Application No.: 22-05-002, et al.

Exhibit No.: Council/Leap-03

Witness: Joseph Desmond

Commissioner: John Reynolds

ALJs: Garrett Toy and Jason Jungreis

REPLY TESTIMONY OF THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL AND LEAPFROG POWER, INC.

Application 20-05-002, et al.
Demand Response Programs

September 2, 2022

REPLY TESTIMONY OF THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL AND LEAPFROG POWER, INC.

Q. Please state your name and business address

A. My name is Joseph Desmond. My business address is 849 East Stanley Blvd., #264, Livermore, CA 94550.

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the California Efficiency + Demand Management Council ("the Council") and Leapfrog Power, Inc. ("Leap"). The Council is a statewide trade association of non-utility businesses that provide energy efficiency ("EE"), demand response ("DR"), and data analytics services and products in California.[1] Our member companies employ many thousands of Californians throughout the state. They include EE, 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, DR, and DER policies, programs, and technologies to create sustainable jobs, long-term economic growth, stable and reasonably priced energy infrastructures, and environmental improvement.

Leap is a DR Provider ("DRP") founded in 2017 and headquartered in San Francisco, California. The company provides DR services to residential, commercial, industrial, and agricultural customers throughout the state of California. Through its technology platform, Leap enables DER providers in California to provide grid flexibility, delivering revenue for their customers and integrating additional demand-side resources into California electricity system. Leap believes that demand-side resources integrated into California's wholesale electricity market will play an increasingly important role in

[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.

helping California achieve a resilient and zero carbon future. Leap is a registered DRP, as well as a registered Scheduling Coordinator, with the California Independent System Operator Corporation ("CAISO"). Leap has been a participant in the recent Demand Response Auction Mechanism ("DRAM") procurements and has entered into contracts with Pacific Gas and Electric Company ("PG&E"), Southern California Edison Company ("SCE"), and San Diego Gas & Electric Company ("SDG&E") to deliver DRAM capacity. In 2020, Leap filed its 2019 Load Impact Analysis and received net qualifying capacity ("NQC") for the 2021 Resource Adequacy Delivery Year. Since 2021, Leap has contracted with over a dozen Community Choice Aggregators ("CCAs") to deliver DR-based Resource Adequacy.

Q. Have you testified previously in this proceeding?

A. Yes. On August 3, 2022, the Council served my Reply Testimony in this proceeding (Ex. Council-01) and on August 5, 2022, the Council and Leapfrog Power, Inc. ("Leap") served my Opening Testimony in this proceeding (Ex. Council/Leap-02). My Statement of Qualifications was appended to those exhibits as Appendix A.

Q. What issues do you address in your Reply Testimony?

A. In my Reply Testimony, I agree with the California Energy Storage Alliance ("CESA"), CPower, Inc. ("CPower"), OhmConnect, Inc., ("OhmConnect"), and Voltus, Inc. ("Voltus") that a DRAM solicitation should occur in 2023 for 2024 delivery to maintain continuity of the program while the Commission considers the DRAM's long-term disposition. I also agree with concerns identified by Voltus as to the "DR Auction Mechanism Evaluation Report" submitted by Nexant (now Resource Innovations) and Gridwell Consulting on June 24, 2022 ("DRAM Evaluation"). I also support CPower's statement that the DRAM Evaluation should be subject to evidentiary hearings in Phase II.

In my Reply Testimony, I also rebut positions taken by Public Advocates Office ("Cal Advocates"), PG&E, and SDG&E that the DRAM has not been successful and that it cannot be improved.

Q. Do you agree with parties who recommend that the IOUs should be directed to conduct DRAM solicitations in 2023, for 2024 deliveries?

