

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

And Related Matters.

Application 17-01-018

Application 17-01-019

**RESPONSE OF THE PUBLIC ADVOCATES OFFICE ON THE
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
[PUBLIC]**

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I. INTRODUCTION

Pursuant to the February 28, 2019 *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* (Ruling), the Public Advocates Office hereby submits the following responses. The Ruling directs parties to respond to questions stemming from a workshop held on February 11-12, 2019 in which participants discussed 1) goals for the Demand Response Auction Mechanism (DRAM); 2) DRAM objectives; 3) proposals to ensure the accuracy of Qualifying Capacity reporting; 4) proposals to improve performance; 5) proposals to ensure the accuracy of Demonstrated Capacity invoicing; 6) proposals for contract improvements; and 7) whether DRAM should have an energy component and the proposals to increase dispatch hours.

Additionally, parties discussed the option of adopting a “two-step” approach, consisting of 1) a short-term plan where the Commission would authorize a bridge period (2019 solicitations for 2020 deliveries) for DRAM, incorporating critical improvements to the mechanism; and 2) a long-term plan where the Commission continuously improves DRAM in future decisions based on additional experience, continuous monitoring, and evaluation data from future solicitations.

II. SUMMARY OF RECOMMENDATIONS

In the responses below, the Public Advocates Office makes the following recommendations:

- The two-step approach is sensible, though DRAM should only be extended beyond the 2020 RFO if critical improvements are successfully implemented in Step One of the two-step approach such that DRAM performs its basic RA capacity function.

- Ratepayers should only pay for Demand Response capacity benefits that are real, measurable and demonstrable.
- The Commission should require more testing to demonstrate available capacity and disallow the use of Must Offer Obligation (MOO) to demonstrate capacity-since DRAM pilots are exempted from Load Impact Protocols (LIPs) and there is no other ex-ante forecasting method to accurately estimate the contract capacity (or Contract Quantity) claimed by a Demand Response Provider (DRP).¹
- Capacity payments should be based on Demonstrated Capacity established through tests or dispatch.
- The Commission should impose penalties for underperformance and stricter penalties for gaming.
- The Commission should adopt a short-term “feedback loop” that utilizes past Demonstrated Capacity quantities to calculate Qualifying Capacity for Annual and Monthly RA Supply Plans.
- Before adopting any change in the current cap based on the simple average August bid price to a cap based on SDG&E’s proposal, SDG&E should demonstrate that its proposal will not result in winning bids that provide very little August (i.e., summer) capacity but provide large amounts of non-summer month capacity

III. RESPONSES TO THE RULING QUESTIONS

Two-Step Approach

- 1. Explain, in detail, whether the Commission should adopt a two-step approach wherein the auction*

¹ Although CAISO requires that all RA resources must offer resources for dispatch during Availability Assessment Hours (per MOO), there are no restrictions concerning at what prices Demand Response (DR) R resources are offered as long as the price does not exceed the CAISO’s bid cap (currently at \$1,000/MWH). This allows DR providers to offer DR resources at prices substantially above the market clearing prices in the Day-Ahead Market (DAM), and thus avoid/minimize the possibility of being dispatched. The current contract allows DR providers to use MOO to demonstrate their capacity obligations and receive capacity payments without actually being dispatched.

*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.*

The Public Advocates Office supports the adoption of a two-step approach only if adoption of Step Two is contingent on the successful implementation of critical improvements in Step One. Step One should utilize past Demonstrated Capacity quantities to accurately calculate Qualifying Capacity, provide penalties and adjust Qualifying Capacity with a reconciliation feedback loop between Demonstrated Capacity and Qualifying Capacity. These critical improvements should ensure sufficient accountability, transparency, and intent to perform on the part of the DRPs.

