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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 PROVIDING A PLAN FOR ADDRESSING THE PROPOSED IMPROVEMENTS TO THE DEMAND RESPONSE AUCTION MECHANISM AND ESTABLISHING TWO WORKING GROUPS TO DEVELOP PROPOSALS**

As discussed at the January 16, 2019 workshop, this ruling provides the timeline and procedural venues for addressing the recommended improvements to the Demand Response Auction Mechanism (*see* Attachment A). Parties will be given an opportunity to comment on this plan during the first day of the previously scheduled February 11-12, 2019 workshops.

In addition, this ruling establishes two working groups: Working Group One, Proposed Improvements for Performance and Accountability and Working Group Two, Proposed Improvements to the Demand Response Auction Mechanism Pro Forma Contracts. The first meeting of the working groups will be via conference call on Friday, January 25, 2019 from 9:30 a.m. to 11:30 a.m.

The conference call number is (866) 832-3002, and the participant code is 770-8062#.

The purpose of each working group is to develop a draft proposal for discussion during the February 11 and 12, 2019 workshops. Energy Division is authorized to facilitate the discussion of both working groups. Energy Division will schedule future meetings or conference calls. Working groups shall consider all proposed improvements listed in the Attachment A for each working group. Proposals should include a brief explanation of whether staff recommendations should be adopted as part of the proposal. If the proposal is not a consensus proposal, alternatives should be included. The draft proposal for each of the working groups shall be served on the service list no later than February 6, 2019.

For additional questions, parties should contact Energy Division staff member, Caitlin Pollock at [caitlin.pollock@cpuc.ca.gov](mailto:caitlin.pollock@cpuc.ca.gov).

**IT IS RULED** that:

1. The following two working groups are hereby established: Working Group One will address proposed improvements for performance and accountability and Working Group Two will address proposed improvements to the Demand Response Auction Mechanism pro forma contracts.
2. The first meeting of the two working groups established in this ruling will be Friday, January 25, 2019. The Working Group One proposal will be discussed from 9:30 a.m. until 10:30 a.m. and the Working Group Two proposal will be discussed from 10:30 a.m. until 11:30 a.m. The two working groups will meet via conference call at (866) 832-3002, participant code 770-8062#.

3. The Commission Energy Division is authorized to facilitate the discussion at the January 25, 2019 working group conference calls and schedule and facilitate future calls or meetings.

4. No later than February 6, 2019, a representative of Working Group One and Working Group Two shall each serve a draft proposal, as described in this ruling, on the service list of this proceeding.

Dated January 23, 2019 at San Francisco, California.

/s/ KELLY A. HYMES

Kelly A. Hymes  
Administrative Law Judge

A.17-01-012 *et al* ALJ/KHY/eg3

## ATTACHMENT A

## **Attachment A**

### **Plan to Address Proposed Improvements to Demand Response Auction Mechanism**

#### **Recommended Improvements to Be Addressed in June Decision**

#### **Working Groups and Workshops**

Establish two working groups: one for improvements for performance and accountability and one for improvements to the auction mechanism contract. These working groups are tasked with; 1) reviewing the proposed improvements as listed below (proposer indicated in parentheses), and 2) developing a draft proposal for discussion at the February 11 and 12, 2019 workshops.

#### **1. Working Group 1: Proposed Improvements for Performance and Accountability**

##### **1.1. Dispatch Hours**

- Require auction mechanism resources to be dispatched at least 30 hours between May through October, during the hours most beneficial to the grid. (Energy Division (ED) Staff)
- Allow a voluntary bid offer parameter indicating the minimum market dispatch activity level that the Demand Response Provider (Provider) is willing to commit to for the resource capacity it offers to an auction mechanism solicitation (ED Staff)
- Establish minimum dispatch requirement (suggest 20 hours) (California Large Energy Consumers Association (CLECA))

- Add ‘energy delivery’ requirement proportional to average monthly contract capacity (OhmConnect (OC))
- Do not set an annual dispatch level (Leap, Joint Demand Response Parties (JDRP))

