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California Efficiency + Demand Management Council Comments on Supply Side Demand Response Working Group Phase 2 Proposals

I. Introduction

The California Efficiency + Demand Management Council (“Council”) appreciates this opportunity to provide comments on the five demand response (“DR”) Qualifying Capacity (“QC”) counting proposals put forth by the Council, California Large Energy Consumers Association (“CLECA”), OhmConnect, Inc. (“OhmConnect”), Demand Side Analytics (“DSA”), and California Energy Commission (“CEC”) Staff. The Council appreciates the CEC’s leadership and dedication throughout this Supply-Side (“SS”) DR Working Group.

The overriding goal of the Supply Side DR Working Group effort to develop a new long-term DR counting methodology should be to encourage customer DR participation, attract market entry of new DR providers to California while retaining current ones, encourage IOU DR program growth, and promote high quality, reliable DR. The Load Impact Protocols (“LIPs”) and the associated LIP process in their current forms have failed to promote these outcomes, and the Council is concerned that any DR QC counting methodology that retains the LIPs at an equal or even greater level of complexity and effort risks a continuation of the current “muddling along” in the DR market.

For DR to grow, a new DR counting methodology is needed that 1) will accurately reflect the capabilities of each IOU and DR provider, 2) does not act as a barrier to participating in the Resource Adequacy (“RA”) market by DR providers and customers, 3) be transparent in how a DR portfolio QC value is determined, and 4) ensure that IOUs and DR providers are held equally accountable for delivering on their QC commitments. On a practical level, this new DR counting methodology must also reflect the business needs of the third-party DR community, a consideration that has been lacking since DR providers were directed to utilize the LIPs. An adopted DR counting method should also be equally applied to both IOUs and third-party DR providers to ensure a level playing field.

Though the Supply Side DR Working Group process has been very useful in creating the environment to develop these DR counting proposals, key details are missing from all of them. The Council respectfully recommends that neither the CEC nor CPUC reject a proposal simply because it does not contain all of the necessary details. Furthermore, some proposals may have a great deal of merit but require some modifications. Accordingly, the CEC and CPUC should not reject a proposal that comes close to being suitable in the hope that a “perfect” proposal will be available in the future; like the RA reform efforts in the RA proceeding, it may be practical to identify the approach with the most promise and then direct parties to work together to finalize the outstanding details. Finally, the

Council notes that each of the five DR counting proposals under consideration by the CEC have a unique set of strengths and weaknesses, and have incorporated some creative ideas. As such, should none of the proposals in their current form meet the CEC's and CPUC's goals, they may find that a stronger, hybrid proposal could be formed by combining the best elements of multiple proposals.

I. Discuss your organization's position on each of the five proposals (i.e., support or oppose and why).

a. CEDMC Proposal - Support

The Council's proposal is meant to address the long-neglected priorities of third-party DR providers while ensuring equal treatment with IOU DR programs. Most future DR growth will occur primarily through third parties because they have a commercial interest in growing their portfolios whereas IOUs do not have this motivation because they do not make profit from their DR programs. To attract this third-party DR, a more streamlined DR counting methodology is needed that better suits the more dynamic nature and associated business needs of DR providers while being equally effective in determining accurate DR QC values for IOUs and DR providers. Specifically, the new methodology should accomplish the following:

1. Reflect IOU and DR provider assessments of their capabilities based on the most current information possible. This will better ensure that the QC values awarded by the Energy Division reflect the most recent enrollment and per-customer load impact data.
2. Minimize the time required to receive a QC value from the Energy Division. This will better enable DR providers to participate in IOU and LSE solicitations as they come up.
3. Be as transparent as possible. It is critical that DR providers understand the reasoning behind Energy Division assessments of their QC values. Without the Energy Division's clear feedback, DR providers will have no opportunity to apply lessons learned in order to develop the optimal portfolio.
4. Minimize the cost to DR providers and ratepayers. The cost to gain a QC value should be low to attract as many DR providers and, by extension, DR capacity, as possible and reduce the cost to IOU ratepayers.
5. Eliminate the need for outside consultants. The QC methodology should be simple enough for reasonably sophisticated DR providers and all IOUs to utilize it without the need to retain a consultant, if they choose not to.
6. Reduce the Energy Division workload to determine DR QC values. The output of the QC methodology should be streamlined so as to accurately inform the Energy Division in its assessment of QC values without overwhelming them.

