



BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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Application of Pacific Gas & Electric
Company (U 39-E) 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.

Application 17-01-018
Application 17-01-019

**JOINT RESPONSE OF CPOWER, ENEL X NORTH AMERICA, INC.,
ENERGYHUB, OLIVINE, INC., AND STEM, INC., ON QUESTION 1 OF
ADMINISTRATIVE LAW JUDGE'S RULING OF FEBRUARY 28, 2019**

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CPower, Enel X North America, Inc. (formerly known as EnerNOC, Inc.) (Enel X), EnergyHub, Olivine, Inc. (Olivine), and Stem, Inc. (Stem) respectfully submit this Joint Response to Question 1 on the Demand Response Auction Mechanism (DRAM) posed in the Administrative Law Judge’s (ALJ’s) Ruling of February 28, 2019 (February 28 ALJ’s Ruling). This Joint Response is timely filed and served pursuant to the Commission’s Rules of Practice and Procedure and the February 28 ALJ’s Ruling and is separate from filings otherwise made today by these parties in response to the February 28 Ruling.

**I.
INTRODUCTION**

By the February 28 ALJ’s Ruling, parties were directed to file responses to questions posed in that Ruling on DRAM and also given the opportunity to offer comments on DRAM proposals attached to the Ruling, as well as the public version of the *Energy Division’s Evaluation of the Demand Response Auction Mechanism Final Report* attached to the January 4, 2019 ALJ’s Ruling (Energy Division Final DRAM Report).¹ By this Joint Response to Question 1, CPower, Enel X, EnergyHub, Olivine, and Stem have come together to offer a Joint

¹ February 28 ALJ’s Ruling, at pp. 1, 13.

Proposal in response to Question 1 posed by that Ruling. This Joint Proposal does not alter any individual responses or comments otherwise filed by these parties today in response to the February 28 ALJ's Ruling, but, instead, is offered as a collective expression of agreement of the best approach for the Commission to take in moving forward with DRAM.

II. JOINT PROPOSAL IN RESPONSE TO QUESTION 1

Question 1 of the February 28 ALJ's Ruling states:

“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

CPower, Enel X, EnergyHub, Olivine, and Stem (hereinafter, the Joint Proposal Parties) support a two-step approach to reach a 2020 bridge year for the DRAM Pilot. In response to this question, the Joint Proposal Parties offer a Joint Proposal that represents a set of non-precedential proposals for enhancements to the current DRAM that could reasonably be implemented for a 2020 Bridge year and seek to address, in a measured way, concerns that the Joint Proposal Parties heard in the DRAM Workshops and Working Groups and in the Energy Division Final DRAM Report.

The Joint Proposal Parties offer the following proposals in response to Step 1. The Joint Proposal Parties believe that only minor changes to the DRAM pro forma contract will be needed to facilitate these proposals.

² February 28 ALJ's Ruling, at p. 9.

Proposal 1: Simple Average August Price

While previously the simple average August price has been used as selection criteria. August tends to be the month with the highest value of avoided capacity. The Independent Evaluator indicated that several bids were more cost effective on a total cost basis and were passed over because of this simple average criteria. Recommendations are to eliminate this as a requirement for selection in the future.

Proposal 2: Interim Supply Plan Capacity Support Proposal

Proposal 2 calls for a plausibility test to validate that supply plans can provide the capacity indicated. The Joint Proposal Parties believe that for a Step 1 bridge year DRAM (2020), this test, coupled with the current testing regime, the methods of Demonstrated Capacity and the initiation of penalties for underperformance will provide needed discipline in Supply Plan Capacity.

Under the proposed plausibility test, the Investor Owned Utilities (IOUs) or a neutral third party would have the ability to ask a Demand Response Provider (DRP) for substantiation of its Supply Plan Capacity if the IOU et al believes that it may be warranted. A modified version of the single administrator model that had been discussed during the initial development of DRAM could address concerns that have arisen regarding supply plans and potentially provide insights that would be valuable in the development of DRAM beyond 2020. This request for additional substantiation is not intended to be a monthly routine, it should be triggered only when there is reasonable suspicion that a party may not plausibly meet its supply plan.