The Public Advocates Office support's Pacific Gas and Electric Company's (PG&E) phased approach that modifies the current accelerated schedule.² If the Commission decides that a 2020 DRAM Request For Offers (RFO) is necessary, regardless of Resource Adequacy (RA) need, PG&E proposes a short-term solution structured as a pilot focused on testing stronger requirements on performance and reliability of DRAM resources, under a RA tag-only DRAM product.³ This short-term solution would not expand DRAM in terms of total procured capacity procured in megawatts (MW) or budgets.

A phased approach is critical to immediately address the gaps and flaws in DRAM as detailed and identified in Energy Division's (Staff) Evaluation Report,⁴

² PG&E Introduction to DRAM Working Group Proposals at pp. 1-2.

³ PG&E Introduction to DRAM Working Group Proposals at p. 2.

⁴ "Additional analysis of Demonstrated Capacity relative to the contract capacity ... exposed an important gap in the design of the DRAM pilot. This relates to the fact that resources were exempted from Load Impact Protocols (LIPs) during the DRAM pilot. However, no other ex-ante forecasting method to estimate the contract capacity or Supply Plan capacity was provided by the Commission. Therefore, there is no

PG&E's Introduction to DRAM Working Group Proposals,⁵ and the Independent Audit Reports from Southern California Edison Company (SCE) and PG&E, before considering whether to extend the Auction Mechanism.⁶ This will ensure that capacity purchased in the DRAM is real and deliverable without significant risks to ratepayers or reliability.

However, DRAM should only be extended beyond the 2020 RFO if these critical improvements are successfully implemented in Step One of the two-step approach such that DRAM performs its basic RA capacity function.

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.*

If the Commission authorizes a two-step approach, it should adopt the critical recommendations outlined in PG&E's Working Group (WG) 1.1 Proposal.⁷ These recommendations include:

standard available to evaluate the accuracy of the capacity claimed on the Supply Plan as well as the Demonstrated invoices based on the MOO option. Consequently, Staff concluded that any comparison of Supply Plan or MOO-based Demonstrated Capacity aggregation level to the contract capacity could and should be regarded as inconclusive at best." DRAM Evaluation Report at p. 96.

⁵ Specific issues include: 1) meeting milestones between when contracts are signed and when supply plans are due; 2) Standards to measure qualifying capacity at the supply plan level that rely on existing CPUC-approved methodologies; 3) Incremental improvements to demonstrations of capacity and timely invoicing; 4) Resolution of major gaps in assessing penalties; and 5) Regular reporting, supported by independent assessments (if [demand response providers (DRPs)] DRPs seek to limit certain areas of transparency). See PG&E Introduction to DRAM Working Group Proposals at p. 2.

⁶ Independent Audit Reports from SCE and PG&E raise serious concerns and identify defects in the way certain DRPs calculate capacity on monthly invoices and supply plans. The audits suggest certain DRPs significantly misrepresented actual load shedding abilities and curtailable capacity of subject customers. As a result, ratepayers (and IOUs) paid for inflated or non-existent RA capacity. See Motion of Southern California Edison Company (U 338-E) For Inclusion of Independent Audit Report in Energy Division's Final Evaluation Report of the Demand Response Auction Mechanism and Motion of Pacific Gas and Electric Company (U 39 E) For Inclusion of "PG&E Summary of 2018-2019 DRAM RFO Audit Analysis, Results as of December 4, 2018" in Energy Division's Final Evaluation Report of the Demand Response Auction Mechanism. PG&E's confidential Independent Audit Reports is attached herein as Attachment A and SCE's confidential Independent Audit Reports is attached herein as Attachment B.

⁷ PG&E WG 1.1 Proposal at pp. 2-3.