The Council's proposal is designed to specifically meet all of the requirements discussed above. Its general approach is generally consistent with that used by the PJM, ISO-New England, and New York Independent System Operator capacity markets in which each DR provider provides its proposed QC values and supporting documentation to the market operator. The market operator then makes a

determination on the amount of capacity each DR provider is authorized to sell in the next capacity auction. To ensure that capacity sold in the capacity auction is delivered, an IOU or DR provider failing to deliver its sold capacity is subject to penalties. Conversely, the LIPs are not reflective of any other DR counting process of any other capacity market in the U.S.

From a conceptual standpoint, the approach taken with the Council's proposal differs greatly from the LIPs. The LIPs utilize a great deal of quantitative up-front rigor through a set of numerous regression analyses to forecast the load impact of a DR program or resource under a specific set of weather conditions. This approach also relies on the normalization of DR performance to these weather conditions to allow for easy comparison between ex ante and ex post values. Theoretically, this up-front rigor is sufficient to ensure that QC values awarded by the Energy Division are accurate enough to be generally consistent with actual QC deliveries. The Council's proposal takes the opposite approach and places a majority of the rigor on the actual, rather than the weather-normalized, performance of the DR programs and resources by incorporating a penalty mechanism to ensure that there are repercussions for significant performance shortfalls. The Council stresses that its proposed penalty mechanism is meant to be a minimum, standardized penalty structure and would not eliminate the right of entities purchasing the DR capacity to negotiate additional penalties. The penalty mechanism would create a more level playing field for IOUs and DR providers because as DR providers themselves, IOUs are currently not subject to penalties for failure to deliver on their committed DR QC values, yet they collect penalties from under-performing DR aggregators that participate in their Capacity Bidding Programs ("CBP") and Base Interruptible Programs ("BIP"). For third-party DR RA contracts, it is already generally standard practice by IOUs and LSEs to include penalty provisions for liquidated damages should the DR RA provider fail to deliver on its contract terms. However, the specific terms on each contract are a result of bilateral negotiations, so the Council's proposed penalty structure provides some degree of transparency and standardization in terms of protection for ratepayers. This freedom by IOUs and LSEs to negotiate additional penalty provisions with DR providers also eliminates the necessity to adopt a more rigorous penalty structure than the already-rigorous one the Council proposes.

The strength of the Council's proposal is largely based on its process and penalty structure. It replaces the up-front cost and effort of the LIPs with a more flexible process that allows IOUs and DR providers the freedom to choose the best way to estimate their QC values, which eliminates the major barriers that the LIPs create to third-party DR participation in the RA market. Eliminating the LIPs would also more easily accommodate adding new enabling technologies as well as sub-metered technologies because the proposal is more forward- than backward-looking. The penalty mechanism, which would be applied equally to IOUs and DR providers, will balance out any perceived risk that eliminating the LIPs will somehow result in less reliable DR.

b. CLECA Proposal – Oppose

The CLECA proposal is a method for applying the current LIPs to the 24-slice RA framework. Though the Council supports CLECA's proposed approach to applying the LIPs to the 24-slice framework, the Council opposes this proposal as anything other than a solution for the 2024 Test Year because the LIPs, especially in their current form, are of questionable value in determining the RA value of third-party DR and create substantial barriers to third-party DR participation in the RA market. This proposal would do nothing to eliminate or at least mitigate these barriers.

Since the LIPs were approved in CPUC Decision (“D.”) 08-04-050, they have been utilized to determine the RA value of IOU DR programs. In D.19-06-026, the CPUC expanded application of the LIPs to third-party DR providers to determine their QC values beginning with the 2020 RA year.¹ Since then, it has become very apparent that the LIPs are highly problematic for DR providers for several reasons, all of which combine to act as a significant barrier to third-party DR participation in California:

1. The effectiveness of the LIPs in accurately predicting QC values is unclear. The LIPs rely heavily on historical DR performance to forecast future performance. This has generally been adequate for IOU DR programs that have historically been relatively static like the BIP and AC cycling program. However, the CBP QC can vary significantly from one year to the next if a DR provider that participates in the CBP fails to get a DRAM contract for a given year. DR provider portfolios can also vary significantly in size and customer composition because DR providers have a financial interest in sizing their portfolios to meet their market commitments, so their customer enrollment levels will often fluctuate accordingly.

