

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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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
(Filed January 17, 2017)

And Related Matters.

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

Alex J. Morris
Vice President, Policy & Operations

Jin Noh
Policy Manager

CALIFORNIA ENERGY STORAGE ALLIANCE
2150 Allston Way, Suite 400
Berkeley, California 94704
Telephone: (510) 665-7811 x110
Email: amorris@storagealliance.org

March 29, 2019

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IMPROVE THE MECHANISM**

In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the California Energy Storage Alliance (“CESA”)¹ hereby submits these comments to the *Administrative Law Judge’s Ruling Directing Responses to Questions resulting from the February 11-12, 2019 Demand Response Auction Mechanism Workshop and*

¹ 174 Power Global, 8minutenergy Renewables, Able Grid Energy Solutions, Advanced Microgrid Solutions, Aggreko, Alligant Scientific, LLC, AltaGas Services, Amber Kinetics, Ameresco, American Honda Motor Company, Inc., Avangrid Renewables, Axiom Exergy, Better Energies, Boston Energy Trading & Marketing, Brenmiller Energy, Bright Energy Storage Technologies, Brookfield Renewables, Carbon Solutions Group, Clean Energy Associates, ConEd Battery Development, Customized Energy Solutions, Dimension Renewable Energy, Doosan GridTech, Eagle Crest Energy Company, East Penn Manufacturing Company, EDF Renewable Energy, eMotorWerks, Inc., Enel X North America, Energport, Engie Storage, E.ON Climate & Renewables North America, esVolta, Fluence, Form Energy, General Electric Company, Greensmith Energy, Gridwiz Inc., Hecate Grid LLC, Highview Power, Ingersoll Rand, Innovation Core SEI, Inc. (A Sumitomo Electric Company), Lendlease Energy Development, LG Chem Power, Inc., Lockheed Martin Advanced Energy Storage LLC, LS Energy Solutions, LS Power Development, LLC, Magnum CAES, Mercedes-Benz Energy, NantEnergy, National Grid, NEC Energy Solutions, Inc., NextEra Energy Resources, NEXTracker, NGK Insulators, Ltd., Nuvve, Pattern Energy, Pintail Power, Plus Power, Primus Power, PolyJoule, Quidnet Energy, Range Energy Storage Systems, Recurrent Energy, RES Americas, SNC-Lavalin, Soltage, Southwest Generation, Stem, STOREME, Inc., Sunrun, Swell Energy, Tenaska, Inc., Tesla, True North Venture Partners, Viridity Energy, VRB Energy, WattTime, and Wellhead Electric. The views expressed in these Comments are those of CESA, and do not necessarily reflect the views of all of the individual CESA member companies. (<http://storagealliance.org>).

Comments on Proposals to Improve the Mechanism (“Ruling”), filed by Administrative Law Judges (“ALJ”) Kelly A. Hymes on February 28, 2019.

I. INTRODUCTION.

The Demand Response Auction Mechanism (“DRAM”) represents an important process to facilitate the growth of a market of new customers as well as third-party demand response providers (“DRPs”) to competitively provide supply-side demand response (“DR”) services. The DRAM Evaluation Report presented promising and positive results on the role of DRAM in stimulating new third-party DRPs and in engaging new customers, which indicate how DRAM is transforming the marketplace for competitively-sourced DR resources. However, the results were mixed across the performance metrics and across different DRPs. Our takeaway from the report was that the DRAM should be refined and improved in incremental ways but should not make drastic changes over a short timeframe without further discussion and should not burden all DRPs, including many high-performing and good-faith DRPs, due to a few bad actors.

CESA has appreciated the opportunity to participate in workshops and working groups around the future of DRAM. Many innovative and interesting ideas were proposed, but CESA has some concerns that the proposed reforms and improvements are too numerous and may overly complicate the DRAM and create unnecessary administrative burdens if the collection of ideas are not screened to determine the best few that would accomplish the to-be-determined goals of the DRAM. In other words, CESA recommends that the Commission and stakeholders in this proceeding strive to identify and differentiate the short-term minor fixes needed to support a bridge 2019 DRAM auction and the core long-term fixes needed to create a sustainable DRAM mechanism that provides reliable and competitive Resource Adequacy (“RA”) services. For example, the list of proposed reforms and improvements include changes to the RA showing

process, performance penalties and incentives, deployment milestones, and invoicing, which, layered together, may create significant administrative burden and potential for over-penalizing DRAM resources at multiple steps in the process (*i.e.*, from deployment to performing to payment).