In response to a request, the DRP could provide information such as enrolled customers and their historical loads during availability assessment hours as a plausibility screen as to

whether a portfolio could reasonably be expected to perform the claimed curtailment. We propose that if the resources loads are at least 130% of the Supply Plan capacity for this resource it should be deemed plausible.

If the initial screen supports the DRP's position, then the supply plan would stand and no adjustment would take place. If the screen does not support the supply plan, then the supply plan will be adjusted and invoicing will be based upon the adjusted value, unless a test or dispatch occurs in the delivery month that warrants an increase over the adjusted value – essentially supporting up to the unadjusted supply plan value. If the Demonstrated Capacity from a dispatch or test supports a higher capacity value than the adjusted supply plan value no further adjustments below that Demonstrated Capacity should occur unless there is a material change – such as large loss of customers or jump in contract capacity.

This proposal is fair to both contracting parties in that the IOU can be satisfied that the supply plan is real; but, if a demonstration of capacity via dispatch or test during the month supports a higher number, that is in the interest of the DRP to be paid for what they can deliver up to the supply plan values. This proposal should not require a modification to the contract but would allow the IOU to use the audit provision of the contract to ask that DRPs justify their supply plan submissions. This should also discipline bidding behavior and supply plan submittals, knowing that a spot check could occur, with reasonable doubt from the IOU. This screening process being tied to the audit provision of the contract would not prevent the IOU from utilizing the audit provision to perform an audit for this or other purposes.

- *Additional supporting information related to Demonstrated Capacity:*

This Joint Proposal also calls for the existing methods of demonstrating capacity and testing in the DRAM protocols to continue and be enforced. Namely:

1. If there is a 1 hour dispatch of a resource (i.e. individual PDR) in a month the results must be used for demonstrated capacity.
2. If there is a 2 hour test of a resource in a month the results must be used for demonstrated capacity.
3. Only if there is no dispatch or test of a resource in a month can the bidding details for a resource under the Must Offer Obligation be used to demonstrate capacity.
4. Additionally, a full dispatch/test requirement in the first 6 months of a year-long contract should be maintained as well as the requirement that all resources receive a dispatch or test and the results be used as the Demonstrated Capacity for invoicing be continued.

DRPs should be allowed to calculate performance of dispatches and tests using any approved CAISO baseline. The baseline for each Proxy Demand Resource (PDR) should be identified and a DRP should indicate on invoices that the submission of data under Demonstrated capacity comports with the required order of preference for the Demonstration to help provide the IOU certainty that the order of demonstration preference was followed.

Additionally, to address concerns about locations moving between resources, locations should be prohibited from moving from 1 resource to another during a delivery month except under specific circumstances:

1. Newly enrolled customer can be added to a resource.
2. A customer who exits DRAM may be dropped from a resource.
3. If the above changes make a resource trigger the 10 MW telemetry requirement, or have it drop below the minimum PDR/RDRR size of 100 kw/500 kW resources maybe split or combined mid-month to continue to meet CAISO market requirements.
4. Customer changes LSEs – in the event the CAISO has not removed the single LSE per PDR requirement by 2020.

Proposal 3: Interim Penalty Structure

1. Background

Currently, DRAM is subject to penalties for failure to perform in the wholesale energy market through imbalance energy charges and Resource Adequacy Availability Incentive Mechanism (RAAIM), which is a measure of resource availability, but is currently undergoing modification. In addition, DRPs indemnify the IOUs from costs, penalties, fines or charges related to Seller's failure to perform.³

2. Issue

The IOUs have expressed a concern that the DRAM capacity, which is provided on the monthly supply plans, may overstate the capability of the resource. There are other mechanisms that are being proposed to discipline DRPs toward providing realistic bids and supply plans. The imposition of a penalty may be another mechanism to discipline market behavior. However, the DRPs are concerned about stacking penalties among the CPUC jurisdictional IOUs and related to wholesale market participation. Further, because DRAM is still in a pilot stage, it is not appropriate for penalties to be punitive, which would discourage market participation and significantly reduce customer benefit to participate as a market resource.

