BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company (U 39 E) for Approval of its Demand Response Programs, Pilots and Budgets for Program Years 2023-2027	Application 22-05-002 (Filed May 2, 2022)
Application of San Diego Gas & Electric Company (U 902 E) Requesting Approval and Funding of its Demand Response Portfolio for Bridge Year 2023 and Program Years 2024-2027.	Application 22-05-003 (Filed May 2, 2022)
Application of Southern California Edison Company (U 338-E) for Approval of Demand Response Programs and Budgets for 2023-2027.	Application 22-05-004 (Filed May 2, 2022)

RESPONSE OF THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL TO APPLICATIONS OF PACIFIC GAS AND ELECTRIC COMPANY, SAN DIEGO GAS & ELECTRIC COMPANY, AND SOUTHERN CALIFORNIA EDISON COMPANY FOR APPROVAL OF THEIR DEMAND RESPONSE PROGRAMS

Dated: June 6, 2022

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I. INTRODUCTION

The California Efficiency + Demand Management Council (the "Council") respectfully files this Response to Application ("A.") 22-05-002, et al. which are the Applications of Pacific Gas and Electric Company's ("PG&E"), San Diego Gas & Electric Company ("SDG&E"), and Southern California Edison Company ("SCE") for approval of their Demand Response ("DR") Programs. On May 25, 2022, Administrative Law Judges ("ALJs") Lakhanpal and Toy issued a Ruling Consolidating Proceedings and Setting a Prehearing Conference ("ALJ Ruling"). This Response is timely filed and served pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure and the instructions in the ALJ Ruling.

II. 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.¹ Our member companies employ many thousands of Californians throughout the state. They include energy efficiency ("EE"), demand response ("DR"), and distributed energy resources ("DER") service providers, implementation and evaluation experts, energy service companies, engineering and architecture firms, contractors, financing experts, workforce training entities, and energy efficient product manufacturers. 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.

III. SUMMARY

Rule 2.6 of the Commission's Rules of Practice and Procedure allows parties to either protest or respond to an application. The Council has reviewed the DR program applications and provides a Response to the Applications. The Council's positions are summarized here:

- The Commission should adopt a modified version of the investor-owned utilities' ("IOUs"") proposed Phase 1 procedural schedule and adopt the proposed Phase 2 schedule.
- The Council does not see a need for Phase 1 hearings but recommends the Commission plan for the possibility for Phase 2 hearings.
- The Commission should waive the cost-effectiveness requirement for the Phase 1 and Phase 2 applications and open a new phase to update the DR cost effectiveness protocols.
- It is of paramount importance that outstanding customer data access issues be addressed in this proceeding; they continue to act as a significant barrier to third-party DR participation.
- Equitability between IOUs and third-party DR providers should be considered throughout this proceeding in observance of the principles adopted in Decision ("D.") 16-09-056.

¹ 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.

- The following outstanding DR baseline-related issues that are negatively impacting DR supply should be addressed in this proceeding: 1) how to account for DR resources that are frequently dispatched, 2) allowing dual participation between Load-Modifying and Supply-Side DR programs, and 3) exporting behind-the-meter ("BTM") DERs.
- The mid-cycle review process should be limited to five months and include the IOU
 option to increase DR budgets under certain circumstances.
- IOU pilot programs should be deployed for no longer than three years and should be adopted as full programs or discontinued in the mid-cycle review process.
- The Emergency Load Reduction Program ("ELRP") should be revised to ensure more dispatch opportunities for third-party participants.
- All DR participants that provide Resource Adequacy value should have equal access to all technology incentive programs.

IV. PROPOSED SCHEDULE

The Council agrees with the IOUs' recommendation that this proceeding be bifurcated into two phases: Phase 1 would comprise the 2023 Bridge Year funding request, and Phase 2 would comprise the 2024-2027 funding request.² The proposed 2023 program year budgets are generally the same as 2022, with the exception of PG&E's request for incremental funding to scale up its Electric Rule 24 ("Rule 24") capabilities pending a decision in A.18-11-015 et al. Conversely, the IOUs' 2024-2027 budget requests differ significantly from their respective 2023 Bridge Year requests, so it would be more practical to litigate them separately.