CESA recognizes the desire and need for greater certainty for DRAM resources in RA counting and in performance, but there may be duplicative or unnecessary checks and penalties across the collection of proposals. Instead, CESA recommends that the Commission focus on generating this certainty through performance incentives and penalties. Notwithstanding, it may lead to better program design to better understand the impacts of each program design change by making iterative improvements versus making a wide collection of changes all at once.

Thus, in the comments below, CESA provides our responses to the questions posed in the Ruling, structured under the following key recommendation points:

- The proposed two-step approach should be adopted with Step 1 focusing on minor improvements to ensure timely and successful implementation of the “bridge” 2019 auction and with Step 2 focusing on the appropriate long-term goals and improvements.
- Clear and broad goals, flexible but focused objectives, and the four principles identified at the workshop should be adopted.
- Multiple options for verifying qualifying capacity in supply plans and invoicing on demonstrated capacity should be allowed.
- Minimum dispatch hour performance requirements should be aligned with actual reliability and capacity needs.
- Penalties and incentives should mirror that of the Capacity Bidding Program.
- Limited contract changes should be made at this time.
- Market transformation remains an important objective of the DRAM and limited set-asides should be maintained to encourage new entrants and residential customer participation.

- Reporting and monitoring is prudent but should be balanced against administrative costs to the Commission, utilities, and demand response providers.
- The average August bid price cap should be replaced with the Net Market Value cap.

Finally, CESA generally supports the goal of ensuring high performance of DRAM resources, especially as energy storage resources are well-positioned to provide immediately dispatchable and frequent DR services without facing customer attrition issues faced by other DR resource types. If additional requirements are added to the DRAM to increase utilization and performance (*e.g.*, minimum energy dispatch requirement), CESA recommends that the Commission and stakeholders consider ideas to compensate these capabilities. Without the commensurate recognition of these added capabilities, CESA is concerned that energy storage resources may struggle to succeed in the DRAM given the higher initial capital expenditure of energy storage resources.

II. THE PROPOSED TWO-STEP APPROACH SHOULD BE ADOPTED WITH STEP 1 FOCUSING ON MINOR IMPROVEMENTS TO ENSURE TIMELY AND SUCCESSFUL IMPLEMENTATION OF THE “BRIDGE” 2019 AUCTION AND WITH STEP 2 FOCUSING ON THE APPROPRIATE LONG-TERM GOALS AND IMPROVEMENTS.

Question 1: Explain, in detail, whether the Commission should adopt a two-step approach wherein the auction mechanism is adopted.

CESA supports the two-step approach proposed by Pacific Gas and Electric Company (“PG&E”) and believes it presents a reasonable path forward in the interim that ensures market opportunities and certainty for third-party DRPs and continued market transformation in engaging new customers in DR portfolios in the interim while affording greater time for the Commission, investor-owned utilities (“IOUs”), and other stakeholders to resolve longer-term improvements. Especially as some of the longer-term improvements require further analysis and discussion

around the goals and objectives of the DRAM and require some consensus building around the commensurate *pro forma* contract changes, PG&E's two-step approach allows the Commission to more carefully and deliberately institute appropriate changes and improvements to the mechanisms, instead of rushing to implement drastic and many changes to the mechanism.

Question 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.

To ensure timely implementation of a solicitation in 2019, CESA recommends that the Commission focus on limited critical improvements in the near term, focusing on protocols (*e.g.*, data sharing) and auction structures that can be more easily implemented in a matter of one to two months as opposed to contract (*e.g.*, minimum energy dispatch) or tariff (*e.g.*, Rule 24/32) changes that require more extensive regulatory and stakeholder review processes over the course of many months. In addition, as the DRAM Evaluation Report revealed some concerns about some bad actors in the mechanism, interim controls and audits may be necessary and could be implemented for the 2019 DRAM while more durable controls, penalties, and reporting requirements are developed.

Question 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?