Further exacerbating the comparatively fluid nature of DR provider portfolios is the extended LIP process timeline which leads to performance data being used from up to two years prior to the RA Delivery Year. For example, the LIP process that kicked off in December 2021 uses data from the 2021 RA year to derive QC values for the 2023 RA year. Under a majority of circumstances, it is difficult to argue that data up to two years old is relevant to forecasting performance.

2. The LIP process is very time-consuming and limits participation in solicitations. The LIPs entail a ten-month process beginning in December each year that leads to a LIP report for each IOU and DR provider on April 1. The LIP reports are then assessed by the CPUC Energy Division over the subsequent five months to determine the QC values of these DR programs which are delivered in September. Receiving QC values this late in the year is problematic for DR providers because the Energy Division assigns preliminary RA requirements to IOUs and LSEs in June. This often kicks off the process by LSEs to begin contracting RA for the following year, so because DR providers do not know the exact amount of RA capacity they have available to sell until September, they are at a disadvantage. This is anti-competitive because it favors more static “steel in the ground” resources, whose QC values are generally fixed and therefore have more certainty as to their QC values from year to year.

3. The LIP process is costly with no guarantee of cost recovery by DR providers. The LIP process entails extensive analysis and reporting which requires the use of specialized consultants. This is very costly, especially for comparatively small portfolios because there is typically a floor to the consultant fees, regardless of the portfolio size. The IOUs are guaranteed recovery of these costs from ratepayers through their DR program budgets but DR providers do not have that luxury. This creates a clear competitive advantage for IOU DR programs versus third-party DR and reduces the motivation of IOUs to seek a less costly DR counting approach. Such a significant investment by DR providers, with no promise of cost recovery, as a cost of entry to the RA market has discouraged some DR providers from participating in the LIP process. Consequently, the quantity of third-party DR that non-IOU LSEs may contract for is artificially depressed.

¹ D.19-06-026, at Ordering Paragraph 18.

4. The need for consultants to perform the LIP analysis acts as a bottleneck. While DR providers are permitted to perform their own LIP evaluations, many choose not to due to a lack of internal expertise and/or to avoid the perception of bias. 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 LIP analyses they can perform for any given year. This leads to many IOUs and DR providers chasing a limited number of consultants which can lead to some DR providers being frozen out of the LIP process and unable to sell their capacity through RA contracts.

5. The Energy Division assessment of LIP reports lacks transparency. Once IOUs and DR providers submit their LIP reports on April 1, the Energy Division then determines whether to approve the QC that is claimed in each LIP report or to discount it if the claimed QC is overly optimistic. To the extent that a discount is applied to a DR provider's claimed QC, an explanation is needed as to the exact reasons for the discount so the IOU or DR provider can make adjustments the following year. The Energy Division has not always explained their reasoning behind their discounting of a DR portfolio, although the Council acknowledges that the Energy Division has made improvements in this area recently.

6. There is no process to directly link CAISO market performance with QC values. The current LIP process does not directly compare the QC value of an IOU DR program or third-party DR contract to CAISO market performance. The primary reason for this is that the LIPs require that ex post DR performance be normalized to peak 1-in-2 weather conditions in order to compare performance to its ex ante load impacts on an "apples to apples" basis. This prevents a direct comparison of DR performance to QC values which can be challenging when there are multiple CAISO market resources comprising a single IOU DR program or third-party contract because these resources are typically not dispatched at the same day or time.

For these reasons, the Council strongly opposes CLECA's proposal and believes that continued use of the LIPs without significant simplification that addresses the six concerns above would simply perpetuate the same broken DR counting regime that has plagued the DR market.

c. OhmConnect Proposal – Conditional Support

OhmConnect proposes a version of the LIPs that has been streamlined to eliminate any elements that are not needed for the estimation of ex ante and ex post load impacts. As explained in detail in its proposal, OhmConnect highlights what protocols or pieces of protocols are superfluous to this purpose and should be discarded.

