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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company (U39E) for Approval of Demand Response Programs, Pilots and Budgets for Program Years 2018-2022.

Application 17-01-012

And Related Matters.

Application 17-01-018

Application 17-01-019

ADMINISTRATIVE LAW JUDGE'S RULING DIRECTING RESPONSES TO QUESTIONS RESULTING FROM THE FEBRUARY 11-12, 2019 DEMAND RESPONSE AUCTION MECHANISM WORKSHOP AND COMMENTS ON PROPOSALS TO IMPROVE THE MECHANISM

Responses to the questions contained in this ruling, as well as comments on the attached proposals, shall be filed no later than March 29, 2019. Replies to the responses and comments shall be filed no later than April 10, 2019. Parties may also comment on the public version of the *Energy Division's Evaluation of the Demand Response Auction Mechanism Final Report* attached to the January 4, 2019 Administrative Law Judge Ruling.

1. Procedural Background

The Commission initiated Rulemaking (R.) 13-09-011 to enhance the role of demand response in meeting California's resource planning needs and operational requirements. Decision (D.) 14-12-024 in R.13-09-011 approved a two-year demand response auction mechanism pilot (Auction Pilot) to test: 1) the feasibility of procuring supply resources for resource adequacy with third-party direct participation in the California Independent System Operators (CAISO) market through an auction mechanism; and 2) the ability of winning bidders to integrate their provision of demand

response into the CAISO market. Initial auctions were held in the Spring of 2015 and 2016, with load deliveries scheduled during 2016 and 2017.

D.16-06-029 recognized that the Commission required a full evaluation of the Auction Pilot before it could determine whether to adopt the Auction Pilot as a permanent demand response procurement mechanism (Auction Mechanism). D.16-09-056 in R.13-09-011 set a date of June 2018 for the Commission's Energy Division (Staff) to present the results of the evaluation and improvement recommendations for the Auction Pilot in a resolution. During this time, the Commission authorized additional auctions in the Auction Pilot for 2017 and 2018, with load deliveries in 2018 and 2019.

Preliminary results of the Auction Pilot evaluation indicated unexpected complexity for the informal resolution process, as well as the need for additional time to complete the evaluation. The May 22, 2018 Assigned Commissioner's Amended Scoping Memo and Ruling in Application 17-01-012 *et al.* added the evaluation and next steps of the Auction Pilot to the scope of the proceeding. A January 4, 2019 ruling provided the public version of the Energy Division's Evaluation of the Demand Response Auction Mechanism Final Report (Pilot Evaluation).

A workshop to discuss the Pilot Evaluation was held on Wednesday, January 16, 2019, at which time Staff presented their findings and allowed for questions from workshop participants. Workshop participants also discussed recommended improvements to the Auction Mechanism, which were filed in this proceeding on January 11, 2019. A subsequent ruling, issued on January 23, 2019, set forth a proposed plan for addressing the recommended improvements; the ruling also established two working groups to develop draft proposals for addressing proposed improvements in two areas: 1) performance and accountability and 2) Auction Mechanism *pro forma* contracts. The two working groups served draft proposals on February 6, 2019.

On February 11 and 12, 2019, the Administrative Law Judge facilitated a workshop to discuss the staff recommendations from the Pilot Evaluation and party proposals for improving the Auction Mechanism, as well as related policy issues.

2. Overview of Workshop

During the February 11 and 12, 2019 workshops, participants¹ discussed the following matters related to the Auction Mechanism: 1) a goal for the Auction Mechanism; 2) objectives for the Auction Mechanism; 3) proposals to ensure Qualifying Capacity; 4) proposals to improve performance; 5) proposals to ensure accuracy of demonstrated capacity invoicing; 6) proposals for contract improvements; and 7) whether the Auction Mechanism should have an energy component and the proposals to increase dispatch hours.