The IOUs recommend a Phase 1 schedule that would require Intervenor Testimony by July 1 and a Commission decision by November 3.³ Despite the relatively straightforward nature of the IOUs' Phase 1 requests, this schedule is unnecessarily compressed and should be modified to allow more time for intervenors to submit testimony while still allowing time for a Commission decision before the end of 2022. At the same time, it is important that the Phase 1 schedule not be extended so much that it impinges on parties' efforts to develop Phase 2 Intervenor Testimony following a Commission decision on Phase 1 budgets. In light of these

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² PG&E Application at p. 31; SCE Application at p. 12; and SDG&E Application at p. 9.

 $^{^3}$ <u>Id</u>.

considerations, the Council recommends the IOU-proposed Phase 1 schedule be extended by two weeks as shown in Table 1 below. This strikes the necessary balance while ensuring a Commission decision before the end of the year.

Table 1: Council Proposed Phase 1 Schedule

Activity	IOU Proposed	Council Proposed Revised
	Phase 1 Schedule	Phase 1 Schedule
Intervenor Testimony	July 1, 2022	July 15, 2022
Rebuttal Testimony	July 20, 2022	August 3, 2022
Meet and Confer	July 27, 2022	August 10, 2022
Deadline		
Concurrent Opening	August 12, 2022	August 26, 2022
Briefs		
Concurrent Reply	August 24, 2022	September 7, 2022
Briefs		
Proposed Decision	September 23, 2022	October 7, 2022
Opening Comments	October 13, 2022	October 27, 2022
Reply Comments	October 18, 2022	November 1, 2022
Final Decision	November 3, 2022	November 17, 2022

The Council has no objections to the IOUs' proposed Phase 2 schedule and respectfully urges the Commission avoid requiring Intervenor Testimony any earlier than the IOUs' proposed February 10, 2023 deadline to allow intervening parties sufficient time to develop Phase 2 Intervenor Testimony. The Council respectfully notes that the holiday season falls within this timeframe and should be accounted for when planning the Phase 2 schedule.

V. NEED FOR HEARINGS

The Council believes that evidentiary hearings are unnecessary for the 2023 Bridge Year requests because, with the exception of PG&E's budget, the proposed budgets are virtually identical to the 2022 program year. Though PG&E's Phase 1 budget includes incremental funding, it would be for scaling up PG&E's Rule 24 capabilities, an issue the Council does not believe involves a dispute of fact. For the 2024-2027 program years, it is not yet clear whether

hearings will be necessary, so the Council respectfully recommends that the Commission plan accordingly for this possibility as it determines the timeline for Phase 2.

VI. RECOMMENDED SCOPING ISSUES

There are several key outstanding policy issues that should be addressed in the context of this proceeding because their disposition will have a direct impact on the IOUs' DR proposals. The Council recommends the scope of this proceeding include the issues to follow.

A. Cost-Effectiveness

The Council strongly supports a reassessment of cost effectiveness as PG&E suggests.⁴ The Council has observed with great concern the falling Avoided Cost of Capacity which has rendered DR and EE programs less cost effective or not cost effective at all.⁵ For the 2024-2027 period, PG&E's individual DR programs, with the exception of the Automated Response Technology ("ART") Program, have a cost-effectiveness below 1.0,⁶ almost half of SCE's DR programs are not cost-effective⁷ and, for a second consecutive program cycle, the cost effectiveness of all of SDG&E's programs is far below 1.0.⁸ The Council does not cite these numbers as a criticism of the IOUs; rather, they are a clear indication that the DR cost-effectiveness methodology is highly deficient. This is especially evident in the cost-effectiveness of SDG&E's DR programs because the fundamental lack of scale in its service area cannot be accounted for in the current methodology.

This trend of a falling Avoided Cost of Capacity and, consequently, DR cost effectiveness is highly counter-intuitive in light of the persistently tight grid conditions that California has experienced since 2020 and is expected to continue experiencing over at least the next few years until additional capacity can be brought online. It is incredibly ironic that, when the State is in most need of new resources, the regulatory paradigm suppresses the cleanest resources with some of the shortest stand-up times.