The Council has already expressed its concerns about the current LIPs in regard to the CLECA proposal. However, OhmConnect's proposal addresses some of the Council's concerns, namely by minimizing the time required to receive a QC value from the Energy Division, reducing the Energy Division workload by delivering a less voluminous load impact evaluation, and minimizing the cost to DR providers and ratepayers by reducing the complexity of the load impact analyses. The latter should reduce one of the key barriers to entry of DR providers to the RA market – the high cost to gain a QC value.

The Council supports this proposal but only if the CEC and CPUC prefer not to adopt a completely new DR counting methodology. The Council sees this as a potential “Plan B” that can stand on its own or as an overlay with the CLECA proposal or possibly as an overlay with the Demand Side Analytics (“DSA”) proposal.

d. Demand Side Analytics - Oppose

The DSA proposal builds on top of the existing LIPs by developing a time-temperature matrix for weather-sensitive resources that quantifies the relationship between demand reductions, temperature conditions, hour of the day, event start times, and hours into an event. The output of this matrix is an hourly load impact for 24 hourly slices for each month. The Council strongly opposes DSA’s proposal because it preserves the LIPs which, as explained above, are highly flawed. Furthermore, it adds more complexity, cost, and less transparency than the current LIPs. Finally, DSA’s proposal is simply not clear in how exactly it would work with each specific LIP.

The Council notes that the concept of one or more time-temperature matrices is an interesting one because, if applied to a simpler DR, non-LIP-based counting methodology that meets the six key requirements presented in the discussion on its own DR counting proposal, could create a more standardized approach to calculating the load impacts of weather-sensitive DR. In such an instance, as DSA suggests, a single, neutral entity could develop the matrices. However, to minimize entry costs to DR providers (a key requirement from the Council’s perspective), the DSA proposal would have to eliminate the need to retain an outside consultant. Another potential benefit of a standardized set of time-temperature matrices is that it would presumably give the Energy Division (or other entity reviewing load impact evaluations) the confidence that IOUs and DR providers are using an acceptable methodology.

e. CEC Staff – Support if Modified

The CEC Staff proposal appears to be very similar to the Council’s in that it allows the IOU or DR provider to utilize its own method for calculating QC values but it would require a weather-adjustment. Like the Council’s proposal, it also balances out the front-end flexibility with the use of a penalty structure.

Because of its similarities with the Council’s proposal, the Council is generally supportive of the CEC Staff proposal because it addresses the Council’s six requirements for a new DR counting methodology. However, there are two key shortcomings: 1) the weather-adjustment element would eliminate any direct connection between DR performance in the CAISO market and committed QC value, and 2) the point at which a penalty would be assessed. The Council fully understands that weather-adjusting DR performance to account for the variable performance of weather-sensitive DR is beneficial to ensure that DR performance can be compared to a weather-normalized QC value on an apples-to-apples basis. However, the performance of DR resources in the CAISO market is currently not weather-normalized so this will require additional analysis that the Council is concerned may very well look similar to, and require a similar quantity of resources as, the LIPs. The larger problem is Council the CEC Staff’s penalty structure which would have an IOU or DR provider incur penalties for performance below 94.5% of the committed QC value. This is far too soon for a penalty to take effect

because there will always be a certain degree of variability to DR performance. It is extremely difficult to forecast the load curtailment of a group of customers with precision. Consequently, imposing a penalty at 94.5% of committed QC would very likely result in penalties for all DR providers, even those with the best track records. This will in turn add to their cost of business and trigger a rational assessment of whether it is financially worthwhile to participate in the RA market. There would then likely be a cascading effect in which all DR participation would fall because if the IOUs were saddled with such a rigorous penalty structure, they would surely pass that along to their CBP aggregators, which would then reduce participation in that program as well. If the penalty structure were modified to be substantially closer to the Council's in terms of when penalty payments kick in, the Council would support this proposal.

The CEC Staff's proposal is somewhat unclear with regard to how it would address Demonstrated Capacity (i.e., how a DR program or resource demonstrates that it is meeting its QC commitments). The CEC Staff proposal does not include a minimum dispatch requirement and, unlike the Council's proposal, does not appear to count DR resources meeting their CAISO market Must Offer Obligation ("MOO") as Demonstrated Capacity. Instead, the CEC Staff proposal appears to recommend counting test events and market dispatches within the within-to-be-determined "seasons" comprised of a handful of months. The Council sees this approach as a reasonable alternative to its own Demonstrated Capacity proposal because it has the benefit of only using actual dispatches without including market bids (with which many parties have expressed their discomfort) while also implicitly acknowledging that some DR will not be needed in some months (e.g., cooler months for weather-sensitive DR).