In addition to the specific details of the Auction Mechanism and related policies, workshop participants discussed the option of the Commission adopting two plans: a short-term plan and a long-term plan (Two-Step Approach). Pacific Gas and Electric Company (PG&E) first presented this option with its working group proposals that it served on February 6, 2019. PG&E explained that, in its proposed short-term plan, it envisions the Commission would authorize a bridge period for the Auction Mechanism with critical improvements to the mechanism. PG&E proposed that a bridge period would involve a solicitation in 2019 with deliveries in 2020. In its proposed long-term plan, PG&E envisions the Commission would continue to work with parties to resolve longer-term improvements to the Auction Mechanism. PG&E clarified that with the Two-Step Approach, the Commission would approve the auction mechanism on a permanent but iterative basis, with improvements implemented on a regular basis. Several participants voiced support for the Two-Step Approach, but others contend that the evaluation results indicate the mechanism needs more than a few minor tweaks. The

¹ Organizations represented by the workshop participants: California Efficiency Demand Management Council, California Energy Storage Alliance, California Independent System Operator, California Large Energy Consumers Association, Clean Energy Regulatory Research, CPower, Enel X, Leap, OhmConnect, Inc., Olivine, Pacific Gas and Electric Company, Public Advocates Office of the Public Utilities Commission, San Diego Gas & Electric Company, Southern California Edison Company, and Stem, Inc.

Footnote continued on next page

PG&E Two-Step Approach is comparable to the Pilot Evaluation recommendation whereby the Commission adopts the Auction Mechanism on a permanent basis with “critical and necessary improvements in program design” and “ongoing monitoring and additional improvements.”²

In presenting its Two-Step Approach, PG&E expressed concern that the Commission has not adopted a goal or objectives for the Auction Mechanism. In terms of the Two-Step Approach, workshop participants agreed that an adopted goal for the Auction Mechanism is necessary but disagreed on whether a goal should be determined in the short-term or be further developed and adopted as part of the long-term plan.

As a result of small group discussions, workshop participants developed several recommendations for the goal of the Auction Mechanism. Participants were instructed that a goal should not be specific but rather should be a broad, primary outcome, which is not measurable. Table 1 below lists each group’s recommendation as the goal for the Auction Mechanism.

² Pilot Evaluation at 122.

<p style="text-align: center;">Table 1</p> <p style="text-align: center;">Small Group Discussions</p> <p style="text-align: center;">What is the goal of the Demand Response Auction Mechanism?</p>
<ul style="list-style-type: none"> a. to grow resources that meet grid needs while ensuring value to the customer; b. to represent a percentage of resource adequacy procurement to cost-effectively provide for reliable carbon-reduction that also provides market certainty to third-party demand response providers; c. to cost-effectively (in terms of least-cost, best-fit procurement) displace flexible gas-fired resources by providing flexible resources to meet grid needs through a market-based, fungible, standardized product; d. to use a cost-competitive mechanism to procure reliable demand response to meet grid needs and grow demand response; e. to drive the growth of third-party standardized, fungible, reliable demand response products that benefit the grid through the wholesale market where the benefits exceed the costs; or f. to enable third-party providers to compete to provide integrated grid services that meet grid needs where benefits are greater than costs.

Participants also proposed and discussed objectives for the Auction Mechanism. The Administrative Law Judge instructed the workshop participants that objectives should be specific, measurable, attainable, realistic and timed. As a result of brainstorming and a prioritization exercise, the participants recommended the following objectives for the Auction Mechanism. Additionally, several recommendations could be considered principles of the Auction Mechanism. Table 2 below lists the top recommendations for objectives of the Auction Mechanism and some additional recommendations that could be considered principles for the Auction Mechanism.

Table 2	
Proposed Objectives and Principles of the Demand Response Auction Mechanism	
Objectives	
<ul style="list-style-type: none"> a. Procurement Increase: Resources procured by the Auction Mechanism represent X percent of the ramp or X percent of total demand response resources procured by 2025; b. Customer Sustainability: The number of current customers increase by X percent annually; c. Level Playing Field: Procurement of demand response by utilities and by third-party providers are equal by 2025; d. Customer Performance: Customer performance is 100 percent by 2025; e. Customer Performance: Customers are 100 percent compliant with CAISO reliability criteria by 2025; f. Customer Engagement: The number of new customers engaged increase by X percent annually. g. Customer Performance: Monthly Demonstrated Capacity equals 90 percent by 2025; h. Emissions Reduction: Emissions are reduced by X percent annually due to the auction mechanism resources; and i. Procurement Increase: Resources are procured at an increase of X percent annually. 	
Principles	
<ul style="list-style-type: none"> a. The Auction Mechanism and its processes should be transparent. b. Oversight should be consistent across all contracts. c. There should be a level playing field for all third-party providers. d. There should be a level playing field for third-party providers and utilities. 	