There is likely insufficient time for such a reassessment before the Phase 2 decision so, in the interim, the Commission should waive all cost-effectiveness requirements for the IOUs' 2023 Bridge Year and 2024-2027 budgets and program portfolios. In the absence of a new DR

⁴ PG&E Application, at p. 7.

⁵ SCE Testimony, Exhibit 4, Table IV-8, at p. 18.

⁶ PG&E Testimony, Table 9-1, at p. 9-2.

⁷ SCE Testimony, Exhibit 4, Table IV-19, at p. 31.

⁸ SDG&E Testimony, Chapter 5B, Table BG-1, at p. BG-1.

rulemaking, the Commission could open a Phase 3 in this consolidated proceeding to consider updates to the DR cost-effectiveness methodology. The 2023 Bridge Year requests are virtually identical to the ones approved by the Commission in D.17-12-003 and updated in D.21-03-056 and D.21-12-015. Because of this, there is no good reason not to extend that exemption through 2023. A full-scale waiver would also be the cleanest and simplest approach for the 2024-2027 IOU DR budgets. Given the State's current short- and mid-term reliability needs, this would be a prudent step to ensure that DR programs are not suppressed when they are needed most.

B. Customer Data Access

Third-party access to timely, accurate, and reliable Initial Customer Data ("ICD"), Estimated Meter Data ("EMD"), and Revenue Quality Meter Data ("RQMD") continues to be one of the biggest impediments to third-party DR and DER providers. Unfortunately, the Customer Information Working Group that was authorized by Resolution E-5110 was never convened by the Energy Division and the RQMD Working Group that was initially convened by the Energy Division in late 2020 to address problems with delivery by IOUs to DR providers was never completed.⁹

With all due respect to the Commission, it is inexplicable that these issues continue to go unaddressed after so many years of the DR community highlighting the need to address them. The Council respectfully reminds the Commission that these problems have been repeatedly discussed since 2018 with only modest progress made to date. Two of the primary takeaways from the many stakeholder discussions that have occurred over the years is 1) that each IOU has its own standard as to what generally constitutes an acceptable level of service, and 2) none of these individual IOU standards is adequate to meet the needs of DR providers and those customers participating in their DR resources. The Council also notes that continued problems with Customer Data Access will also limit any efforts to develop comparison groups because upto-date customer meter data are critical to maintaining their accuracy.

In light of this, the Council strongly recommends a course correction away from discussions of whether each IOU's standard of performance is adequate and how it can be improved, to development of a universal performance standard that each IOU is responsible for meeting. Without such a clear compliance requirement, the IOUs will not be motivated to make the necessary improvements to their customer data transfer and RQMD provision capabilities.

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⁹ Resolution E-5110, at p. 49 and Ordering Paragraph ("OP") 5.

To be clear, the Council is not proposing adoption of a Service-Level Agreement. If the Commission adopts the two-phase approach proposed by the IOUs, the Council recommends the Phase 1 decision establish a process for addressing this issue in Phase 2 or to create a Phase 3 wherein this universal performance standard would be developed. Once this standard is adopted, the Commission could direct each IOU to submit an application for the necessary funding and timeline to meet the standard.

Another potential solution for the Commission to explore is the creation of a central entity, perhaps the California Energy Commission, that would be tasked with holding and managing customer data, similar to the Smart Meter Texas model. This would likely require a more significant effort and a separate proceeding, but this path might be the most prudent, as it would make the IOUs directly accountable to this central entity. Continued failure to definitively address this issue when the State continues to be at risk of blackouts risks suppressing DR potential and disenfranchising potential DR participants who become frustrated by problems with being transferred to third-party resources and being under- or un-compensated for their performance.

C. Inequities between IOUs and Third-Party DR Providers

The growing magnitude of third-party DR in California can be observed in the amount of Net Qualifying Capacity ("NQC") awarded by the Energy Division through the annual DR Load Impact Protocol ("LIP") process as well as the constantly growing number of Rule 24/32 authorizations and Demand Response Registration System ("DRRS") registrations. As such, it is critical that third-party DR be treated equitably by the IOUs relative to their own DR programs to avoid exerting a competitive advantage and suppressing third-party DR.

