

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)

**REPLY COMMENTS OF  
THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL, CPOWER,  
ENEL X NORTH AMERICA, INC. AND LEAPFROG POWER, INC.  
ON ADMINISTRATIVE LAW JUDGE'S RULING ON LOSS OF LOAD  
EXPECTATION STUDY AND SUPPLY-SIDE DEMAND RESPONSE REPORT, AND  
SETTING COMMENT SCHEDULE**

Dated: March 22, 2022

**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](mailto:policy@cedmc.org)

**Jennifer A. Chamberlin**  
**Executive Director,**  
**Market Development**  
**CPower**  
2475 Harvard Circle  
Walnut Creek, CA 94597  
Telephone: 925-433-2165  
Email: [JAC@CPowerEnergyManagement.com](mailto:JAC@CPowerEnergyManagement.com)

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

**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](mailto:l.tougas@cleanenergyregresearch.com)

**Marc Monbouquette**  
**Regulatory Affairs Manager**  
**Enel X North America, Inc.**  
360 Industrial Road  
San Carlos, CA 94070  
Telephone: (415) 553-0381  
E-mail: [marc.monbouquette@enel.com](mailto:marc.monbouquette@enel.com)

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**I. INTRODUCTION**

The California Efficiency + Demand Management Council (“the Council”)<sup>1</sup>, CPower, Enel X North America, Inc. (“Enel X”), and Leapfrog Power, Inc. (“Leap”) (collectively, the “DR Coalition”) appreciates this opportunity to submit its Opening Comments on the Administrative Law Judge’s Ruling on Loss of Load Expectation Study and Supply-Side Demand Response Report, and Setting Comment Schedule, issued in this resource adequacy (“RA”) proceeding on February 18, 2022 (“February 18 Ruling”). These Reply Comments have been timely filed and served pursuant to the Commission’s Rules of Practice and Procedure and the instructions contained in the February 18 Ruling. The DR Coalition’s Reply Comments focus the California Energy Commission’s (“CEC’s”) Qualifying Capacity (“QC”) of Supply-Side Demand Response (“DR”) Working Group (“Working Group”) Interim Report (“Interim Report”).

**II. SUMMARY**

- There is broad support for optionality for the 2023 Resource Adequacy (“RA”) year;
- Adoption of the Load Impact Protocol-Informed Effective Load Carrying Capability (“LIP-Informed ELCC”) is not required for DR to be a variable energy resource;

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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.

- The Commission should adopt the recommendations made by San Diego Gas & Electric (“SDG&E”) to improve the transparency of the Working Group should it be extended;
- The Incentive-Based Method is a capacity market industry standard for DR resources;
- The Commission should not adopt the LIP-Informed ELCC Method beyond the 2023 RA Year unless it does so for all of the proposed DR counting methodologies;
- The Commission should disregard SDG&E’s inaccurate statements regarding the Load Impact Protocols (“LIPs”);
- The Council’s penalty structure of the Incentive-Based Method is sufficiently robust to provide the appropriate incentives for DR providers to deliver their contracted capacity; and
- The Incentive-Based Method will impose no greater burden on the Energy Division than the LIP-Informed ELCC Method.

### **III. THERE IS BROAD SUPPORT FOR OPTIONALITY.**

A large majority of parties commenting on the Interim Report were in favor of its recommendation that investor-owned utilities (“IOUs”) and DR providers have the opportunity to select whether to use the Incentive-Based Method, LIP-Informed ELCC Method, or the status quo load LIP process. However, Public Advocates Office (“PAO”) argues against optionality in favor of adopting a single supply-side DR counting method to “facilitate Resource Adequacy (“RA”) reform by allowing stakeholders and the Commission to consider how to adapt that preferred method into the Slice-of-Day design.”<sup>2</sup> PAO asserts that the existence of four DR counting methods (presumably including the Loss of Load Expectation (“LOLE”)-Weighted LIP Method) would harm the RA reform effort because they would have to be adapted to the final Slice-of-Day framework once it is approved by the Commission.<sup>3</sup>

The DR Coalition certainly supports regulatory efficiency and appreciates the intent behind PAO’s position, but the Interim Report was clear in its recommendations that the adoption of two or three additional DR counting methods would be for the 2023 RA year only and, if approved by the Commission, the next phase of the Supply-Side DR QC Working Group (“Working Group”) would address the need for a method that would conform with the approved

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<sup>2</sup> PAO Opening Comments, at p. 22.