II. Discuss your organization's position on the extent to which each proposal does or does not meet the nine principles developed by the working group.

The Council found that the nine Working Group principles were useful in that they provided specific "checkboxes" that each sponsor was able to use to inform the parameters of their respective proposals. However, there were a few shortcomings in how they were utilized which may have impacted their usefulness in determining the optimal DR counting proposal. For example, the principles were neither weighted nor prioritized, so two proposals with the same overall score may not be equal in their merit. In addition, it became clear at the October 6 Working Group discussion where stakeholders discussed how they had scored the proposals, that stakeholders applied far different interpretations to most of the principles. On account of this, the Council recommends that the CEC (and later the CPUC) disregard these scores and consider for themselves the extent to which each proposal meets each of the nine principles.

Nevertheless, the Council responds to the CEC's request to discuss whether each proposal meets the nine principles. For enable ease of reference to individual principles, the Council lists them here with an assigned number:

1. The QC methodology is transparent and understandable.
2. The QC methodology uses best available information regarding resource capabilities, including recent historical performance and participant enrollment and composition projections.
3. The QC methodology allows DR providers to quickly determine or update QC values.
4. The QC methodology is consistent and compatible with the resource adequacy program.

5. The QC methodology accounts for any use limitations, availability limitations, and variability in output of DR resources.
6. The QC methodology translates a DR resource's load reduction capabilities into its reliability value.
7. The QC methodology includes methods to determine delivered capacity (ex-post) that are compatible with the determination of qualifying capacity (ex-ante).
8. The QC methodology does not present a substantial barrier to participation in the RA program.
9. The QC methodology accounts for a resource's capacity when reliability needs are highest.

As a general statement, the Council believes that all of the proposals generally did at least a satisfactory job in satisfying the principles. In the Council's view, all of the proposals met equally Principles 4 through 7 (with one exception for Principle 4 for the CEC Staff proposal as discussed below) and Principle 9 (with a minor variance for the Council's proposal, as discussed below), but found various degrees of variation among the other principles. With regard to Principle 4, all of the proposals are compatible with the RA program but the CEC Staff proposal lacked clarity in how this would work. With regard to Principle 5, any DR counting methodology will account for use and availability limitations (but their success in doing so will likely vary), and resource variability to deliver a QC number that reflects what a DR resource can deliver under the minimum availability requirements defined by the CPUC's Resource Adequacy ("RA") program. This becomes a self-regulating mechanism because any failures to account for use limitations and, conversely, availability requirements, will be reflected in performance and accounted for in the following QC cycle.

With regard to Principle 6, any DR counting methodology must, by definition, translate a DR resource's load reduction capabilities into its reliability value. Stakeholders will have different views as to the accuracy of each proposal (and this likely contributed to the range of scores for this principle) but until each one is put into practice, it will be difficult to know with any certainty.

With regard to Principle 7, all of the proposals take different approaches to link delivered capacity with qualifying capacity. As alluded to above, the Council's proposal takes a more deterministic approach in which actual CAISO market bids, test events, and market performance are directly compared to QC values, whereas the other proposals utilize more weather normalization to compare delivered capacity to qualifying capacity. The Council's proposal seeks to simplify this step while the others retain the complication of this element from the LIPs. Regardless of approach, each proposal satisfies this principle.

With regard to Principle 9, the four of the five proposals that incorporated a weather-adjusted approach to QC valuation best satisfied this criterion. This is based on the Council's interpretation that reliability needs are typically highest when temperatures are highest. The Council scored its own proposal a bit lower because it does not incorporate a weather-adjustment element to its QC valuation.

a. CEDMC

With regard to its own proposal, the Council believes it meets all of the principles but is weakest with regard to Principles 1 and 9. The Council proposal lacks a certain degree of transparency to other stakeholders in the exact methodology used by each IOU or DR provider to develop their proposed QC values. With regard to Principle 9, the Council's proposal scores lower because it does not utilize a

weather adjustment to QC values. Instead, it more closely mimics the approach used for conventional generators such that DR resources are required to be capable of delivering their full QC values into the CAISO market regardless of weather conditions. This allows for the direct and easy comparison of a DR resource's CAISO market performance to its QC value. In contrast, all of the other proposals utilize a temperature-dependent adjustment to QC values which makes the ex post analysis process far more complicated and expensive due to the resulting need to retain consultants to perform the associated analysis. It is also worth noting that this approach, though it may undervalue weather-sensitive DR during higher temperatures (when DR is more likely to be needed), does not preclude DR resources from bidding greater than their QC during these periods.