Workshop participants also discussed each of the working group proposals. (See Attachments 1 through 7.) The sponsor of each proposal answered clarifying

questions from workshop participants. Then, the workshop participants joined in small group discussions wherein each small group consisted of at least one demand response provider or aggregator, one utility representative, and either one representative of the CAISO or a consumer group. While no formal agreements were reached, some groups were able to reach agreement on aspects of a proposal. In some cases, agreement was reached on principles for the proposals. At the end of the exercises, participants expressed a better understanding of both the proposals and the perspective of other parties in the small groups.

Small group discussions led to the development of proposed short-term and long-term activities for improving the Auction Mechanism. Workshop participants then prioritized the short-term activities. Table 3 lists the short-term and long-term activities identified by the workshop participants. (In some cases, activities may be listed under multiple categories.)

<p style="text-align: center;">Table 3</p> <p style="text-align: center;">Activities for Addressing the Future of the Auction Mechanism</p>
<p>Critical Short-Term Activities (as prioritized by the workshop participants.)</p> <ul style="list-style-type: none"> • Supply Plan Accuracy: including a Penalty/Incentive Structure and Standards for Qualifying Capacity (Participants also listed Qualifying Capacity as a long-term activity) • Contract Improvements to Incent Good Behavior and Prevent Bad Actors • Market Certainty for Third-Party Providers and Customers • All other Working Group 1 Topics³ • Feedback Loop
<p>Other Short-Term Activities (in no particular order)</p> <ul style="list-style-type: none"> • Resource Adequacy Improvements • Safety Issues (<i>also listed by participants as a long-term activity</i>) • Performance Reports • Revenue Quality Meter Data Improvements (<i>also listed by participants as a long-term activity</i>) • Capacity Payment Issues
<p>Long-Term Activities (in no particular order)</p> <ul style="list-style-type: none"> • Whether to require a minimum number of dispatch hours • Contract Partitioning / Contract Reassignment • Qualifying Capacity • Transparency of Pricing • Data Accuracy • Revenue Quality Meter Data Resolution • Safety • Determining the Goal of the Auction Mechanism

3. Questions for Parties to Address

Parties shall file responses to the following questions no later than March 29, 2019. Parties are instructed to be very specific in their responses. Replies shall be filed no later than April 10, 2019.

1. Explain, in detail, whether the Commission should adopt a two-step approach wherein the auction mechanism is adopted allowing for:
Step One - limited critical improvements to the mechanism in the initial decision to provide for a solicitation in 2019 and deliveries in 2020 (considered to be a bridge period) and,
Step Two - continuous and iterative improvements to the mechanism in future decision(s) based on additional experience, continuous monitoring, and evaluation data from future solicitations.
2. If the Commission authorizes a two-step approach, explain which critical recommendations or party proposals should be required in order to implement a solicitation in 2019 for 2020 deliveries (*i.e.*, a bridge period). Be specific about the details of the recommendations, including timing.
3. If the Commission authorizes a two-step approach, what budget amount should the Commission authorize for the bridge period solicitation and related deliveries and why?
4. If the Commission authorizes a two-step approach, describe the solicitation schedule the Commission should approve for the bridge period (a 2019 auction for 2020 deliveries). Include in your response a proposed schedule in which a final decision is issued by July 11, 2019 and the proceeding remains open to address the second step improvements. Include details on the timing for the deliveries.
5. In the Pilot Evaluation, Staff recommended an expedited scheduled in both the bridge period and future solicitations. If the Commission authorizes a two-step process, explain whether the

³ Working Group 1 topics are Dispatch Hours, Penalties and Incentives for Performance, and Demonstrated Capacity Invoicing. (January 23, 2019 Administrative Law Judge's Ruling at Attachment A at 1-4.) Subsequently, Qualifying Capacity in Supply Plans was added as a Working Group 1 topic.

Commission should waive Commission-specific review and approval of contracts for the Auction Mechanism.