A. Yes. In my Opening Testimony, I testified that the DRAM should be continued for a 2023 auction with 2024 deliveries and that discontinuing DRAM for one year would have negative impacts, even if the Commission ultimately adopts the DRAM for the long-term.[2]

As such, I agree with Voltus that "[d]iscontinuing DRAM now will decrease DR participation and shrink California's capacity offerings in 2024 while forestalling the possibility of efficient transition to an improved DRAM program for Planning Year 2024-2027 solicitations."[3] I also agree with CPower that "taking a gap year in the DRAM program cycle would be detrimental to DR participation in the State."[4] CESA and OhmConnect make similar recommendations. CESA warns that "a discontinuation of the pilot would be highly disruptive to engaged customers, especially if the Commission opts to establish a more permanent and/or non-pilot future for the DRAM."[5] OhmConnnect specifically highlights the potential detrimental impacts of a DRAM pause on regulatory certainty stating, "a scenario in which DRAM is paused for 2024 but adopted as a long-term procurement mechanism in 2025 and beyond would significantly undermine regulatory certainty and potentially depress future participation."[6]

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[2] Opening Testimony of the California Efficiency + Demand Management Council and Leapfrog Power, Inc., submitted on August 5, 2022, (Exhibit "Ex." Council/Leap-02), at p. 2.
[3] Supplemental Prepared Testimony of Voltus, Inc., on the Demand Response Auction Mechanism and Nexant Report, submitted on August 5, 2022 (Ex. Voltus-01), at p. 2.
[4] Phase 1 Supplemental Testimony of CPower, Inc. on 2023 Demand Response Auction Mechanism and Nexant Report, submitted on August 5, 2022 ("Ex. CPower-1"), at p. 8, lines 10-11.
[5] Supplemental Testimony of Jin Noh on behalf of the California Energy Storage Alliance, submitted on August 5, 2022 ("Ex. CESA-01"), at p. 6, lines 3-5.
[6] Supplemental Testimony of OhmConnect, Inc. on Demand Response Auction Mechanism Pilot, submitted on August 5, 2022 ("Ex. OhmConnect-02"), at p. 2, lines 16-18.

Q. Do you agree with Voltus that Table 4-14 of the DRAM Evaluation is incorrect?

A. Yes. In Opening Testimony, Voltus states that in Table 4-14, the DRAM Evaluation lists:

> Voltus's 'Contracted MW' as 554 MW in delivery year 2021 [citation omitted]. In fact, Voltus's own data and the IOUs' Advice Letters announcing auction results put the number at ~ 60 MW in executed contracts. Listed amounts for the other DRPs were similarly off by an order of magnitude. In fact, Table 4-14 suggests that total contracted MW for 2021 was 1889 MW; but as the report itself notes in the 'Background' section, the correct number is 206 MW [citations omitted]. That an error of this magnitude survived into the final version suggests that other errors may have been missed, undermining the accuracy of the findings and the reliability of the recommendations [citation omitted].[7]

If Voltus's observation is correct, then this constitutes a serious yet easily avoidable arithmetic error. This would call into question the accuracy of all of the other calculations performed within the DRAM Evaluation and would reinforce the need, as a general practice, to make available draft versions of independent evaluations for stakeholder review prior to issuing final versions.

Q. Do you agree with CPower that the DRAM Evaluation should be subject to evidentiary hearing in Phase II?

A. Yes. In my Opening Testimony, I discussed the fact that because the DRAM Evaluation has not been offered into evidence by any party to this proceeding, this has limited discovery to the parties.[8] I agree with CPower that the DRAM Evaluation, and its underlying data, should be the subject of data requests and attested to by its authors in evidentiary hearing in Phase II of this proceeding.[9] The single workshop provided by the Energy Division for the DRAM Evaluation consultants to present it was insufficient for parties to have a clear understanding of its analyses and findings. Because it will

[7] Ex. Voltus -01, at p. 3.
[8] Ex. Council/Leap-02, at p. 3.
[9] Ex. CPower-1, at p. 10, lines 15-19.

serve as a pivotal piece of evidence in Phase 1 and Phase 2 of this proceeding, parties should have an opportunity to submit data requests and cross-examine the consultants.