- 1) Utilize past Demonstrated Capacity performance methodology (Demonstrated Capacity energy baseline, not capacity baseline) to calculate Qualifying Capacity;
- 2) Increase the number of event dispatches via testing or actual California Independent System Operator (CAISO) market dispatch to every two months;
- 3) Include a mechanism to penalize and adjust Qualifying Capacity with a reconciliation feedback loop between Demonstrated Capacity and Qualifying Capacity;
- 4) Contract with an Independent Actor to bridge Energy Division and DRAM Seller that monitors and provides support to Seller with formulation of Qualifying Capacity and Demonstrated Capacity;
- 5) Allow new DRAM Sellers to use Contract Quantity as Qualifying Capacity until sufficient historical Demand Response (DR) event data is collected to establish performance.”⁸

These critical recommendations are necessary to ensure sufficient accountability, transparency, and intent to perform on the part of the Demand Resource Providers (DRPs), consistent with California Public Utilities (PU) Code Section 380.5, which obligates the Commission to ensure that a program approved for RA, such as DRAM, “delivers the expected results and provides ratepayer benefits.”² Moreover, the Commission should not expand DRAM in terms of total pro-rated capacity procured (in MW) or budgets unless these critical recommendations successfully address the key issues identified by the utilities, Energy Division Staff, and the Independent Audit Reports mentioned in the above response to Question 1.

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?*

⁸ PG&E WG 1.1 Proposal at pp. 2-3.

² Public Utilities (PU) Code Section 380.5(a)(2).

Since Step One only addresses the critical improvements to get DRAM to perform its basic RA capacity function, the Commission should adopt a budget no greater than the amounts approved for the first DRAM auction (\$4 million for PG&E and SCE each, and \$1 million for San Diego Gas & Electric Company SDG&E) to balance market continuity against the risk of non-performance that burdens ratepayers.

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.*

The Public Advocates Office reserves the right to comment on this issue in its Reply Comments.

5. *In the Pilot Evaluation, Staff recommended an expedited schedule 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.*

The Public Advocates Office supports any reasonable schedule for short-term procurement for May 2020 deliveries as long as it allows for Commission review and approval of contracts resulting from a 2019 DRAM RFO. Given the critical gaps and flaws identified in the Energy Division's Evaluation Report the Commission should not waive Commission review and approval of DRAM contracts in order to ensure that such gaps and flaws are corrected before the Commission authorizes any additional solicitations.

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.

The Public Advocates Office reserves the right to comment on this issue in its Reply Comments.

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?*

If the critical improvements to get DRAM to perform its basic RA capacity function are not successful in Step One, the Commission should not pursue Step Two. However, the Public Advocates Office reserves the right to further comment on this issue in its Reply Comments.

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.*

The Public Advocates Office supports the following goal listed in Table 2: “The goal is to use a cost-competitive mechanism to procure reliable demand response to meet *changing* grid needs where benefits are greater than costs and grow demand response among diverse DR providers.”¹⁰

¹⁰ ALJ 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 (DRAM Ruling) at p. 6.

This goal statement emphasizes the need for DRAM pilots to result in a cost-competitive mechanism that can compete with other RA resources without subsidies.

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.*

The Public Advocates Office supports the following objective listed in Table 2: “Customer Performance: Monthly Demonstrated Capacity equals 90 percent by 2025.” The Public Advocates Office interprets this to mean Monthly Demonstrated Capacity equals 90 percent *of contract capacity or Contract Quantity* by 2025.

Building off the principles already discussed, the Public Advocates Office recommends the addition of the following principles to ensure DRAM delivers the expected results and provides ratepayer benefits:

- DR capacity benefits should be measurable and demonstrable.
 - Capacity payments should be based on Demonstrated Capacity using actual or test “full dispatch.”¹¹
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 “Full dispatch” means a dispatch of a Proxy Demand Resource (PDR) or Reliability Demand Response Resource (RDRR) of the DRAM Resource in the CAISO market for 100% of the associated monthly capacity, as submitted in a Seller’s Supply Plan for that Showing Month.

If the Commission determines not to authorize a two-step approach, it should not authorize a continuation of DRAM in its current form. At a minimum, any Auction Mechanism must perform its basic RA capacity function. As discussed above, the Staff Evaluation Report demonstrates that the current Auction Mechanism has failed to meet this minimum standard.