<sup>3</sup> *Id.*, at p. 23.

Slice-of-Day framework.<sup>4</sup> Furthermore, as PAO indicated, Pacific Gas and Electric Company (“PG&E”) and Gridwell Consulting (“Gridwell”) recommended that the development of DR counting rules under Slice-of-Day be deferred to the Working Group.<sup>5</sup> So, it appears that PAO’s concerns are unfounded.

PAO also claims that allowing multiple DR counting options would create difficulty for the Commission to compare the capacity contributions of each method and would violate the Commission’s policy of an even playing field for IOU and third-party DR.<sup>6</sup> These are fair points but it is important to note that these methodologies are meant to be tested in 2023 only and are not meant to set any precedent.<sup>7</sup> It is necessary to test them in order to determine their accuracy and administrative efficiency. With regard to PAO’s concern about different DR counting methods for IOU and third-party DR, this could be solved by the Commission opening the Incentive-Based Method to IOUs as well as DR providers and opening the two new LIP-based proposals to DR providers. This would also address SDG&E’s concern that the two new LIP-based methods would apply the LIPs more vigorously to the IOUs.<sup>8</sup> In any event, there already are two different counting methods in place – one for IOU and most third-party DR, and one for the Demand Response Auction Mechanism Pilot (“DRAM”), so there is already precedent for utilizing multiple counting methods.

#### **IV. DR HAS ALREADY BEEN DECLARED A VARIABLE ENERGY RESOURCE.**

PG&E, SDG&E, and PAO made statements in their respective opening comments implying that DR is not currently a variable energy resource (“VER”). PG&E states, “The LOLP-weighted LIP does not provide a viable solution that enables the IOUs to submit DR as a variable resource on supply plans without incurring RAIM penalties”<sup>9</sup>, and “More importantly, LIP-informed ELCC methodology recognizes DR as a variable-output resource and qualifies DR resources for exemption from the California Independent System Operator Corporation’s (“CAISO”) RA availability incentive mechanism (“RAAIM”).”<sup>10</sup> SDG&E states, “SDG&E

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<sup>4</sup> Interim Report, at p. 41.

<sup>5</sup> PAO Opening Comments, at p. 23.

<sup>6</sup> *Id.*, at p. 20.

<sup>7</sup> Interim Report, at pp. 41-42.

<sup>8</sup> SDG&E Opening Comments, at p. 11.

<sup>9</sup> PG&E Opening Comments, at p. 4.

<sup>10</sup> *Id.*, at p. 2.

believes that DR should be treated as a variable resource.”<sup>11</sup> PAO states, “Development of a new QC method may help enable DR to be categorized as a variable resource (VER)...”<sup>12</sup> Adoption of the LIP-Informed ELCC Method does not in and of itself confer VER status to DR.

This issue has already been settled in Decision (“D.”) 21-06-029 where the Commission clearly states in Finding of Fact 5: “DR is a variable resource with behavioral and weather-dependent characteristics and DR should be treated as such in CAISO’s markets.”<sup>13</sup> Regardless of whether the Commission adopts the LIP-Informed ELCC method, DR will remain a VER pursuant to this decision and the CAISO should treat it as such irrespective of the methodology that is used to set its QC value.

## **V. THE DR COALITION SUPPORTS RECOMMENDATIONS MADE BY SDG&E REGARDING THE INTERIM REPORT**

The DR Coalition appreciates SDG&E’s critique of the Interim Report and recommendations for its improvement. SDG&E made the following recommendations and suggested the Interim Report be amended accordingly:<sup>14</sup>

1. The Interim Report should clearly identify where stakeholders agreed on certain issues, as well as where there were disagreements.
2. A lack of transparency in the CAISO model and process to develop QC values.
3. Include the Working Group principles.

It is critical that, for the sake of transparency, the views of all parties participating in the Working Group are fully reflected in the Phase 2 report, should the Commission adopt a second phase to develop long-term DR counting methods. The Commission should adopt SDG&E’s recommendations because they will improve the transparency of the process which is essential to a fair and even-handed process. However, as much as the DR Coalition supports SDG&E’s intentions, it is unclear how the Interim Report can be revised as SDG&E suggests and still ensure a Commission decision in June.