b. CLECA

From the Council's perspective, the CLECA proposal was strongest in Principles 4-7 and 9, and weakest in Principles 1-3 and 8. Notwithstanding the discussion on Principles 4-7 above, Principle 4 is satisfied because it is compatible with the RA program. Though the Energy Division proposal on the use of LIPs during the 2024 Slice-of-Day test year is pending, it is clear that the LIPs can be workable with a 24-slice RA framework. Principle 9 is satisfied because CLECA's proposal utilizes the LIPs which incorporate a weather-adjustment element.

In contrast, Principle 1 was nominally met because several elements of the proposal were unclear, so it was difficult to know exactly what was proposed. Principle 2 was nominally met because the proposal retains the LIPs which utilize data from up to two years in the past to estimate ex ante load impacts. Like Principle 2, Principle 3 was only nominally met because it retains the LIP update process which takes two months and is burdened by the QC update threshold of the greater of 20 percent or 10 MW change to a portfolio. Principle 8 was the lowest score for the CLECA proposal because, again, it retains the LIPs which have a substantial effect of discouraging DR participation in the RA program for all of the reasons explained earlier in these comments.

c. OhmConnect

Notwithstanding the discussion above regarding Principles 4-7 and 9, the OhmConnect proposal satisfied Principle 1 because, though it utilizes the LIPs, it is a streamlined version of them which gives it a higher score than it would otherwise receive. The OhmConnect proposal was weakest in Principles 2-3 and 8. Principle 2 was nominally met because the proposal retains the LIPs which utilize data from up to two years in the past to estimate ex ante load impacts. Like Principle 2, Principle 3 was only nominally met because it retains the LIP update process which takes two months and is burdened by the QC update threshold of the greater of 20 percent or 10 MW change to a portfolio. Principle 8 was the lowest score for the OhmConnect proposal because, again, it retains the LIPs which have a substantial effect of discouraging DR participation in the RA program for all of the reasons explained earlier in these comments; however, the streamlined LIPs reduce the barrier to participation because they would require less work for a consultant and, therefore, less cost.

d. Demand Side Analytics (DSA)

Notwithstanding the discussion above regarding Principles 4-7 and 9, the DSA satisfies Principle 1 because it contained a great deal of detail. However, like all of the other proposals, the Energy Division would have the final word on QC values which, if that step in the QC process continues

unchanged, will continue to add an element of opacity. Principle 3 was satisfied because DSA's use of time-temperature matrices could significantly reduce the time needed to update intra-year portfolio QC values. Principle 8 was also satisfied albeit with a slightly lower score because its potential need for a consultant would act as a barrier to participation in the RA program. The DSA proposal nominally satisfied Principle 2 because it retains the LIPs which utilize data from up to two years in the past to estimate ex ante load impacts.

e. CEC Staff

Notwithstanding the discussion above regarding Principles 5-7 and 9, the CEC Staff proposal also satisfied Principles 1-3 and 8. Its transparency is on par with the Council's and OhmConnect's proposals, by not relying on the LIPs, it uses the best available information and can more easily update QC values. Principle 4 was nominally satisfied because it was unclear in the write-up exactly how it would fit into the RA program. Principle 8 was satisfied because, like the Council's proposal, it does not utilize the LIPs which eliminates a substantial source of barriers to DR participation in the RA program.

III. Discuss your organization's position on whether, and if so what, enhancements to intracycle adjustments to demand response qualifying capacity during the resource adequacy compliance year, as adopted in D.20-06-031, are feasible and appropriate to account for variability in the demand response resource in the month-ahead and operational space.