Two separately commissioned Independent Audit Reports from SCE and PG&E similarly found major discrepancies in the methodologies used by certain DRPs to represent Demonstrated Capacity in the monthly Supply Plans and invoices. Certain DRPs significantly overstated capacity by up to three times overall customer usage.¹² Current DRAM rules fail to clearly address these issues, thus providing loopholes for DRPs to massively inflate Demonstrated Capacity, and thus inflate the costs to ratepayers.

If the Commission does not address the discrepancies between Demonstrated Capacity and actual curtailable load, then the utilities and ratepayers will consequently pay for undeliverable and non-existent capacity. The Commission should not authorize recovery for these costs because they are unreasonable.¹³ Without critical changes that successfully address these issues, the Commission should not authorize the continuation of DRAM because it would not represent a prudent and reasonable use of ratepayer funds.

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 Motion of Southern California Edison Company (U 338-E) For Inclusion of Independent Audit Report in Energy Division's Final Evaluation Report of the Demand Response Auction Mechanism at p. 2.

¹³ PU Code Section 451. "All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.

The Public Advocates Office supports the short-term “feedback loop” proposal put forth by PG&E that utilizes past Demonstrated Capacity quantities (with CAISO and CPUC approved Demonstrated Capacity energy baseline) to calculate Qualifying Capacity for Annual and Monthly RA Supply Plans. As part of this proposal, the Public Advocates Office recommends disallowing the use of MOO to demonstrate capacity.

DRPs and their customers have an inherent conflict of interest in curtailing their electric load as it negatively affects their businesses (production, comfort, etc.) in most, if not all, cases. Additionally, the DRAM pilot currently lacks transparency due to the fact that DRPs are exempt from Load Impact Protocols (LIPs), and the Commission has not established any other ex-ante forecasting methodology to estimate the contract capacity (or Contract Quantity) or Supply Plan Capacity claimed by a DRP.

Although CAISO requires all RA resources to be offered for dispatch during the Availability Assessment Hours (per MOO), there are no restrictions on the price DR resources are offered at as long as the price does not exceed the CAISO’s bid cap (currently at \$1,000/MWH). This allows DRPs to offer DR resources at substantially above market clearing prices in the Day-Ahead Market (DAM), and thus avoid or minimize the possibility of being dispatched in the real-time market. As a result, the current contract allows DRPs to use MOO to demonstrate their capacity obligations have been met and receive capacity payments without being dispatched.

The Public Advocates Office also supports proposals for penalties on Demonstrated Capacity shortfalls in both Contracted Quantity (CQ) and Supply Plan Capacity, and more frequent testing (testing every two months if DRAM resources are not fully dispatched in those months). Such penalties would encourage Sellers to be more realistic in their MWs contracted in their DRAM solicitations and MWs reported in their supply plans leading into each showing month, which would help address reliability concerns.

12. Explain whether the Commission should adopt an energy component requirement for 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.

The Public Advocates Office supports a minimum dispatch hour performance requirement, though this requirement is less critical if the MOO option for demonstrating capacity is eliminated. The purpose of a minimum dispatch hour performance requirement is to ensure that DRAM resources are reliable and can perform as per dispatch instructions. However, more frequent testing and Qualifying Capacity adjustments, as well as penalties for any shortfalls would provide significant assurances for Investor Owned Utilities (IOUs) and minimize the need for a minimum dispatch hour performance requirement.

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.

The Commission should adopt penalties for shortfalls in Qualifying Capacity and Demonstrated Capacity. Although some flexibility with respect to Supply Plans may be needed due to the uncertainty in customers' response, seasonality of load, and variable weather conditions etc., that flexibility should not come at ratepayers' expense in the form of inflated capacity payments or any shortfall related costs.¹⁴

¹⁴ Currently, DRAM resources are assigned a Qualifying Capacity = Contract Quantity (CQ) which is based on bidders' estimates only. This increases the possibility that bidders may not be able to show Demonstrated Capacity equal to CQ. This could result in IOU having to procure the capacity shortfall.