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<sup>11</sup> SDG&E Opening Comments, at p. 4.

<sup>12</sup> PAO Opening Comments, at p. 4.

<sup>13</sup> D.21-06-029, at Finding of Fact 5.

<sup>14</sup> SDG&E Opening Comments, at pp. 2-4.

## **VI. REPLY COMMENTS ON THE LIP-INFORMED ELCC METHOD**

### **A. Using an ELCC-Based DR Counting Methodology Does Not Represent Industry Practices.**

The CAISO claims that the LIP-Informed ELCC method represents “accepted industry leading practices and captures the use-limitations, limited energy, and variable nature of most demand response programs to establish QC values.”<sup>15</sup> In a footnote to this statement, the CAISO indicates that the Commission uses ELCC for wind and solar, the Midcontinent System Operator uses ELCC for wind, PJM Interconnection uses ELCC for “wind, solar, storage, and other resource types with limited energy or availability”, and that Southwest Power Pool and Northwest Power Pool are actively exploring the use of ELCC methodologies.<sup>16</sup> Presumably, the CAISO made this statement to lend legitimacy to its proposed method; however, while it is true that ELCC is used in some markets, it is not used in any of these markets for DR. Conversely, the Incentive-Based Method uses the same approach that is currently being used for DR capacity resources in PJM Interconnection, New York ISO, and ISO-New England. So, if the prevalence of a method’s use throughout the country is to be a factor in its approval, the Incentive-Based Method clearly has a far more legitimate claim as an accepted industry-leading practice and should be considered accordingly.

### **B. The Commission Should Not Extend the LIP-Informed ELCC Beyond 2023 At This Time.**

The CAISO recommends that the Commission adopt the LIP-Informed ELCC method through 2024 to allow time to review 2023 results and identify further refinements.<sup>17</sup> CAISO appears to acknowledge parties’ concerns about the compatibility of LIP-Informed ELCC with a Slice-of-Day framework, but it nevertheless insists that adopting LIP-Informed ELCC through 2024 would “present a valuable opportunity to learn from interim results.”<sup>18</sup>

It is not clear how the CAISO intends to deploy this methodology in 2024 under a Slice-of-Day framework, especially when one of the two options – the 24-slice approach – is by almost all accounts incompatible with LIP-Informed ELCC. Therefore, the benefit of this extension is unclear. However, if the Commission approves the CAISO’s recommendation to utilize the LIP-

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<sup>15</sup> CAISO Opening Comments, at p. 2.

<sup>16</sup> *Id.*

<sup>17</sup> *Id.*, at pp. 6-7.

<sup>18</sup> *Id.*, at p. 7.

Informed ELCC in 2024, then it should adopt the Incentive-Based Method and LOLE-Weighted LIP methods for that year as well. CAISO's reasoning for an extra year – to learn from interim results and inform a long-term QC methodology (should the Commission delay Slice-of-Day implementation) – is just as applicable to the other proposed methodologies. There is no good reason to extend this treatment to the CAISO proposal only.

## VII. REPLY COMMENTS ON THE LIPS

SDG&E makes several inaccurate statements in support of the LIPs that must be addressed in order to ensure a factual record. First, SDG&E contends that the statement in the Interim Report that the LIPs lack transparency is not factual.<sup>19</sup> The Council, DR Coalition, and the Interim Report have all stated that the LIP process - specifically, the assignment of QC values that differ from the LIP-based ex ante estimates - lacks transparency. On many occasions, members of the DR Coalition, most recently in opening comments on the Interim Report, have stated that DR providers are not provided an explanation by the Energy Division when it approves a lower QC value than requested in their respective LIP reports.<sup>20</sup> Contrary to SDG&E's assertion, this is indeed a fact and this shortcoming is highly problematic. DR providers should be able to have transparency in how their inputs directly affect their QC values – this is a hallmark of a well-functioning market.

SDG&E appears to imply that the LIP update process, which allows IOUs and DR providers to update their DR QC values up to twice per year, offsets the inaccuracies caused by the two-year lag from ex ante development to adoption of the QC value.<sup>21</sup> The DR Coalition appreciates SDG&E's acknowledgment of this data lag problem but unfortunately, this update process is not functioning as intended. First, it is only open to updates of 10 MW or 20% of a DR portfolio, whichever is *higher*. This threshold is too high for many DR providers, for whom even a few MW can represent a significant difference in revenues. Second, it is difficult for a DR provider to know whether it has even met the update threshold because the Energy Division only provides a single QC value without specifying the underlying enrollment forecast and per-customer impact. These two numbers are critical for a DR provider to determine whether its portfolio has grown enough to qualify for an update.