In Decision D.16-09-056, the Commission adopted several key DR-related principles, some of which pertain to the importance of supporting third-party DR. In their entirety, these principles are:10

- Demand response shall be flexible and reliable to support renewable integration and emission reductions;
- Demand response shall evolve to complement the continuous changing needs of the grid;

¹⁰ D.16-09-056, at Ordering Paragraph 8.

- Demand response customers shall have the right to provide demand response through a service provider of their choice and Utilities shall support their choice by eliminating barriers to data access;
- Demand response shall be implemented in coordination with rate design;
- Demand response processes shall be transparent; and
- Demand response shall be market-driven leading to a competitive, technologyneutral, open-market in California with a preference for services provided by thirdparties through performance-based contracts at competitively determined prices, and dispatched pursuant to wholesale or distribution market instructions, superseded only for emergency grid conditions. [emphasis added]

While there generally appears to be IOU support for these principles, several proposals in the applications do not serve, or actively undermine, these principles, particularly those that touch on third-party DR providers. Broadly, the Council recommends a review of the IOU DR Applications through the lens of these principles. The Council will put forward specific proposals to ensure consistency with the principles in intervenor testimony.

D. DR Baselines

The IOUs include in their respective 2024-2027 testimony the report from the Retail Baselines Working Group which was convened pursuant to Ordering Paragraph 19 of D.19-07-009. The Council appreciates the IOUs' efforts to coordinate this effort and develop the working group report, which resulted in several consensus conceptual positions. However, the scope of the working group was very narrow in that it focused largely on the existing DR baselines.

Decision 19-07-009 adopted the following retail baseline methods for the Demand Response Auction Mechanism ("DRAM"): 1) 10-in-10 with a 20 percent cap for non-residential customers; 2) a weather matching baseline with a 40 percent cap; 3) the use of control groups; and 4) a 5-in-10 with a 40 percent cap for residential customers. The retail baselines for Capacity Bidding Program ("CBP") are more limited: 1) 10-in-10 with a 40 percent day-of adjustment for non-residential participants, and 2) a 5-in-10 with a 40 percent day-of adjustment for residential participants.¹¹ Since then, it has been explained in the Emergency Reliability proceeding that the accuracy of these traditional baselines breaks down significantly under

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¹¹ D.19-07-009, at Ordering Paragraph 17.

extreme heat conditions and when multiple events occur within the 10-day look-back.¹² In light of this, D.21-03-056 authorized the IOUs and DR providers to use any alternative baselines being developed at the time by the California Independent System Operator ("CAISO") for the CBP and DRAM.¹³

D.21-12-015 then clarified at the Joint Parties' request that the CAISO's Alternative Day-Of Adjustment, which provides a mechanism for DR providers to request, and the CAISO to authorize, removal of the cap on the day-of adjustment to ensure that the load curtailment during extreme heat conditions can be more accurately measured, could be used for CBP and DRAM capacity settlement. ¹⁴ The IOUs never updated their CBP tariffs or DRAM Purchase Agreement to reflect this decision. Regardless, the Alternative Day-Of Adjustment is currently only authorized by the CAISO through Summer 2022, so other baseline options are needed to address these conditions. Since then, more extreme weather as well as the growing amount of more frequently dispatched DR indicates a need for expanded thinking in this area. The Council recommends that the scope of this proceeding be expanded to consider several critical baseline-related issues:

1. How to account for DR resources that are frequently dispatched: In addition to the issue of extreme heat events, it is necessary to adopt a retail baseline methodology that can more accurately measure performance of DR resources that dispatch more frequently. These capabilities should be encouraged but in order to do so, their performance must be accurately measured to ensure they are compensated commensurate with their contributions. The CAISO commissioned a comparison group proof of concept study demonstrating the benefits of universal control groups as a baseline, particularly for residential and commercial customers.¹⁵ This approach shows promise in more accurately measuring DR performance not only under extreme heat conditions but also when DR resources are frequently dispatched. Comparison groups are a widely acknowledged best practice in measurement and are

¹² Opening Prepared Testimony of the DR Coalition, submitted in R.20-11-003 (Emergency Reliability) on January 11, 2021, at p. 34, line 19 to p. 36, line 17.