3. Proposal

The Energy Division Final DRAM Report suggested that performance below 60% be penalized. This is a reasonable starting point for penalty imposition in a pilot program; performance below this level should have a significant penalty, as this is not an acceptable level of performance to incentivize in the program. Further, some parties have suggested that performance above the supply plan should receive compensation; over-performance should not be unlimited in order to discipline performance to be within reasonable bounds of the

³ DRAM Pro Forma Contract, Section 3.5.

commitment and because over-performance can create issues in the market that have to be resolved by the system operator. This interim penalty structure should apply only to performance relative to the supply plan, not relative to the contract.

As such, the proponents suggest the following as an interim penalty structure, which reflects a modified Capacity Bidding Program (CBP) structure. This is a proposal for consideration in the bridge period (2019 auction for 2020 deliveries) only and would not be precedential for any future DRAM construct. This structure would apply on a contract level, not on a resource level, as the contract is the commitment level to the IOUs.

Performance Relative to Supply Plan	Payment Structure
105% to 60%	Linear
Below 60% to 50%	50% capacity de-rate
Below 50%	Zero capacity payment

Proposal 4: Year-Ahead RA Demonstrations Proposal - SSWG

1. Background

For the purpose of a 2020 Bridge DRAM, we support utilizing the Supply Side Working Group (SSWG) proposal into Track 2 of R.17-09-020⁴ as the methodology for counting DRAM resources for the purposes of Year Ahead Resource Adequacy (RA) demonstrations. The full SSWG filing provides additional background on the issue.

2. Proposal

The Joint Proposal Parties propose:

⁴ See: <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M233/K591/233591622.PDF>

1. In the year-ahead RA compliance filing, Energy Division would provide DRAM credits to IOUs based on the contracted capacity approved by Energy Division. Energy Division then would not require IOUs to “show” DRAM as a supply-side resource on its Year Ahead compliance filing. There are no changes to how Energy Division would provide the DRAM related RA credits to electricity service providers (ESPs) and Community Choice Aggregators (CCAs) in the year-ahead allocation process
2. IOUs would submit DRAM as an RA credit, which would lower the respective RA obligations of the other LSEs.
3. Energy Division would remove the DRAM credits to IOUs in the month-ahead showings and the IOUs would show DRAM resources as supply-side resources for the month ahead RA filing. There are no changes to how Energy Division would provide the DRAM credits to ESPs and CCAs in the month-ahead allocation process.
4. If, on the date the applicable month-ahead DRAM supply plans are due to the IOU, the sum of the DRAM capacity is less than the applicable monthly DRAM credit that was provided to the IOU the year-ahead showing, then the IOU shall replace deficient DRAM capacity with generation capacity, and the cost of such replacement capacity will be broadly shared with all benefiting LSEs consistent with the CAM (Cost Allocation Methodology).

In the month-ahead process, the IOU receives a negative credit, also known as a debit, from the Energy Division. These debits off-set against the full monthly NQC (Net Qualifying Capacity) value that was procured under the contract of the DRAM resource. This ensures that the IOU is only counting the portion of capacity its ratepayers pay for as DRAM Pilot costs are paid by all benefiting customers.

Proposal 5: Elimination of residential set-aside in favor of a new entrant cap / no introduction of market share cap

1. Background

Each of the DRAM I-IV Pilot auctions featured a “residential set-aside” provision, whereby at least 20 percent of the total MW procured by each IOU was required to come from resources comprised predominantly of residential end-use customers. The Commission has asked stakeholders to consider whether this residential set-aside provision should be continued during the 2020 “bridge” period. At the same time, the Commission has asked stakeholders to consider whether it is prudent to implement an arbitrary cap on DRAM Sellers’ market shares beginning with the 2020 bridge period.