## **1.2. Penalties and Incentives for Performance**

### **1.2.1. Penalties**

#### ***Shortfall in Qualifying Capacity***

- Establish penalties for non-performance when the Qualifying Capacity indicated on Supply Plans falls significantly below contracted capacity. (ED Staff)
- Add penalty for Qualifying Capacity falling short of contracted capacity (Southern California Edison Company (SCE), JDRPs, California Energy Storage Association (CESA), Olivine, CLECA)
- Consider reasonable penalties for failure to perform (JDRPs)
- Remove Sec. 1.5.b re: reducing Supply Plan due to registration cap limitation (San Diego Gas & Electric Company (SDG&E) and Pacific Gas and Electric Company (PG&E))

#### ***Shortfall in Demonstrated Capacity***

- Establish penalties for non-performance when the Demonstrated Capacity falls significantly below the Qualifying Capacity for the delivery month. (ED Staff)
- Require retesting of full contract quantity when Demonstrated Capacity below 90 percent (PG&E)

### **1.2.2. Incentives**

- Establish an incentive to encourage dispatch performance exceeding the Qualifying Capacity. (ED Staff)
- Reasonably incent overperformance for excess delivery of the auction mechanism capacity (JDRPs)
- Incent auction mechanism resources to bid as available (Olivine)
- Do not encourage Demonstrated Capacity above contract quantity due to no resource adequacy value (PG&E)

### **1.3. Demonstrated Capacity Invoicing**

#### **1.3.1. Dispatch Results on Invoices**

- Require Demonstrated Capacity to be invoiced based on dispatch results when available. (ED Staff)
- Require invoicing based on dispatch/test results (CLECA, Olivine) & quarterly dispatches (SCE)
- Require no more than seasonal resource testing (CEDMC)
- Do not require monthly testing (Leap, PG&E)
- Require simultaneous/same-day test events for Providers w/ multiple resources/contracts (Olivine, CLECA, PG&E)
- Base Demonstrated Capacity on individual customers' best dispatch performance— i.e. 'pseudo-Proxy Demand Response Resources (PDRs)' (OC)
- Include all applicable hours in Demonstrated Capacity calculation (SDG&E)
- Preclude shifting of customers between resources across different auction mechanism contracts (PG&E)

- Restrict number of changes to Resource Identifications by Providers (SDG&E)

### **1.3.2. Must-Offer Obligation (MOO) Based Invoices**

- Cap the demonstrated capacity on MOO-based invoices to an averaging function of available test/dispatch results. (ED Staff)
- Remove Sec. 1.6.a.iii— eliminate MOO option on invoices (SDG&E, CLECA)
- Do not cap use of MOO on invoices if there is no dispatch (JDRPs)

## **2. Working Group 2: Proposed Improvements to the Demand Response**

### **Auction Mechanism Pro Forma Contracts**

#### **2.1. Implementation Progress Milestones**

- Require implementation progress milestones from contract execution to year-ahead resource adequacy showing. (ED Staff)

#### **2.2. Contract Reassignments**

##### **2.2.1. Partitioning Contracts**

- Allow auction mechanism Seller at risk of defaulting on its contract to partition the contract for reassignment. (ED Staff)
- Allow partial contract reassignment by month or partial capacity (Stem)

##### **2.2.2. Reassigning Contracts**

- Develop an improved process for reassigning contracts. (ED Staff)
- Disallow contract reassignments, or limit them to smaller Providers (CLECA)



- Require that contract reassignment occurs by returning to the bid stack (JDRPs)
- Include review process for contract assignments to limit market concentration (Olivine)

### **2.3. Invoice Deadline**

- Add deadline for Seller submission of Demonstrated Capacity invoices. (ED Staff)
- Establish clear timing requirements for invoicing (Olivine, CLECA, OC, JDRPs)
- Remove deadlines for seller submission of invoices (given lack of Utility<sup>1</sup> Revenue Quality Meter Data (RQMD) deadline) (JDRPs)

### **2.4. Revenue Quality Meter Data (RQMD)**

- Develop a remedy in the auction mechanism request for offer Pro Forma contracts for utility failure to deliver timely, complete, and correct RQMD. (ED Staff)
- Establish clear timing requirements for meter data provisioning (Utilities, Providers, CAISO, Scheduling Coordinators) (Olivine, CLECA, OC, JDRPs)
- Eliminate penalties on Utilities for failure to provide RQMD within T+48B timeline (PG&E)

### **2.5. Performance Reports**

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<sup>1</sup> Utility or Utilities refer to PG&E, SDG&E and SCE.