Q. Do you agree with Cal Advocates and SDG&E that the DRAM cannot be improved?

A. No. In its Opening Testimony, Cal Advocates states that "DRAM has not met the criteria the Commission set to determine the success of the pilot and, after 8 years of auctions, it is unreasonable to assume there will be improvement."[10] In addition, SDG&E claims that "the DRAM Evaluation Report highlights the ongoing (and likely incurable) challenges that DRAM faces."[11]

Cal Advocates and SDG&E provide no further explanation beyond these hyperbolic statements and present no evidence to support them. As I explained in my Opening Testimony, the DRAM has either met or shown improvement in five of the six criteria compared to the prior DRAM evaluation adopted by the Commission to assess the success of the DRAM.[12] This is a clear indication that, contrary to Cal Advocates' claims, improvement has, in fact, been made.

Furthermore, in asserting that DRAM suffers from "likely incurable" challenges, SDG&E neglects to explain what those challenges are and why it believes they are incurable. With no explanation as to what SDG&E is referring to, I recommend the Commission disregard this statement.

Q. Do you agree with Cal Advocates that DRPs will still have ample opportunities to participate in DR if DRAM is discontinued?

A. No. Cal Advocates states that "[h]igh performing DRPs who previously participated in DRAM will still have ample opportunities to participate in DR[]" and that

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[10] Public Advocates Office Opening Testimony, submitted on August 5, 2022 ("Ex. Cal Advocates-02," at p. 1-2, line 21 through p. 1-3, line 1.

[11] Prepared Supplemental Testimony of E Bradford Mantz – Chapter 1C on behalf of San Diego Gas & Electric Company, submitted on August 5, 2022 ("Ex. SDG&E-8A), at p. EBM-2, lines 23-24.

[12] Ex. Council/Leap-02, at pp 5-7.

DRPs can and should compete in "all-resource" solicitations or other procurements.[13] I disagree with the first statement because the DRAM represents the one dedicated channel through which DRPs can provide a standardized DR Resource Adequacy ("RA") capacity product. This is in contrast with all-source solicitations in which products are sometimes more tailored to a specific need, for example, maintaining reliability within a local area, which may require availability requirements beyond what most DR resources can meet. Some DRPs participate in these solicitations but, for the reasons I just described, many do not. Furthermore, these all-source solicitations are typically only available to DRPs with DR Qualifying Capacity ("QC") values gained through the Load Impact Protocol ("LIP") process. This option would not be available to those DRPs that choose not to incur the cost of participating in the LIP process.

I also note that the bilateral DR solicitations adopted in D.21-12-025 and cited by Cal Advocates are currently for two years only. A bilateral DR solicitation with a two-year term likely does not provide a sufficient amount of regulatory certainty to support new investments and recruitment efforts. CESA corroborates this in highlighting the role that DRAM plays as critical vehicle for DR participation by customers with energy storage systems. CESA states, "Without DRAM, CESA members also report few or no options for demand response ("DR") participation outside of bilateral contracts, which are one-off opportunities with high transaction costs."[14]

Q. Do you agree with Cal Advocates' assertion that eliminating DRAM will create a healthier marketplace for sellers?

A. No. I disagree with Cal Advocates' claim that eliminating DRAM "will create a healthier marketplace for sellers by allowing the IOUs to send accurate signals about actual resource need."[15]

Cal Advocates appears to imply that the DRAM somehow inhibits the supply-demand price discovery dynamic by obscuring price signals that reflect actual resource

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[13] Ex. Cal Advocates-02, at p. 1-3, lines 4-14.
[14] Ex. CESA-01, at p. 6, lines 11-14.
[15] Ex. Cal Advocates-02, at p. 1-3, lines 18-20.

needs. This ignores the many resource carveouts that California has employed over the past 20+ years such as the statewide energy efficiency procurement target, the California Solar Initiative, the Renewable Portfolio Standard, the Renewable Auction Mechanism, and the Energy Storage procurement target. The IOUs' own DR program portfolios also represent carveouts because they are not sized to meet any specific resource need. These targeted procurement efforts have been adopted specifically to spur the growth of these resources within the State to meet specific policy goals with less, if any, consideration for actual resource need.

