARTIES TO COMMENT ON THE CEC DR QC INTERIM REPORT

The DR Coalition respectfully requests that the Commission provide an opportunity for parties to submit comments on the DR QC Interim Report once it is filed this week. The Scoping Memo explicitly requested that the CEC submit the DR QC Interim Report in February rather than March 18 in order "for the Commission to timely consider the CEC's Working Group report in parallel with Reform Track proposals."[9] With a February submission of the DR QC Interim Report, the added time available to the Commission can be utilized to provide parties, especially those that have not been engaged in the Working Group, with an opportunity to provide feedback on the CEC's recommendations.

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[6] Letter from the Council regarding Resource Adequacy Phase 2 Proposals, dated January 21, 2022 ("Council Letter").
[7] Council Letter, at p. 2.
[8] *Id*.
[9] Scoping Memo, at p. 9.

IV. THE CAISO'S PROPOSAL FOR A LIP-INFORMED ELCC DR QC METHODOLOGY

a. It is inappropriate for the CAISO to submit its proposal outside of the CEC working group process.

It is not clear to the DR Coalition why the CAISO has decided to submit its proposal separate from the CEC's Supply Side DR QC Working Group process. The Commission created this working group in Decision ("D.") 21-06-029 specifically for the purpose of developing new DR QC methodologies, so the CAISO's proposal appears to be an attempt to circumvent that process.[10] Problematically, the CAISO proposes that the Commission adopt its methodology for the 2023 and 2024 RA years despite having no visibility into the Slice-of-Day framework that the Commission is considering in this proceeding and, therefore, it no foresight as to the viability of its proposal under this new framework. The Commission should only consider adoption of the CAISO proposal within the context of the DR QC Interim Report and only for the 2023 RA Year.

b. The CAISO's proposal lacks adequate detail for parties to understand exactly what is being proposed.

The CAISO's January 21 proposal lacks detail. As such, it is extremely difficult to understand exactly what it is proposing. The proposal consists of a three-page high-level qualitative description of its LIP profile-informed ELCC methodology and includes no indication of how it would work nor any proof that the methodology can accurately forecast DR QC values. During the February 4 workshop, the CAISO and its consultant presented more information on the inaccuracy of LIP-based QC values as well as a conceptual discussion on how an ELCC could be calculated, especially with regard to first-in and last-in approaches. All of the information presented at the February 4 workshop should have been included in the CAISO's January 21 proposal along with a narrative describing the content. This is critical because even if the February 4 slides are entered into the record, there are significant gaps in the overall proposal. The Commission should be provided a fully-developed proposal, consisting of a narrative explaining each element of the proposal, rather than three pages of high-level discussion and a PowerPoint presentation. At a minimum, the CAISO should address these key elements in their proposal:

[10] D.21-06-029, at Ordering Paragraph 11.

1. Process and Timeline: The current LIP process would have to be modified to accommodate the additional layer of ELCC analysis while ensuring that investor-owned utilities ("IOUs") and DR providers receive their net QC ("NQC") values from the Energy Division within a reasonable timeframe. It is necessary that this be done on a timely basis to ensure that LSEs will know their allocation of IOU DR capacity and that DR providers will be able to participate in LSE solicitations in time for the October 31 year-ahead Resource Adequacy filing deadline. The length of time between LIP report submission and QC approval is a serious issue under the current LIP-only regime that will undoubtedly only become more severe under the CAISO proposal. In 2021, many DR providers did not receive their final NQC values until September, over two months later than the July 2 deadline that was specified in the February 10, 2021 *Guide to CPUC's Load Impact Protocols (LIP) Process*.[11] This is not intended to be a criticism of the Energy Division, which is heavily burdened by reviewing the many voluminous Load Impact reports. However, if the current process is unable to comport with a reasonable timeframe to provide IOUs and DR providers with this critical information on a timely basis, then it is highly likely that the additional analysis that the CAISO would introduce will only exacerbate the issue.
2. Comparison of accuracy of ELCC-based method vs. LIP-based method: During the February 4 workshop, the CAISO presented a graphic from the Department of Market Monitoring's ("DMM's") January 12, 2022 2021 *Demand Response Issues and Performance Report* comparing CPUC-jurisdictional utility DR program availability and RA credits.[12] The graphic shows that IOU DR programs were bid into the CAISO market on high-temperature days at levels below their LIP-based QC values. However, the CAISO did not present a similar analysis demonstrating that its proposed method would have resulted in QC values more closely aligned with the DR bids. Without this type of comparative quantitative analysis, there is no evidence to prove that the CAISO's method is any better than the current one. For example, it is possible that the CAISO method would undercount QC values by an equal or greater amount that the LIP-based values