Under the two-step approach, CESA believes that it is reasonable for the Commission, at minimum, authorize a budget for the 2019 DRAM auction that is similar to the budget amount authorized for the fourth DRAM pilot in 2018 – *i.e.*, \$6 million for PG&E, \$6 million for Southern California Edison Company (“SCE”), and \$1.5 million for San Diego Gas and Electric Company (“SDG&E”). CESA concurs with PG&E's view that the bridge period authorization is intended

to be focused on a few tweaks to allow for additional time to make longer-term, potentially more substantive improvements to the DRAM. As such, the purpose of the bridge period authorization appears to be similar to the ones adopted for authorizing the 2018 DRAM IV pilot, where the additional authorization would create third-party DRP opportunities (that would otherwise be “limited”) and would support a market for competitive DR.² Until the long-term goal of the DRAM is defined, there does not appear to be an immediately apparent alternative basis to determine the appropriate budget amount.³

Question 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.

CESA is concerned that a final decision issued by July 11, 2019 would not leave sufficient time for the solicitation to occur – *i.e.*, approximately less than one month for the solicitation to occur and for third-party DRPs to obtain a Resource ID by August 1, 2019 for the IOUs’ year-ahead compliance showing. Unless a solution like the Supply Side Working Group’s (“SSWG”) proposal is adopted whereby the requirement to obtain a California Independent System Operator (“CAISO”) Resource ID is removed for an IOU to receive RA credit in their year-ahead showing,⁴

² *Decision Adopting Steps for Implementing the Competitive Neutrality Cost Causation Principle, Requiring an Auction in 2018 for the Demand Response Auction Mechanism, and Establishing a Working Group for the Creation of New Models of Demand Response*, D.17-10-017, filed on October 26, 2017 in R.13-09-011, p. 32. <http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M198/K319/198319901.PDF>

³ For example, if the long-term goal of the DRAM is to support a specific grid need, then the budget could be tied to having a portion of that need be met by DRAM resources. Alternatively, if the long-term goal of the DRAM is to support customer engagement at some target level, then the DRAM could potentially be authorized with the appropriate budget amount needed to achieve those targets. The budget could also be determined by a combination of those factors. In any case, the budget authorization should be tied to a degree on the long-term goal(s) and objectives established for the DRAM.

⁴ *Supply Side Working Group Proposal to Address Multi-Year Procurement Contracts*, filed on July 10, 2018 in R.17-09-020. <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M233/K591/233591622.PDF>

the Commission should consider moving up the schedule for the final decision to May 11, 2019 to approve minor improvements to the mechanism, allowing for the solicitation and deployment of DRAM resources to occur over a three-month period and thus increasing the odds of success of the 2019 solicitation.

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

CESA sees no need to review and approve DRAM contracts in an Advice Letter process so long as upfront DRAM solicitation structures and contracts are approved in advance, with broad stakeholder consensus. Even beyond the bridge period, CESA supports streamlining the annual DRAM schedule to only have information-only Advice Letters that are submitted to announce the approval of selected DRAM contracts. In addition, given that the DRAM will be reviewed and iteratively improved within the proposed two-step process, CESA sees no need to add a regulatory approval step for a solicitation with a standardized *pro forma* contract and with oversight from an independent evaluator. While regulatory oversight and stakeholder review is prudent and important in general, CESA believes the appropriate due process can occur on the front end with review and approval of the solicitation structure, evaluation criteria, and *pro forma* contract, thereby allowing actual implementation of the mechanism to occur in a streamlined fashion that ultimately supports the success of the DRAM.

Question 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.

In Step 2, CESA recommends the use of a workshop to finalize some of the broader policy questions around the goals, objectives, and principles of the DRAM while leveraging monthly or biweekly working group structures to address some of the technical details of modifying the DRAM contract, including around setting minimum dispatch hours, adding or adjusting penalties and incentives for performance, and other service provision and contractual issues. Such a workshop should be held in May as a follow-up to the decision on the bridge authorization and working group meetings should commence thereafter from June to August. CESA sees no need for evidentiary hearings, which would only make it more challenging to achieve the recommended timeline.

Question 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?

CESA supports holding an annual workshop in the first quarter of every year (*e.g.*, January) for the Commission, IOUs, and other stakeholders to raise potential improvement areas for the DRAM. Working groups can be initiated if needed to iterate and work on key improvement areas and should approve and implement any necessary changes prior to a spring auction. Importantly, the Commission should focus on proactive changes for future DRAM contracts.

Question 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?

CESA has no response to this question as we support the Commission adopting PG&E's two-step approach.