6. If the Commission authorizes a two-step approach, explain what procedural steps the Commission should use to address the remaining questions regarding the Auction Mechanism: *e.g.*, workshops, working groups, evidentiary hearings, etc. Include, in your response, a recommended timeline through which the record is complete by August 30, 2019 and a decision can be written and adopted by December 19, 2019 to allow for a solicitation in the Spring of 2020, if the Commission authorizes a future mechanism.
7. If the Commission authorizes a two-step approach, explain the procedural steps and timeline the Commission should use to address improvements for future years of the Auction Mechanism. How often should the Commission address iterative improvements to the Auction Mechanism?
8. Building on the small group discussion in the workshop and the developed options for a goal provided above in Table 1, what should be the goal of the Auction Mechanism? Keep in mind that a goal is abstract, not measurable and long term. For example, the adopted goal of demand response is: *Commission-regulated demand response programs shall assist the State in meeting its environmental objectives, cost-effectively meet the needs of the grid, and enable customers to meet their energy needs at a reduced cost.*
9. Building on the discussion in the workshop and the developed list of objectives and principles provided above in Table 2, what objectives and principles should the Commission adopt? Keep in mind that objectives are specific, measurable, attainable, realistic, and timed. Principles are assumptions, fundamental rules, or guiding doctrines.
10. If the Commission determines not to authorize a two-step approach, explain whether the Commission should authorize a continuation of the Auction Mechanism. If the Commission should authorize a continuation of the Auction Mechanism, provide justification for the length of time the authorization should cover, the budget the Commission should authorize, and the cost recovery approach the Commission should authorize.
11. Describe and explain the standards that the Commission should adopt for estimating the Qualifying Capacity of an Auction

Mechanism resource applicable to Supply Plans. Be specific and include comments on the options discussed during the workshop: test, market dispatch, or an ex ante estimation method. Explain the process the Commission should use to implement the standards.

12. Explain whether the Commission should adopt an energy component requirement Auction Mechanism resources. If the Commission authorizes optional dispatch hours in solicitations, explain whether and how the values of the bids should be modified to account for this additional requirement. If the Commission adopts a minimum dispatch hour performance requirement, explain the parameters the Commission should adopt.
13. Explain whether the Commission should adopt penalties for shortfalls in both Qualifying Capacity and Demonstrated Capacity. If the Commission adopts penalties, explain at what point in time penalties should be assessed and under what conditions. Explain whether the penalties should be based on costs incurred by a utility for failure to perform or the price of the contract.
14. Explain whether over-performance should be incentivized and what the incentive should be. Explain whether there should be a cap and what the cap should be.
15. Explain the approach the Commission should adopt regarding Demonstrated Capacity on invoices including Must-Offer Obligation invoices and full or partial dispatch or test requirements. Explain what method demand response providers should use to calculate performance. Explain how the Commission should address the issue of locations moving between resources in a given month.
16. Explain whether the Commission should allow partitioning of contracts for reassignment and under what conditions. Explain whether and how the Commission can improve the transparency of the reassignment process. Describe the deadlines the Commission should require for invoices and any exceptions that should be made.
17. Explain whether the Commission should adopt a contract remedy for a utility's failure to deliver Revenue Quality Meter Data in time for CAISO settlement and what the remedy should be.

Explain what improvements could be made to streamline communication between utilities and third-party demand response providers regarding missing data, data quality concerns, and gaps in data.

18. Explain whether the Commission should approve implementation milestones with regard to utility systems, Commission registration, CAISO registration, and customer acquisition and what the milestones should be.
19. Explain whether the Commission should require third-party demand response providers participating in the Auction Mechanism to submit performance reports for the purpose of evaluation or providing a feedback loop. If the Commission should require performance reports, explain who should receive these reports and what should be included in the reports.
20. Should the Commission create a process for monitoring and evaluating the Auction Mechanism and what should be the guidelines or principles for that process?
21. Should the Commission set a limit on market share? Explain what the limit should be,
22. Explain whether the Commission should maintain, revise, or eliminate the set aside of 20 percent for each utility of the total megawatts procured under the Auction Mechanism each year for residential aggregation.
23. Explain whether the Commission should maintain, replace or eliminate the simple average August bid price cap. If the Commission decides to replace the average August bid price cap, should the Commission adopt the Net Market Value cap as the replacement, as proposed by SDG&E,⁴ based on the adjusted Long Run Avoided Cost of Generation described in the Pilot Evaluation?

⁴ SDG&E Response to August 6, 2018 Ruling, August 17, 2019 at 3.

IT IS RULED that:

1. Parties shall file responses to the questions contained in this ruling no later than March 29, 2019. The filing shall also include comments on the attached proposals. Parties may include comments on the *Energy Division's Evaluation of the Demand Response Auction Mechanism Final Report*.
 2. Replies to the responses and comments shall be filed no later than April 10, 2019.
- Dated February 28, 2019, at San Francisco, California.

/s/ KELLY A. HYMES
Kelly A. Hymes
Administrative Law Judge