The Public Advocates Office supports SCE's penalty structure proposal Part A that varies by when the DRP notifies the LSE of a lower RA megawatt quantity.¹⁵ Such a structure is reasonable because it encourages Sellers to be more realistic about their capacity contracted in DRAM solicitations and capacity reported on supply plans leading into each showing month while also accommodating the variability of customer responses.

In addition to financial penalties for Sellers that provide less capacity than for the amount specified under contract, a deficient DRP should be responsible for any costs allocated to the IOU by CAISO for capacity procured by CAISO pursuant the Capacity Procurement Mechanism with respect to any Shortfall Capacity as outlined in SCE's Penalty Structure Proposal Part B.¹⁶ This would ensure that costs associated with a DRP's shortfall are not passed on to ratepayers.

Lastly, the Commission should adopt PG&E's long-term proposal to impose a Resource Adequacy Availability Incentive Mechanism (RAAIM)-like penalty structure for resources less than 1 MW as such resources are currently exempt from RAAIM penalties under CAISO rules. This would reduce the incentive to size the resource just below 1 MW for the sole purpose of avoiding underperformance penalties and thus potentially provide additional DR resources capable of performing as contracted.¹⁷

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 See SCE WG Proposal 1.3 at pp. 1-2.

¹⁶ See SCE WG Proposal 1.3 at p. 2.

¹⁷ PG&E Proposal for WG Topic 1.2 at p. 1. "Exemption of RAAIM for resources under 1MW: CAISO's penalty for not meeting the must offer obligation (MOO), the Resource Adequacy Availability Incentive Mechanism (RAAIM), is only applicable for resources over 1 MW. Today, most DR resources are under 1 MW. This loophole incentivizes resources to be under 1 MW if they cannot meet their MOO and want to avoid being penalized."

Ratepayer funds should not be used to incentivize over-performance because over-performance does not provide any additional RA benefit. This would also eliminate any need for sorting out between the intentional over-performers and any incidental over-performance (free-riders) by a DRP.

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.

DRPs should use dispatch and testing to demonstrate capacity, while MOO invoices should be eliminated because MOO does not actually “demonstrate” whether capacity/load-shedding abilities are available or deliverable if called and for the reasons already stated in response to Question 11. In months where there is no full dispatch, the Commission should require testing of the non-dispatched resources. Otherwise, DRPs should demonstrate capacity through full dispatch or testing every two months.

Partitioning of Contracts for Reassignment

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.

In prior comments, the Public Advocates Office noted potential challenges with contract reassignment in light of the high market concentration of certain DRPs in the DRAM market.¹⁸ Energy Division’s DRAM Evaluation Report found

¹⁸ See *Response of The Office of Ratepayer Advocates on the Administrative Law Judges’ Ruling Requesting Responses to Questions Regarding the Demand Response Auction Mechanism Pilot*, August 17, 2018 at pp. 5-6.

three companies held 88% of the total DRAM capacity for DRAM I-II-III (all three contract years) before contract reassignments.¹⁹ During the first two DRAM auction years, five DRPs reassigned contracts. In the third year (2017), three DRPs reassigned contracts. At the end of the three-year period, those same three companies held 91% of total DRAM capacity, while five DRPs held 94% of total DRAM contract capacity and 95% of total contract value (across the three auctions).²⁰

The Public Advocates Office does not oppose partitioning of contracts if it is transparent and does not impose any additional administrative costs to IOUs that would ultimately be shouldered by ratepayers. Any additional costs associated with overseeing the partitioning process and partitioned contracts should be borne by the DRPs involved and IOUs should be given discretion to review and approve the new counterparty (assignee) to the contract to ensure that performance is not affected, value is not decreased, or risk is not increased.

Also, partitioning of contracts for reassignment should not exacerbate any existing market concentration concerns. Higher market concentration inhibits price competition and concentrates benefits to only a small number of market participants.

Lastly, partitioning of contracts should be discussed with the administering IOU well in advance of the partitioning date, so it is not used at the last minute to avoid any contract default related penalties.