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<sup>19</sup> SDG&E Opening Comments, at p. 8.

<sup>20</sup> DR Coalition Opening Comments, at pp. 11-12.

<sup>21</sup> SDG&E Opening Comments, at p. 8.

The DR Coalition appreciates SDG&E’s observation that the LIPs should be refined rather than be replaced.<sup>22</sup> In fact, over the last few years the members of the DR Coalition have twice proposed very modest revisions to the LIPs to streamline the reporting requirements to reduce the cost and time burden on both IOUs and DR providers.<sup>23</sup> Each time, the IOUs resisted these efforts and made no attempt to propose their own improvements. This resistance consequently led the DR Coalition and other members of the DR community to pursue the Incentive-Based Method. In fact, a third attempt was made to refine the LIPs during the Working Group discussions, when the Council proposed a Streamlined LIPs proposal in which the LIPs would be streamlined to focus solely on RA valuation (i.e., no long-term load impact forecasts) and would utilize a common set of models that all IOUs and DR providers could access at any time to very quickly determine their QC values. If the Commission approves another phase of the Working Group and this proposal is discussed again, the DR Coalition would welcome SDG&E’s and the other IOUs’ constructive involvement in further developing this proposal.

Finally, SDG&E incorrectly claims that third-party DR providers have guaranteed cost recovery of the costs associated with the LIP process.<sup>24</sup> This is simply not true. There is no guarantee that a DR provider will sell any of its capacity when participating outside an IOU DR program. Without that revenue guarantee, there is no guarantee of cost recovery. Conversely, the IOUs’ benefit from a Commission-approved DR EM&V budget, some of which is specifically dedicated to the LIP process. These two situations are in no way equivalent.

## **VIII. REPLY COMMENTS ON THE INCENTIVE-BASED METHOD**

### **A. Penalty Structure.**

PG&E states that “because the primary mechanism of the PJM/NYISO approach to enforce capacity is only after the fact, subject to financial incentives, the CEDMC proposal creates threats to grid reliability.”<sup>25</sup> The Commission should ignore this unsupported and hyperbolic statement. The Incentive-Based Method includes the exact same “after-the-fact”

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<sup>22</sup> SDG&E Opening Comments, at p. 9.

<sup>23</sup> *Track 2 Proposal of California Efficiency + Demand Management Council, CPower, Enel X North America, Inc., and Leapfrog Power, Inc.*, February 21, 2020, R.19-11-009, at pp. 15-16; and *Joint Track 4 Proposal of the California Efficiency + Demand Management Council, CPower, Leapfrog Power, Inc., and OhmConnect, Inc.*, January 28, 2021, R.19-11-009.

<sup>24</sup> SDG&E Opening Comments, at p. 9.

<sup>25</sup> PG&E Opening Comments, at p. 3.

penalty structure used by PG&E’s own Capacity Bidding Program (“CBP”). It is disingenuous for PG&E to claim that this penalty structure is effective for the CBP but not for third-party DR.

The CAISO makes a similar argument stating, “The CAISO has concerns with adopting CEDMC’s proposal for 2023 without first determining whether the penalty structure would provide sufficient incentives for DRPs to reasonably estimate QC values.”<sup>26</sup> Again, this same penalty structure is used by PG&E’s CBP, and, to the DR Coalition’s knowledge, the CAISO has never objected to it in the past.

The DR Coalition would like to stress that none of the IOUs suffer financial consequences when their own DR programs do not deliver consistent with their QC values; in fact, when presented with the possibility of being subject to RAAIM penalties, it appears that they would rather support a DR counting methodology that will undoubtedly devalue their own DR programs rather than be subject to the possibility of penalties. However, this de facto penalty will not be borne by the IOUs; instead, this likely devaluation will reduce the QC value of their DR programs which will in turn have a financial consequence to all ratepayers whose retail providers receive an allocation of the DR QC value. Conversely, the Incentive-Based Method was developed by members of the DR community who chose to impose a penalty structure on themselves on the condition that it be balanced with a more administratively efficient methodology. Even if the Commission adopts the LIP-Informed ELCC Method, the IOUs will continue to be at no risk of penalties for under-delivering. Therefore, the Incentive-Based Method, which places more rigor on the back end of the process, is no less valid than the CAISO’s and IOUs’ decision to pursue an approach that places more rigor on the front end. The Commission should disregard PG&E’s and CAISO’s arguments on this matter.