[11] Guide to CPUC's Load Impact Protocols, February 10, 2021, at p. 6.
[12] February 4, 2022 CAISO Presentation, at slide 3, https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/resource-adequacy-homepage/caiso-e3-presentation----lip-informed-elcc----implementation-track-phase-ii.pdf

were found by the DMM to overcount them. Another potential scenario is that it could result in NQC values above the LIP values in some instances and below the LIP values in others. This sort of inconsistency was manifested in the CAISO's July 1, 2021 ELCC-based LIP analysis. For example, the ELCC-based QC values for PG&E's Capacity Bidding Program ("CBP") ranged from 0 percent to 462 percent of LIP-based QC values.[13] The DR Coalition expects the CEC to recommend in its DR QC Final Report that the Commission adopt multiple DR QC methodologies be tested for the 2023 RA Year. If this approach is adopted by the Commission, this would be a good opportunity to test the accuracy of the CAISO's proposed method. Regardless, the CAISO's proposal should not be adopted without evidence of its accuracy.

3. <u>Step-by-step explanation of the process for applying the method:</u> The CAISO should provide a detailed explanation of the required steps for implementing its proposed methodology. This is necessary to allow parties to provide feedback on the viability of the process, and the Commission should have a clear understanding of how the CAISO's method would be applied. The steps included in the CAISO's timeline that it presented at the February 4 workshop were not included in its January 21 proposal; nor does it contain a sufficient amount of detail, especially the January-March period during which "refined data assumptions and inputs based on SERVM" would occur and the May-June period when "ELCC run by CPUC" would occur.[14]

   Much more information is needed on how these two steps will be implemented, including inputs and how the various inputs will impact the ELCC analysis. Some of the inputs discussed during the February 4 workshop required greater explanation including, for example, why the hourly availability profiles would be determined across all weather conditions from 1998-2017 and not only 1-in-2 weather conditions, the primary planning standard currently used in the Resource Adequacy regime.[15] Another input needing

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[13] California Independent System Operator Corporation, Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company Compliance Filing Regarding Refreshed Effective Load Carrying Capability Study Results, at Attachment B.
[14] February 4, 2022 CAISO Presentation, at Slide 6.
[15] <u>*Id*</u>., at Slide 11.

explanation is the relationship of DR program notification times on their load profiles.[16] Finally, there needs to be some transparency in the relationship of the various DR program parameters and their ELCC factors. Using a hypothetical example, how will the ELCC factor change if the call limit of a DR program or resource is changed from 10/month to 15/month? Or changing the limit on duration from four hours to six hours? Transparency in the relationships of these factors to NQC values is critical to ensure that IOUs and DR providers can design optimized programs that provide the greatest NQC value relative to customer capabilities.

c. The CAISO's principles are insufficient to support adoption of its proposed method.

In its January 21 proposal, the CAISO makes two statements regarding the merits of its proposal but provides no evidence or analysis to support them. For example, the CAISO states, "The LIP Profile Informed ELCC properly accounts for demand response resources' variable nature and use-limitation, consistent with the principles outlined above."[17] The principles referenced by the CAISO are that the DR QC methodology should:[18]

1. Represent accepted industry leading practices recognizing DR resources' limited and variable output nature;
2. Assess DR resources' contribution to reliability across the year or seasons; and
3. Assess DR resources' interactive effects with other resources as incremental amounts of energy and use-limited resources begin to add less and less incremental capacity value to the system.