III. CLEAR AND BROAD GOALS, FLEXIBLE BUT FOCUSED OBJECTIVES, AND THE FOUR PRINCIPLES IDENTIFIED AT THE WORKSHOP SHOULD BE ADOPTED.

Question 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?

CESA recommends the following goal for DRAM: “enable third-party demand response providers to provide cost-effective integrated grid services that meet grid needs.” CESA believes this goal is broad enough to ensure competition, cost effectiveness, and flexibility for the DRAM to be used for all types of grid services – *e.g.*, System, Local, and Flexible RA. While the focus of the DRAM has been on the summer peaking months, resources like energy storage may be able to provide value throughout the year, such as in the shoulder months when ramping needs are highest. A broad goal thus supports the ability of the DRAM to solicit for different types of RA services.

Question 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?

CESA supports the four principles identified at the workshop around a level playing field, competition, and transparency, as these principles generally underly one of the main purposes of having a DRAM.

Many interesting and important objectives were also shared at the workshop. While supportive to some degree of all the objectives presented, CESA recommends a simpler focus on customer engagement, a level playing field, reliability, and greenhouse gas (“GHG”) emissions reduction – each of which can be specified, measured, and attained. Specifically, CESA recommends the following:

- **Procurement increase: DRAM procurement represents at least 50% of total DR resources procured by 2025.** Year-on-year increase goals may be too rigid and the focus should instead be on end goals. By pursuing a 50% goal, the Commission can be assured of a balanced playing field and sufficient opportunities for third-party DRPs. This goal could also serve as a proxy for new customer engagement.
- **Customer performance: Monthly demonstrated capacity equals 90% by 2025.** This appears to be a reasonable and achievable goal for DRAM resources to provide RA capacity. The specific target percentage should be benchmarked against performance of other RA resources, other DR programs, etc.
- **Emissions reduction: Emissions are reduced by some amount by 2025.** This objective is worthy and warrants inclusion as a goal of DRAM but is also the least defined, in part because there are questions about how evaluation should be done for DR resources and what the target should be set at. Similar to the procurement increase objective, this objective should be set as an end goal to allow for year-to-year flexibility. The end target could be informed by the GHG emissions targets determined in and modeling being conducted in the Integrated Resource Planning (“IRP”) proceeding.

A number of other objectives were shared at the workshop, but CESA finds the above as more simply focusing on the most important objectives and providing while eliminating any redundant or less relevant objectives.

IV. MULTIPLE OPTIONS FOR VERIFYING QUALIFYING CAPACITY IN SUPPLY PLANS AND INVOICING ON DEMONSTRATED CAPACITY SHOULD BE ALLOWED.

Question 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.

The IOUs have expressed that they do not have sufficient confidence in qualifying capacity (“QC”) in their supply plans, leading PG&E to propose the utilization of past demonstrated capacity performance to calculate qualifying capacity or increasing the number of event dispatches

via testing and actual dispatch. Meanwhile, the Joint DR Parties propose discretionary audits conducted by the IOUs for DRPs that require further substantiation of their QC in supply plans. For the purposes of the bridge 2019 DRAM solicitation, CESA recommends that the current QC rules be maintained such that contracted capacity be used to calculate the QC, followed by some discretionary audits as need, as recommended by the Joint DR Parties. However, for DRPs that are found to be bad actors, more additional testing or utilization of their past demonstrated capacity (as proposed by PG&E) may be needed and appropriate, but not all DRPs such as the good actors should be subject to the alternative methods.

For future auctions, CESA finds it reasonable to explore other options. For example, while not ideal, some additional testing when not actually dispatched in the market does not pose as large of a burden on resources such as energy storage, given that customer impact and attrition is less of an impact for customers with energy storage and separate ‘loads’ from onsite customer load. At the same time, additional testing can pose significant challenges for other DR resource types, so multiple options should be maintained to calculate and verify QC values, especially as new combinations of load-modifying DR and energy storage are being increasingly deployed in the market today.

Question 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.

SCE proposes additional testing every second month as well as eliminating the use of the MOO option when the demonstrated capacity (“DC”) was determined, by testing or dispatch, to be less than the QC shown on the RA supply plan. On SCE’s second proposal, CESA believes that

the minimum energy dispatch and performance penalties (*e.g.*, RAAIM) should address actual and potential under-performance, whether resources are dispatched or not. In other words, resources that tested or dispatched less than their QC should be penalized for their under-performance in the previous month and not be subjected to additional requirements in the next month if not selected. Furthermore, if some minimum energy dispatch requirement is adopted, the issue of lack of dispatch should also decrease.