Revenue Quality Meter Data (RQMD)

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

¹⁹ Energy Division's DRAM Evaluation Report at pp. 29-30.

²⁰ Energy Division's DRAM Evaluation Report at pp. 29-30.

providers regarding missing data, data quality concerns, and gaps in data.

The Public Advocates Office reserves the right to comment on this issue in its Reply Comments.

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.

The Public Advocates Office reserves the right to comment on this issue in its Reply Comments.

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.

Public Advocates Office supports requiring DRPs to submit performance reports for purposes of evaluation and providing a feedback loop. Performance reports should align with the CAISO and CPUC-approved Demonstrated Capacity performance methodology (“DC energy baseline”) and inform Qualifying Capacity. Any deviation between Qualifying Capacity and Demonstrated Capacity should reduce Supply Plan Capacity and capacity payments to the DRP.

IOUs and the Energy Division (ED) should receive the performance reports and the reports should be part of the public record so it can be available for Commission evaluation in decision-making.

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?

The Public Advocates Office reserves the right to comment on this issue in its Reply Comments.

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

The Public Advocates Office reserves the right to comment on this issue in its Reply Comments.

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.

If the Commission adopts a two-step approach, the Commission should maintain the 20 percent residential set-aside in Step One and focus on other critical improvements necessary to immediately address the gaps and flaws in DRAM identified in the Staff Evaluation Report and Independent Audits mentioned above. Maintaining the set-aside will also allow the Commission to fairly evaluate any changes implemented in Step One relative to the results prior to those changes. If Step One is successful, the Commission should revisit the 20 percent residential set aside in Step Two.

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

Before adopting any change in the current cap based on the simple average August bid price to a cap based on SDG&E's proposal, SDG&E should demonstrate that its proposal will not result in winning bids that provide very little August (i.e., summer) capacity but provide large amounts of non-summer month capacity. Although the Net Market Value (NMV) of such bids, in some instances, could be greater than NMV of bids that provide larger amounts of August

²¹ SDG&E Response to August 6, 2018 Ruling, August 17, 2018 at p. 3.

capacity, such bids may not be desirable to meet the crucial capacity needs during summer. See the below table for an example where one bid (Bid #2) has a higher NMV than another bid (Bid #1) but provides very little August capacity. If the Commission adopts the NMV cap proposal, it should provide that the IOUs will have the authority to reject such bids in consultation with its Procurement Review Group and the Energy Division, similar to its directive in D.16-09-056 for the current August bid price cap.

Table 1: Example of Evaluating Offers Using Net Market Value²²

	Jan Price (\$)	Jan Volume (kW)	Jan RA Benefits (\$)	Aug Price (\$)	Aug Volume (kW)	Aug RA Benefits (\$)	Total NMV (\$/kW-year)
Bid #1	10	100	1	2	100	8	(\$3.00)²³
Bid #2	0.25	400	1	10	10	8	\$1.37 ²⁴

Respectfully submitted,

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²² All values are hypothetical. Using SDG&E's Attachment A Calculations, NMV for each bid was calculated using the following equation: $[(\text{Jan RA Benefit} * \text{Jan Vol}) - (\text{Jan Price} * \text{Jan Vol}) + (\text{Aug RA Benefit} * \text{Aug Vol}) - (\text{Aug Price} * \text{Aug Vol})] / \text{Average Vol}$. See *SDG&E Response to August 6, 2018 Ruling*, August 17, 2018 at p. 3.

²³ Bid #1 NMV = $[(1 * 100) - (10 * 100) + (8 * 100) - (2 * 100)] / 100$

²⁴ Bid #2 NMV = $[(1 * 400) - (0.25 * 400) + (8 * 10) - (10 * 10)] / 205$

ATTACHMENT A

**PG&E CONFIDENTIAL INDEPENDENT AUDIT REPORT
[REDACTED IN ITS ENTIRETY]**

ATTACHMENT B

**SCE CONFIDENTIAL INDEPENDENT AUDIT REPORT
[REDACTED IN ITS ENTIRETY]**