These principles are insufficient to support the CAISO's proposal because none of them imply that the CAISO's proposed method is accurate. The first principle references the CAISO's desire that the DR QC methodology be based on "industry leading" practices. However, the CAISO does not specify what other markets in the U.S. utilize an ELCC-based DR QC methodology. Furthermore, even if this approach truly were widely used in this capacity, it would not eliminate the need for the CAISO to demonstrate its superiority to the current LIP process or other proposals that will be submitted via the DR QC Interim Report, nor would it

[16] February 4, 2022 CAISO Presentation, at Slide 12.
[17] CAISO Proposal, at p. 3.
[18] *Id*.

eliminate the Commission's responsibility to ensure a robust evidentiary basis to approve this proposal.

The second and third principles only specify that the DR QC methodology should "assess" the contribution to reliability and interactive effects of a DR resource. There is no requirement that it be more accurate than the current LIPs. The CAISO should seek to demonstrate the superiority of its methodology in terms of accuracy and as discussed below, its ease-of-use. In fact, in D.21-06-029, the Commission cited this same absence of proof as one of its reasons for rejecting the CAISO's ELCC proposal in 2021. The decision states, "We find that ELCC has not at this point been proven to be superior to LIPs or any other methodology at this time for DR. Further, the Commission cannot adopt a study or methodology that has not been thoroughly reviewed."[19] Since the Commission adopted this decision, none of these shortcomings have been addressed. No proof has been provided that it is superior to LIPs or any other methodology, nor has it been thoroughly reviewed because there is no fully-developed proposal in the record of this proceeding.

d. The CAISO methodology would exacerbate an already dysfunctional process.

As the members of the DR Coalition have stated in several different forums, the current LIP process is highly dysfunctional and does not work well for third-party DR providers for the following primary reasons:

1. <u>The LIP process lacks transparency and is very time-consuming.</u> The LIPs entail a four-month process to develop the Load Impact report that begins 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 Commission's Energy Division over the following 3-5 months to determine the QC values of these DR programs.
2. <u>The LIP process is costly with no guarantee of cost recovery for third parties.</u> 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

[19] D.21-06-029, at p. 37.

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.

3. The need for consultants to perform the LIP analysis acts as a bottleneck. Though IOUs and DR providers may perform their own LIP analysis, most retain a consultant to perform the work due to the discrete time frame of the work and the unique expertise required. However, 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 DR providers they can take on. This leads to many IOUs and DR providers chasing a few consultants which can lead to DR providers being frozen out of the LIP process and unable to sell their capacity.

The CAISO's proposal would not only retain all of these flaws, but it would also exacerbate them by adding a second layer of analysis which would require additional time and expenses. Whatever DR QC method(s) the Commission adopts should represent improvements in these three critical areas to reduce a significant barrier to DR providers selling their RA capacity. Future DR growth will likely 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. Specifically, from a process standpoint, 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. In addition, a shorter QC process will enable DR providers to participate in a greater number of LSE solicitations.
3. Be as transparent as possible. It is critical that IOUs and DR providers have a clear understanding of the relationships between program capabilities and their QC value.
4. Minimize the cost to DR providers. The cost to hire consultants exceeds $100,000 which represents a significant cost, especially when there is no guarantee of cost recovery, a privilege that the IOUs enjoy. 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. There are few consultants who can perform the LIP analyses which 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.

The CAISO should seek options to make its methodology more streamlined and more conducive to DR provider use by addressing these principles. One potential step would be to create a centralized, open-access model, similar to E3's Avoided Cost of Capacity model. This would greatly reduce the cost and time required to perform the QC assessment process and improve transparency by allowing IOUs and DR providers to test the sensitivity of various inputs to tailor their DR portfolios in such a way as to maximize their value.

V. THE ENERGY DIVISION'S PROPOSAL ON REVISIONS TO DR TESTING REQUIREMENTS

a. Parties should also have the opportunity to submit proposals on this topic.