¹³ D.21-03-056, at OP 11.

¹⁴ D.21-12-015, at p. 67.

¹⁵ http://www.caiso.com/Pages/documentsbygroup.aspx?GroupID=F6490091-F3AC-4F36-AB16-FA212D5EB0D1

- already used for Load Impact studies of many IOU DR programs. The Commission should explore the use of comparison groups to measure DR performance in IOU supply-side programs including CBP. In this proceeding, the Commission should also review avenues to provide DR providers sufficient data to create comparison groups for their own resources as a matter of parity. Alternatively, one or multiple neutral parties with appropriate security qualifications could be granted access to data for both participating and non-participating customers to establish comparison groups and hold liability for protecting the data.
- 2. <u>Dual Participation:</u> The Commission has expressed strong interest in further developing retail rates to incentivize beneficial load flexibility, highlighted by its May 25, 2021 workshop introducing the Unified, Universal, Dynamic, Economic Signal ("UNIDE") concept and inclusion in the DER Action Plan 2.0 approved on April 21, 2022. This effort coincides with the CEC's forthcoming Load Management Standards that may require Load Serving Entities ("LSEs") to offer customers marginal cost-based rates. Greatly increased uptake of more dynamic rates raises important questions regarding the role of third-party aggregators, supply-side DR, and dual participation between dynamic rates and alternative DR and DER programs. The Commission should revisit dual participation rules to ensure that incremental DR is fairly compensated and that customers enrolled with a third party have the same ability to participate in multiple programs as customers enrolled in an IOU DR program.
- 3. Exporting BTM DERs: By all accounts, the amount of BTM energy storage continues to grow in California, much of which is capable of exporting. Under the current Resource Adequacy rules, these resources may only be compensated for their contributions to reducing onsite load but not for their capabilities to export to the grid. There has been no participation to date from BTM resources in CAISO's Distributed Energy Resource Aggregation model that contributed to adoption of FERC Order 2222. The Council was disappointed that the recent proposed decision in Phase 2 of R.21-10-002 rejected the significant efforts of the DER community to develop a set of rules to accredit and measure performance of exporting BTM storage in the RA framework. This issue is clearly complex, but after two attempts by DER parties to

attract the necessary attention to it in the RA proceeding, the Council believes that this issue should also be addressed in the context of the DR proceeding.

E. The Mid-Cycle Review Process

One of the values of a five-year program cycle is that a longer duration of time is allowed to pass between the lengthy and costly DR application process. If implemented correctly, this can reduce the overall workload of the Energy Division and intervening parties while allowing for course corrections as needed. However, the mid-cycle review process for the 2018-2022 program cycle was far too lengthy and ineffective, having yielded a Resolution only for SCE's advice letter over 15 months after it submitted its advice letter, and no Resolution at all for PG&E's and SDG&E's portfolios. Like SCE, the Council recognizes that unforeseen circumstances arose in 2020 and 2021, but respectfully echoes SCE's recommendation that the next mid-cycle advice letters be disposed within five months following their submission. In the future, should the Commission again encounter circumstances that would impact its ability to conduct a mid-cycle review, the Council respectfully requests that a formal Ruling be issued to modify the schedule and provide clarity so as manage parties' expectations.

The Council recommends that the Commission explicitly specify that the IOUs may request to increase their respective DR program budgets, if necessary, in their mid-cycle reviews. Looking back to the 2019-2022 period, resource needs can change significantly over a three-year period, so IOUs should have the discretion to request DR budget increases in the event that they need to expand existing programs, scale up successful pilot programs, or expand technology incentive program options.