2. Issue

The purpose of the 20-percent, residential set-aside was to encourage participation in the DRAM Pilots by residential customers, who confront a different set of DR enrollment and participation challenges than is the case for larger commercial and industrial customers. The purpose of a market share cap would be to reduce concentration in the DRAM marketplace; concentration on its own is not a bad thing, as long as the DRPs successfully deliver on their obligations in a manner consistent with DRAM construct and rule 24/32. However, both of these market interventions are distortionary. In particular, they can result in bids into the DRAM auction being selected out of merit order -- that is, lower-value bids being selected instead of higher-value bids. This reduces the total MW procured for a given auction budget and increases the marginal price of DRAM capacity.

3. Proposal

To minimize distortionary effects on the DRAM market, we recommend that beginning with the 2020 bridge period the Commission: (1) discontinue the use of a residential set-aside

provision in the Bridge Year DRAM; (2) commit *not* to implement a cap on Sellers' market shares in the Bridge Year DRAM; and (3) implement a 10% set aside for new DRAM entrants during the Bridge Year. However, the Joint Proposal Parties recognize that one of the original goals of DRAM was to draw new DRPs and customers to demand response. A 10% set aside for new entrants should ensure that this goal is achieved during the Bridge year.

Proposal 6: Invoices

1. Background

As soon as practicable at the end of the Showing Month, the Seller prepares an invoice for payment of any performance obligations due. However, the current DRAM pro forma contract does not specify the deadline for the Seller to submit the monthly invoices.

The Seller relies on receipt of Revenue Quality Meter Data (RQMD) from the IOU's utility data systems to prepare the invoice for payment. Pursuant to Rule 24/32, IOUs are obligated to provide complete, accurate, and timely Revenue Quality Meter Data (RQMD) to the DRAM DRPs within a reasonable time frame.

2. Issue

Invoices are not coming in a timely fashion and in some cases, are never delivered at all. Late data may prevent invoices containing Demonstrated Capacity from test/dispatch to be prepared and filed. Delays in both RQMD and raw data are causing problems for Sellers/SCs/DRPs.

3. Proposal

The Joint Proposal Parties suggest adding language to the DRAM contract to impose a DRAM invoice deadline of 30 calendar days after a complete set of valid and relevant RQMD ("last RQMD date"), up through the end of the delivery month, is delivered to the DRP by the

IOU. The contract language would require the DRP to notify the IOU of any missing or incorrect data within 30 days of the end of the settlement month. In the case where valid RQMD is delayed beyond 60 days, the Seller would be allowed, but not required, to submit a partial invoice including those resources that are not impacted by missing or invalid RQMD, with the balance of the invoice to be completed within 30 days of delivery of the relevant RQMD. If an invoice for a delivery month is not provided under these conditions, then the invoice would be deemed as being \$0 and 0 MW for the delivery month.

Proposal 7: Revenue Quality Meter Data (RQMD)

1. Issue

The IOUs are required to provide RQMD to DRPs under Rule 24/32 in support of CAISO meter data submittal timelines. In some cases, IOUs are late in providing data. DRPs are unable to meet CAISO submittal timelines which can result in non-compliance penalties and/or late penalties of \$1000/day for late submittal. DRPs may be unable to meet any imposed invoicing deadline.

2. Proposal

The existing Rule 24/32 tariff language already supports the recovery of monies regarding late delivery of RQMD and therefore no changes to the contract should be made at this time. Particularly, clarification of the invoice deadlines as the JDRP's propose would mitigate the issue, and may raise the visibility and criticality of late or invalid RQMD by incentivizing the IOUs with timely invoicing.

III. CONCLUSION

The Joint Proposal Parties urge the Commission to consider and adopt the Joint Proposals offered above in response to Question 1 in its approach to DRAM. . The Joint Proposal Parties again believe that these proposals will require only minor changes to the current DRAM Pro Forma contract.

Respectfully submitted,

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