PAO believes that regardless of whether the CEC’s or Council’s penalty structure is adopted for the Incentive-Based Method, DR providers “will be able to provide inaccurate forecasts and justify DC invoices with no supporting data for the majority of the year” and appears to believe that quarterly testing for third-party DR is insufficient.<sup>27</sup> PAO then provides a table showing how DR providers could abuse the penalty structure.<sup>28</sup> It appears that PAO may have misunderstood how the penalty structure is meant to be applied. The Council’s/PG&E CBP penalty structure is shown in the table below:

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<sup>26</sup> CAISO Opening Comments, at p. 5.

<sup>27</sup> PAO Opening Comments, at p. 24.

<sup>28</sup> *Id.*, Table 1, at p. 25.

**Table 1: Incentive-Based Method/PG&E CBP Penalty Structure**

<b>Contracted QC vs. DC Value</b>	<b>Penalty</b>
105% - 75% of Monthly Supply Plan QC	None
<75% to >=60% of Monthly Supply Plan QC	50% of DC
<60% to 0% of Monthly Supply Plan QC	(60%-Hourly Delivered Capacity Ratio of DC)

Under this structure, a DR provider, if it delivers at least 75% of its Monthly Supply Plan quantity (putting it the top bracket), receives a payment based on its DC. For example, using the same contract quantity and price used by PAO in its Table 1, delivering 300 kW of a 400 kW Monthly Supply Plan quantity will result in the DR provider earning a payment of 300 kW x \$5.00/kW = \$1,500. To be clear, the DR provider would not be paid for 400 kW if it only delivers 300 kW.

If the DR provider delivers 60% of its Monthly Supply Plan quantity (putting it in the middle bracket), its payment will be discounted by 50%. Applying this to the example, (240 kW x \$5.00/kW) \* 50% = \$600.

Should the DR provider deliver less than 60% of the Monthly Supply Plan quantity (putting it in the bottom bracket), its payment would be further discounted by a percentage difference of 60% - (% of delivered Monthly Supply Plan quantity). Once again, applying this to the example and using a 40% delivered Monthly Supply Plan quantity (i.e., 160 kW), (60%-40% = 20%) \* 160 kW = 32 kW x \$5.00/kW = \$160.

Clearly, the Incentive-Based Method penalty structure is sufficiently rigorous to incentivize good performance and was deemed so by the Commission. However, it appears that the crux of PAO’s concern is that third-party DR is tested too infrequently which could lead to DR providers relying on the MOO for two months out of each quarter and accept the discounted payment during the third month of each quarter.<sup>29</sup> However, this ignores the Energy Division’s role in being the final arbiter of DR QC values. Just as they do under the LIP process, the Energy Division would have the right to discount DR providers’ QC values based on their respective track records in providing accurate QC estimates. This feedback mechanism serves as

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<sup>29</sup> PAO Opening Comments, at p. 25.

the incentive that PAO claims is missing to incentivize accurate bidding outside of months when testing is required. Applying this to PAO's example, a DR provider that continually performs poorly during its quarterly tests would rightfully have its QC values reduced significantly by the Energy Division during the next assessment.

The DR Coalition urges the Commission to reject PAO's attempt to link the DRAM performance to all other third-party DR.<sup>30</sup> PAO makes an unproven claim that the DRAM "has underperformed over the course of the pilot" and cites the same claim made without evidence in the Interim Report.<sup>31</sup> The Interim Report provided no evidence that DRAM has "underperformed" (nor did it define this term), therefore PAO's claim is also unsupported. Ostensibly, this general belief of poor DRAM performance is based on the DRAM evaluation that was delivered in January 2019 and was based on DRAM performance through 2018.<sup>32</sup> If true, these presumptions are based on analysis that is three years old. Furthermore, any claims by PAO and CEC regarding the effectiveness of the DRAM penalty structure is purely speculative because it was not implemented until 2020, after the January 2019 DRAM Evaluation Report, so there are little data to inform such a position.