The Council has been consistent in expressing its strong concerns about the current DR QC update process, especially with regard to the unreasonably high threshold to trigger an update. The Council put forth a proposal in CPUC R.19-11-009 that was based on the LIPs which ultimately rejected. Given the uncertainty surrounding the future DR counting methodology, the Council has refrained from putting forth a proposal because the appropriate update process will be highly dependent on the design of the DR counting methodology that is ultimately adopted by the CPUC. However, if the CPUC ultimately adopts a LIP-based DR counting proposal such as the CLECA, OhmConnect, or DSA proposals, then it should immediately consider potential improvements to the QC update process. At minimum, the update threshold should be lowered from the greater of 20% of the portfolio or 10 MW to half of these amounts.

IV. Discuss your organization's position on whether implementation of any elements of demand response qualifying capacity method modifications that might be adopted by the Commission should be phased in over time.

Adoption of a new DR counting methodology will create initial uncertainty for IOUs and DR providers because the new methodology's effectiveness will ultimately not be known until it is tested. Furthermore, if consultants are required to implement the new methodology, then the DR providers, having no cost recovery guarantee like the IOUs do, may be hesitant to incur the cost until observations can be made with regard to the IOUs' experiences with it. Therefore, for one year following CPUC approval of the new methodology, DR providers should have the option to use the LIPs or the new methodology, or both (in which case they could choose which load impacts to adopt for Energy Division consideration).

V. Discuss your organization’s position on whether, and if so how, any changes to demand response adders should be reflected in demand response qualifying capacity methodology.

The Council fully supports the proposals of CLECA, as explained in its DR counting proposal, that the Transmission Loss Factor (“TLF”), Distribution Loss Factor (“DLF”), and the entire Planning Reserve Margin (“PRM”) Adders be retained, and paraphrases its arguments below. In summary, the TLF and PRM of contracted or allocated DR resources should continue to be reflected as a credit to load-serving entity (“LSE”) RA requirements, and the DLF should be added to DR QC values.

Before addressing the DR adders, the Council would like to highlight the potential for differential treatment of Supply Side (i.e., market integrated) DR and Load Modifying DR. Because Supply Side DR is used to meet RA requirements, it necessarily should be counted as RA capacity. Conversely, Load Modifying DR is not market integrated and should continue to be either credited against an LSE’s RA requirements or reflected in the load forecast used to determine RA requirements. This dichotomy will become more relevant in light of the potential transition of some IOU DR programs from Supply Side to Load Modifying DR. In addition, the Commission’s new Demand Flexibility rulemaking (R.22-07-005) will further bring this issue to the fore. Regardless of whether DR is Supply Side or Load Modifying, it should be treated equitably with regard to the DR adders even if they are reflected in different ways. This is a critical principle that the CEC and CPUC should adhere to when considering the disposition of the DR adders.

Ordering Paragraph (“OP”) 13 of D.21-06-029 correctly directed that the DLF be incorporated into all DR QC values because the CAISO settlement process true up DR performance to reflect avoid distribution line losses. This will allow for an “apples to apples” comparison of DR QC value to CAISO market performance. This true-up process curiously does not currently exist for the TLF but if line losses are avoided at the distribution level when DR resources are dispatched then simple logic would lead to the conclusion that they are also avoided at the transmission level. In short, the size of the wires should have no bearing on whether losses are avoided or not. However, because there is no TLF true-up incorporated into the CAISO settlement process, it may not be practical to add the TLF to DR QC values because it would upset the apples-to-apples comparison described above. The only remaining option would therefore be to continue reflecting the TLF as an RA credit until or unless the CAISO creates a mechanism to incorporate a TLF true-up into its settlement process.

As CLECA recommends, the entire PRM should be retained for Supply Side DR just as it is currently is for Load Modifying DR. The Council is aware of the various arguments in favor of eliminating the PRM in whole or in part for Supply Side DR. However, if this occurs then the value of Supply Side and Load Modifying DR will suddenly be misaligned. More specifically, the PRM will continue to be applied to Load Modifying DR as a credit against the RA requirement but the same treatment would not be afforded Supply Side DR despite being the same exact same resource. The only difference between the two types of DR is how they are dispatched (i.e., through a CAISO market schedule for Supply Side DR or a pre-determined trigger such as implied heat rate, weather conditions, system load, etc. for Load Modifying DR. In the absence of any good explanation for why the two types of DR should be treated differently, the full PRM should be retained for Supply Side DR.

VI. Conclusion

The Council appreciates this opportunity to comment on the five DR counting proposals and other issues within the scope of the Supply Side DR Working Group.