Furthermore, it is widely acknowledged that the State is facing a severe capacity shortage over the next several years that has most recently spurred the creation of the $200,000,000 Demand-Side Grid Support ("DSGS") Program by the California Energy Commission ("CEC"), so Cal Advocates would be incorrect to suggest that there is no resource need.[16] The DSGS Program is of course in addition to the incremental procurements ordered by the Commission in D.19-11-016, D.20-12-044, and D.21-06-035, expanded IOU DR programs approved in D.21-03-056 and D.21-12-015, as well as the potential extended operation of the Diablo Canyon nuclear generating plant. Given this clearly demonstrated resource need, it is possible that eliminating the DRAM would cause RA prices to rise with the removal of its capacity from the market.

Q. Does the current RA market contain barriers to DRP participation that the DRAM does not?

A. Yes. Contrary to Cal Advocates' assertion that "DRPs are able to compete on the open market and no longer require the DRAM carve-out[,]"[17] the primary barrier that limits the ability or desire of DRPs to participate in the open market is the LIP process. DRPs wanting to sell their RA capacity to LSEs must go through the LIP process which takes approximately nine months each year, is very costly in most instances, and comes with no guarantee that a DRP will be able to recover the associated cost in the future. Conversely, one of the benefits of the DRAM from the perspective of DRPs is

[16] Assembly Bill 205 (2021-2022).
[17] Ex. Cal Advocates-02, at p. 1-3, lines 20-21.

that its QC assessment process is far more streamlined than the LIPs which greatly reduces the cost and time required to participate.

Q. Should DRAM performance be held to the same standard as IOU DR programs?

A. Yes. Cal Advocates recommends that "[t]he Commission should not rely on the claimed values of third-party DRPs when promised performance is so different from actual delivered performance," and states that "it would be unjust and unreasonable for the Commission to require the utilities to conduct an additional DRAM solicitation in 2023 at ratepayers' expense."[18] However, I believe that what constitutes acceptable DRAM performance should be considered in relation to the ability of IOU DR programs to also perform consistent with their claimed QC values. The DRAM Evaluation did not include the same analyses of IOU DR program performance relative to QC values that was performed on DRAM resources, so Cal Advocates' claims of poor DRAM performance lack context.

Q. Do you agree with PG&E that DRAM has not delivered the reliable RA capacity that was envisioned?

A. No. I disagree with PG&E's statement that "[d]espite incremental improvements over the years, DRAM has not delivered the reliable Resource Adequacy (RA) capacity that was envisioned."[19] This is a hyperbolic statement that is not supported by evidence and should be disregarded. PG&E does not define the metric of reliability it refers to, nor does it explain the way in which the RA capacity procured through the DRAM has failed to meet that standard.

[18] Ex. Cal Advocates-02, at p. 1-7, lines 7-12.
[19] Pacific Gas and Electric Company Supplemental Testimony, submitted on August 5, 2022 ("Ex. PG&E-4"), at p. 2, lines 13-15.

Q. Is the number of participating DRPs in SDG&E's DRAM likely a reflection of the small market?

A. Yes. SDG&E claims that there are still very few DRPs participating in SDG&E's market and appears to imply that this is a negative outcome of the DRAM.[20] I would argue that the limited number of DRPs participating in the DRAM in SDG&E's service area is a reflection of the limited number of customers compared to the other IOU service areas where DRAM is available. In its 2023 Bridge Year DR Application, SDG&E cites its limited number of DR customers as a cause for its poor DR program cost-effectiveness.[21] It seems logical that with far fewer residential customers than the other IOUs, and very few non-residential customers, SDG&E's DRAM auctions would attract fewer DRPs. This is a simple matter of economics because DRPs will be less likely to compete to recruit a smaller number of customers because the potential capacity they can deliver may not be commensurate with the required investment. This does not indicate a failure of the DRAM.

Q. Does this conclude your testimony?

A. Yes, it does.

[20] Ex. SDG&E-8A, at p. EBM-4, line 20 through p. EBM-5, line 3.
[21] Ex. SDG&E-1A, p. EBM-3, line 18 through p. EBM, line 1.