PAO criticizes the Incentive-Based Method's lack of a penalty mechanism for shortfalls between the contracted capacity and the year-ahead and month-ahead Supply Plans.<sup>33</sup> The Council did consider these elements but, upon discussions with Council members who contract with non-IOU LSEs for their DR capacity, the Council was informed that penalty provisions addressing these two points are included as standard features in their contracts. Contrary to the unsupported claim by PAO that the buyers would be left to cover the position in the event of a shortfall in year-ahead and month-ahead Supply Plans, LSE contracts require the DR provider to replace its undelivered capacity by procuring on the open market. Given the shortage of capacity in California, this is a strong motivator for DR providers to only commit to what they can deliver.

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<sup>30</sup> PAO Opening Comments, at pp. 24-25.

<sup>31</sup> *Id.*, at p. 24.

<sup>32</sup> *Energy Division's Evaluation of Demand Response Auction Mechanism Final Report – January 4, 2019*, at p. 8.

<sup>33</sup> PAO Opening Comments, at p. 26.

**B. The Council’s Proposal Will Not Create a Greater Burden than the LIP-Informed ELCC or LIP-Only DR QC Methodologies.**

The CAISO, PG&E, SCE, and PAO makes separate claims that the Incentive-Based Method would impose an excessive burden on the Energy Division to implement.<sup>34</sup> None of these parties provide any substantive explanation for why they believe this to be the case. Instead, the DR Coalition believes that the LIP-Informed ELCC Method will impose the greatest burden on the Energy Division to implement.

All three IOUs make references in their respective opening comments to working extensively with the Energy Division on the LIP-Informed ELCC Method.<sup>35</sup> Indeed, during Working Group discussions, it became clear that the allocation of Energy Division resources to this effort began in late December or early January. The Energy Division resources devoted to the CAISO and IOUs to date will likely be far exceeded by the additional resources needed to run the ELCC analyses on the IOU LIP profiles once the LIP Reports are submitted on April 1. In contrast, the Council has spent one hour with the Energy Division receiving feedback on its proposal. It is clear that the LIP-Informed ELCC is placing a far greater burden on Energy Division resources than the Incentive-Based Method and will very likely continue to do so. Therefore, it would only be fair that the Energy Division allocate an equal quantity of resources, to the extent they were needed, to implementing the Incentive-Based Method.

PG&E claims that the Incentive-Based Method would “put a burden on the Energy Division to request DR providers to furnish justification of the claimed capacity, while the necessary information is already provided in the LIP.”<sup>36</sup> PG&E misunderstands the concept of this proposal. A DR provider would provide a completed Energy Division-approved template with all of the inputs of its Claimed QC value. The Energy Division would have the prerogative to ask for the detailed analysis if desired - just as they do during the LIP review process - but the purpose of the penalty structure is to eliminate the need to provide the entire analysis to them. Avoiding the need for Energy Division to review full analyses will save a significant amount of time. If the DR provider does not perform commensurate with its contract commitments, then it

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<sup>34</sup> CAISO Opening Comments, at pp. 5-6; PG&E Opening Comments, at p. 3; SCE Opening Comments, at p. 4; PAO Opening Comments, at p. 26.

<sup>35</sup> PG&E Opening Comments, at p. 2; SCE Opening Comments, at p. 4; SDG&E Opening Comments, at p. 13.

<sup>36</sup> PG&E Opening Comments, at p. 3.

will be penalized accordingly. In addition, because Energy Division would retain the final approval on QC values, they could discount a DR provider's future QC values if they have a record of poor performance.

One of the primary drivers in developing the Incentive-Based Proposal was to reduce the time and cost to all parties involved, not only DR providers. However, if the Commission is concerned that approving the Incentive-Based Method would impose an excessive burden on the Energy Division, then the DR Coalition proposes that the CEC staff contribute to this effort, if the Commission approves its involvement in the DR QC process.

## **IX. CONCLUSION**

The DR Coalition appreciates the opportunity to provide these Reply Comments.

Dated: March 22, 2022

Respectfully submitted,

/s/ GREG WIKLER

GREG WIKLER

On behalf of the

California Efficiency + Demand

Management Council, CPower, Enel X North

America, Inc., and Leapfrog Power, Inc.

1111 Broadway, Suite 300

Oakland, CA 94607

Telephone: 925-286-1710

E-mail: [policy@cedmc.org](mailto:policy@cedmc.org)