V. **MINIMUM DISPATCH HOUR PERFORMANCE REQUIREMENTS SHOULD BE ALIGNED WITH ACTUAL RELIABILITY AND CAPACITY NEEDS.**

Question 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.

CESA understands that the Commission staff is concerned with the low level of dispatch, as measured by the scheduling rate, of DRAM resources during high demand hours, leading staff to propose a minimum energy dispatch requirement of 30 hours between May and October and/or an optional bid parameter for bidders to commit some level of energy dispatch for their resource. First, CESA notes that DRAM resources are capacity products that are subject to must-offer obligations such that an energy dispatch requirement would subject DRAM resources to requirements that are not present for other RA resources. As a mechanism to solicit and contract for capacity products, DRAM resources have been operating within the RA rules to offer their contracted/qualifying capacity into the market, regardless of whether and the degree to which they

are scheduled in the day-ahead market and dispatched in the real-time market.⁵ Instead of an energy dispatch requirement, CESA finds it simpler to consider PG&E's proposal for post-2020 DRAM resources to be assessed an RA Availability Incentive Mechanism ("RAAIM") penalty, which PG&E observes as not applying to resources less than 1 MW. CESA agrees with PG&E that a minimum dispatch and energy requirement is arbitrary and could be administratively difficult.

However, if an energy requirement is desired, such a requirement should be considered as a long-term improvement that should not be developed and incorporated into the bridge 2019 DRAM auction. Setting an energy dispatch requirement that is not tied to a specific grid need could lead to arbitrary and non-useful dispatch. For example, a 30-hour energy dispatch requirement could lead DRAM resources to be dispatched at an arbitrary time (*e.g.*, 3 am) to meet this programmatic requirement and thus would not necessarily incentivize dispatch during periods when that energy is needed. Rather, CESA recommends further Commission analysis be completed to identify the key reliability criteria and then to determine how to align energy dispatch with system or local needs. In the DRAM Evaluation Report, such analysis was not sufficiently conducted – *i.e.*, analysis was conducted on gross peak demand, not net peak, and no analysis was conducted on the correlation of peak demand and energy prices. Without such an analysis, it is unclear on how to set the number of hours for the energy dispatch requirement and on whether the wholesale market will send the price signals needed to incentivize energy dispatch. The obligations for energy dispatch will likely need to be defined, which cannot be smartly done

⁵ In addition, CESA does not agree with the characterization that the lack of dispatch or lack of frequent dispatch necessarily reduces the capacity value of DRAM resources, as there is major reliability and GHG emissions value in being dispatched, albeit less frequently, for the 'peakiest' of needs.

without further analysis. CESA could support an energy dispatch requirement in principle but the obligations must be clearly defined and aligned to address the intended grid need.

VI. PENALTIES AND INCENTIVES SHOULD MIRROR THAT OF THE CAPACITY BIDDING PROGRAM.

Question 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.

CESA recommends that the penalty structure for DRAM resources to mirror that of the Capacity Bidding Program (“CBP”), a similar DR capacity program with the IOU as the administrator. To ensure a level playing field, it is reasonable to mirror the CBP penalty structure and not establish a more punitive structure for the DRAM. Under PG&E’s Schedule E-CBP, for example, capacity payments are adjusted by a factor of 1.05 when delivering more than or equal to 105% of the QC and adjusted by a factor of 0.5 when delivering between 60% and 75% of the QC.⁶ Accordingly, the IOUs should assess penalties on how the resources bid their QC during its must-offer obligation hours. Performance requirements tighter than the CBP should be justified with analysis showing how DRAM is not performing up to the level of the CBP.

Question 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.

See our response to Question 13. The CBP provides some incentive for overperformance by adjusting the capacity payment by a factor of 1.05 when delivering more than or equal to 105% of the QC. Similar over-performance incentive structures should apply for the DRAM. Given the

⁶ See Schedule E-CBP, p. 7. https://www.pge.com/tariffs/assets/pdf/tariffbook/ELEC_SCHEDS_E-CBP.pdf

varying degree of the probabilistic nature of DR response, it seems reasonable to incentivize some marginal over-performance coupled with some tolerance band for an acceptable amount of under-performance.