F. Duration of Pilot Programs

Each of the IOUs proposes multiple pilot programs in their applications that would continue for the entire duration of the five-year program cycle. When DR program cycles lasted for three years, pilots had typically been stood up and implemented during the first year and conducted over the following one or two years. Lessons learned were identified and, if the IOU believed the program had merit and the Commission agreed, it would be included as a full program or incorporated into an existing program for the following program cycle. If that same approach is applied under the current five-year program cycle, then successful pilots – including those proposed within the DR applications and other IOU-managed pilots proposed and

 $^{^{16}}$ SCE, Exhibit 1, at p. 41, line 7 to p. 42, line 5.

implemented outside the scope of the DR applications – will not scale to full programs quickly enough. In a vast majority of instances, five years is far too long for a pilot program because a sufficient amount of information to inform whether the pilot should or should not become a full program can most often be collected within three years. If the Commission adopts the IOUs' proposed pilots, it should require that they be completed in time for the mid-cycle review. If an IOU demonstrates to the Commission's satisfaction that a pilot has been successful, then the Commission can adopt it as a full program for the remaining years of the program cycle.

G. ELRP

Since its adoption in Rulemaking ("R") 20-11-003 (Emergency Reliability), the ELRP has been a disappointment for third-party DR providers. The primary shortcoming has been a severe lack of dispatch opportunities for Group B which includes CBP and DRAM participants, even when grid conditions warrant the dispatch of Group A, which includes IOU direct-enrolled participants. Because the ELRP is an energy-only program, the only way for participants to earn revenue by participating is by being dispatched. Decision 21-12-015 adopted minimum dispatch requirements for Groups A.2, A.4, and A.5 but none for Group B. In addition, residential customers participating in Group B via CBP or DRAM will only get dispatched from emergency or near-emergency conditions in contrast to A.6 customers who receive five-hour dispatches whenever there is a Flex Alert. This lack of certainty over whether there will be any ELRP dispatches has blunted enthusiasm by third-party DR participants to offer additional response. With fewer Group B dispatch opportunities since the ELRP was approved, some DR providers and customers are reconsidering their commitment to this program.

Also troubling is the adoption of partial residential automatic enrollment in the ELRP. The Council continues to have concerns about the effectiveness of this approach and the potential for free ridership that it originally expressed in Phase 2 of R.20-11-003. Another significant concern identified early in the ELRP process is the exclusion of Base Interruptible Program ("BIP") customers from eligible ELRP compensation (including exports) outside of overlapping BIP events. This is a confusing paradigm for BIP participants since they will not know whether an ELRP event will be compensated at all until an actual emergency is declared, giving little or no time to prepare additional curtailment or generation.

For these reasons, the Council recommends that the Commission review whether DR providers and their customers are being treated equitably within the ELRP and ensure overall DR

participation is not negatively affected. The Commission should implement enhancements to ELRP based on this review and party feedback prior to committing to extending the program to 2027.

H. Automated Demand Response ("AutoDR") and Technology Incentives

As a matter of equitability and in the spirit of the principles adopted in D.16-09-056, all DR technology incentives should be equally accessible by direct-enrolled and third-party DR participants, as long as they are providing resource adequacy ("RA") value. This includes AutoDR, Smart Controllable Thermostat ("SCT") Pilot incentives, and Technology Incentive program incentives. Currently, third-party DR participants can only access these incentives if they are participating in CBP and DRAM. The scope of this proceeding should be expanded to include consideration of third-party eligibility for technology incentives to include any program or resource that provides RA or reduces the RA requirement. From a fairness perspective, every customer contributes to the DR program budget through their distribution rate component, so withholding their ability to receive technology incentives simply due to their channel of DR participation is discriminatory and counter-productive, and should be addressed.

VII. CONFIRMATION OF PARTY STATUS

Commission Rules of Practice and Procedure, Rule 1.4(a)(2)(i) provides that "a person may become a party to a proceeding" by filing "a protest or response to an application." As such, through the filing of this Response, the Council requests that it be given party status in A.22-05-002, et al. (DR Programs) with the contact information below:

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VIII. CONCLUSION

The Council thanks the Commission for considering its Response and looks forward to actively participating in this proceeding.

Dated: June 6, 2022

Respectfully submitted,

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