- Require Providers to submit market performance data to the Commission on a periodic basis. (ED Staff)
- Create greater visibility and reporting, similar to Utility monthly demand response event reports (PG&E)
- Preserve existing CAISO subpoena process for transferring confidential data (JDRPs)

### **Workshops**

Proposals from the two working groups are to be sent to the service list no later than February 6, 2019. Each of the two Working Group proposals will be vetted during the February workshops.

- February 11: Proposal for Improving Performance and Accountability
- February 12: Proposal for Revising the Pro Forma Contract

### **Ruling**

Following the workshops, final proposals will be issued via a ruling with questions to address any elements missing from the proposals. Responses to the questions and comments on the proposals may be filed by parties. In addition, the following items will be determined via responses to questions in the ruling.

1. Whether to authorize a continuation of the auction mechanism, the length of time for the authorization, the budget needed and rate recovery approach.

2. Whether to require a cost-effectiveness analysis of the auction mechanism, and what the analysis should entail. (The requirements of the analysis would be developed later in an additional proposed decision.)
3. Whether to establish ex-ante standards for estimating the Qualifying Capacity of a demand response auction mechanism resource applicable to Supply Plans and what the standards would entail. (The standards would be developed later.)
4. Whether to create a process for monitoring and evaluating the auction mechanism and what the process should entail. (The actual process would be developed later.)
5. Whether the Commission should set a limit on market share.
6. Whether the Commission should maintain, revise, or eliminate the residential set aside.
7. Whether the Commission should replace the simple average August bid price cap, and the guidelines for the replacement. (The replacement would be developed later.)
8. Whether the Commission should allow qualitative criteria for selecting winning offers and the guidelines for the criteria. (The process for approving the final criteria would be developed later.)
9. Whether the Commission should require the utilities to publish summaries of awarded contracts and report administrative costs. (The process for determining reporting requirements would be developed later.)

**Proposed Improvements to be Addressed after June Decision**

**2.6. CPUC Registration Requirements**

- Condition Utility payment of invoices upon the Seller meeting Commission registration requirements. (ED Staff)

**2.7. Guidelines for Utility Audits**

- Clarify guidelines related to Utility audits of Demonstrated Capacity invoices to ensure a level playing field. (ED Staff)
- Allow audit of Provider Supply Plans (PG&E)
- Keep audit report under seal, without public release (PG&E)

**2.7.1. Disputes & Payments**

- Clarify dispute resolution process and Utility's discretion to adjust invoices and withhold payment. (ED Staff)
- Clarify audit procedures so payment of invoice under audit is held until completion (PG&E)
- Develop clear penalties for non-performance and standards for default (CLECA, PG&E)

**2.8. MISC Other Party Proposals**

**Data Authorization, Collection, Protections:**

- Further improve customer authorization process to grow market, engage new entrants (CEDMC, Leap, JDRPs)
- Include clearer protections for seller & (residential) customer data (Olivine)
- Streamline collection of anonymized data for review/evaluation (Olivine)

- Add remedy to discourage screen scraping (JDRPs)

**CAISO Issues (possibly not under Commission jurisdiction):**

- Align settlement for flex/real time bidding with 15-min data, OR allow Providers to submit proprietary meter data aligned with 5-min settlement (Stem)
- Prohibit submission of waivers to CAISO based on changes to CAISO market rules (PG&E)
- Address RAAIM issues (Olivine); address who bears RAAIM penalties (CLECA)
- Cost effectively support settlements, baseline calculations, standardized tests (Olivine)
- Commission should implement plan with CAISO to count Local resource adequacy (SDG&E)

**Other:**

- Address negative impact on Scheduling Coordinators of current auction mechanism structure (Olivine)

**Second Decision: Implement Policy determinations from first decision:**

1. If the Commission determines that a cost-effectiveness analysis of the auction mechanism should be required, the requirements of the analysis would need to be developed.
2. If the Commission determines that ex-ante standards for estimating the Qualifying Capacity of a demand response auction mechanism resource

applicable to Supply Plans should be developed, the standards would need to be developed.

3. If the Commission determines a process for monitoring and evaluating the auction mechanism should be created, the process would need to be created.
4. If the Commission determines the simple average August bid price cap should be replaced, a replacement would need to be developed.
5. If the Commission determines that qualitative criteria should be adopted, the criteria would need to be developed.
6. If the Commission determines that the utilities should publish administrative costs, the approach for determining the reporting requirements would need to be developed.

**(END OF ATTACHMENT A)**