VII. LIMITED CONTRACT CHANGES SHOULD BE MADE AT THIS TIME.

Question 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.

CESA has no comment at this time.

Question 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.

CESA has no comment at this time.

Question 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.

CESA does not recommend adopting implementation milestones as performance incentives and penalties should provide sufficient financial incentives to ensure many milestones are met. The DRAM risks punitive and multiple penalties of DRPs are faced with both financial penalties due to performance and achieving milestones.

VIII. REPORTING AND MONITORING IS PRUDENT BUT SHOULD BE BALANCED AGAINST ADMINISTRATIVE COSTS TO THE COMMISSION, UTILITIES, AND DEMAND RESPONSE PROVIDERS.

Question 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.

CESA supports the submission of performance reports to inform evaluation and future changes. The reporting should not be overly burdensome to administer, so this requirement could be limited to an annual frequency at most.

Question 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?

CESA supports monitoring and evaluating the DRAM, which could be supported by a third-party entity to ensure timely and independent review.

IX. MARKET TRANSFORMATION REMAINS AN IMPORTANT OBJECTIVE OF THE MECHANISM AND LIMITED SET-ASIDES SHOULD BE MAINTAINED TO ENCOURAGE NEW ENTRANTS AND RESIDENTIAL CUSTOMER PARTICIPATION.

Question 21: Should the Commission set a limit on market share? Explain what the limit should be.

Rather than a limit on market share of any given DRP, CESA recommends that the Commission establish a 10% “new entrant” set-aside to allow for new DRPs to gain experience in the DRAM and to facilitate more diversity and thus potentially more competition in DRAM providers. The DRAM is still in its early stages, and the range of DRPs in the DRAM pilots have dwindled to some degree across the years, leading to some concerns in the DRAM Evaluation Report about market concentration. By its nature, the DRAM mechanism will naturally lead to

some degree of concentration for the best performers who can deliver capacity at the lowest cost, who should not necessarily be capped if the DRAM is intended to deliver more cost-competitive DR resources. However, with this new entrant set-aside, some level of market transformation and learning from new DRPs are assured. As will be discussed in our response to the next question, CESA also recommends that the new entrant set-aside be applied separately between the residential and non-residential buckets.

The key issue will be in defining “new entrant” to determine eligibility for this set-aside of funding. This definition could be strict and be defined to only include DRPs that have never been awarded a DRAM contract, or alternatively, it could have some flexibility to define a “new entrant” DRP as, for example, one that has been awarded no more than 1 MW of capacity at any point in the history of DRAM. In doing so, it may encourage DRPs to incrementally bid into the DRAM to be awarded small contracts over time for learning purposes before they scale to larger opportunities in the DRAM. CESA thus favors the more flexible and reasonable definition of “new entrant” where DRPs are eligible for the set-aside if one has been awarded no more than 1 MW of capacity at any point in the DRAM.

Question 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.

CESA also supports a 10% residential set-aside to continue to foster market transformation of residential customers – a customer segment that represented a new and emerging class of customers engaged in a DR program/portfolio for the first time, according to the DRAM Evaluation Report. The proposed 10% set-aside is lower than the current 20% set-aside for residential customers, which partially addresses some of the concerns raised by the independent evaluator and other stakeholders around lower-cost non-residential customer bids being bypassed

for residential customer bids, while preserving DRAM budget to support market transformation of the residential customer segment.

X. THE AVERAGE AUGUST BID PRICE CAP SHOULD BE REPLACED WITH THE NET MARKET VALUE CAP.

Question 21: 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, based on the adjusted Long Run Avoided Cost of Generation described in the Pilot Evaluation.

CESA supports the replacement of the average August bid price cap with the Net Market Value cap, as proposed by SDG&E. This is one of the critical minor improvements that will support the sustained continuation of the DRAM and should be immediately adopted.

XI. CONCLUSION.

CESA appreciates the opportunity to submit these comments to the Ruling and looks forward to working with the Commission and stakeholders in this proceeding.

Respectfully submitted,



Alex J. Morris
Vice President, Policy & Operations
CALIFORNIA ENERGY STORAGE ALLIANCE
2150 Allston Way, Suite 400
Berkeley, California 94704
Telephone: (510) 665-7811 x110
Email: amorris@storagealliance.org

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