The Energy Division proposal on revisions to DR testing requirements was unexpected because it appears to be outside the Phase 2 scope as specified by the December 2, 2021 Scoping Memo. In its opening comments on this OIR, the DR Coalition explicitly requested that the Phase 2 scope include revisions to the DR testing rules by 1) adding criteria for what constitutes a "stable" and "new and changing" DR resource, and 2) specifically outlining how a resource can graduate or be demoted from one tier to another.[20]

In the Scoping Memo, the Commission stated that "it is necessary to limit Phase 2 of the Implementation Track to the highest priority issues" and that "issues that are not included in Phase 2 may be added to the scope of issues in a later phase of this proceeding."[21] The Phase 2 scoping issues that were ultimately adopted were: 1) adoption of the 2023-2025 Local Capacity Requirements, 2) adoption of the 2023 Flexible Capacity Requirements, 3) Modifications to the Planning Reserve Margin, and 4) Qualifying Capacity Counting Conventions.[22] In spite of this scope, the Energy Division submitted its January 21 proposal to revise DR testing requirements. Had the DR Coalition been aware that DR testing requirements were in fact within the Phase 2

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[20] Opening Comments of the California Efficiency + Demand Management Council, OhmConnect, Inc., Olivine, Inc., and Oracle ("DR Coalition") on the Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Refinements, and Establish Forward Resource Adequacy Procurement Obligations, at pp. 5-6.
[21] Scoping Memo, at p. 4.
[22] *Id.*, at pp. 4-5.

scope, it would have submitted a proposal on January 21 and presented at the February 4 working group. The DR Coalition has included a brief proposal below and respectfully requests that the Commission consider it.

b. The testing requirements should not be expanded to IOU-contracted third-party DR until a mechanism is in place for DR providers to graduate to biennial testing.

The Energy Division proposes to expand the current DR testing regime from third-party DR resources procured by non-IOU LSEs to include the same type of resources procured by IOUs.[23] The DR Coalition appreciates the sentiment to create a level playing field, but this step is premature. Before expanding the DR testing requirements, the Commission should first adopt criteria for what constitutes a "stable" and "new and changing" DR resource, and for how a resource can graduate to, or be demoted from, one tier to another. Otherwise, the Commission would be expanding the current incomplete DR testing rules.

c. The DR Coalition proposes the definitions of Tier 1 and Tier 2 DR and a mechanism for graduating from quarterly to biennial testing.

The DR Coalition respectfully requests that the Commission consider the following proposal for defining "stable" (Tier 1) and "new and changing" (Tier 2) DR resources, and a mechanism for moving up or down.

Unit of Analysis: Although the original testing requirement was built around CAISO resources, i.e., CAISO Resource IDs, the DR Coalition recommends that performance assessment should be done at the DR provider portfolio level. This is necessary from a practical standpoint because the customer composition of a DR resource can change significantly within a given year and from one year to the next as existing customers leave and new ones are added. However, the one constant is the DR provider itself and its overall performance.

Threshold of Tier 1 Qualification: The DR Coalition recommends that an average performance of 75 percent and above of the aggregate Monthly Supply Plan capacity constitutes "good performance" as measured by Demonstrated Capacity. The basis for a 75 percent threshold is Pacific Gas and Electric Company's ("PG&E") Capacity Bidding Program ("CBP") payment structure which specifies that DR aggregators be paid based on their Demonstrated Capacity when delivering 75 percent and greater of their nominated capacity for a given month,

[23] Administrative Law Judge's Ruling on Energy Division's Phase 2 Proposals and Loss of Load Expectation Study, Appendix A, at p. 1.

with a penalty imposed for lower performance. In this case, delivery of 75 percent of nominated capacity represents an acceptable performance so the DR Coalition proposes that this standard be applied in this instance as well.

Rules for Graduation/Demotion: The DR Coalition proposes that a DR provider's Tier be based on its performance over a two-test period. In other words, because Tier 1 requires biennial testing, testing performance over the course of a 12-month period would be assessed; if the simple average performance over this period is below 75 percent, then the DR provider would be demoted to Tier 2. If, upon performing 75 percent or greater over two quarterly tests, the DR provider would then graduate to Tier 1 status again.

d. The proposed clarifications to the testing month and reporting requirements are reasonable.

The DR Coalition supports the Energy Division Timing of the per Quarter Test and Hourly Test Results elements of its Third-Party Demand Response Resources Testing Requirements proposal. These are logical steps to fill in gaps in the current DR testing rules.

VI. CONCLUSION

The DR Coalition appreciates the opportunity to submit Opening Comments on the RA Phase 2 proposals.

Dated: February 14, 2022

Respectfully submitted,

/s/ GREG WIKLER

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