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 (Filed January 17, 2017)
And Related Matters.	Application 17-01-018 Application 17-01-019

REPLY COMMENTS OF THE CALIFORNIA ENERGY STORAGE ALLIANCE TO THE ADMINISTRATIVE LAW JUDGE'S RULING DIRECTING RESPONSES TO QUESTIONS RESUTLING FROM FEBRUARY 11-12, 2019 DEMAND RESPONSE AUCTION MECHANISM WORKHSOP AND COMMENTS ON PROPOSALS TO IMPROVE THE MECHNAISM

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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 reply 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, Energy Vault, 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, 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. <u>INTRODUCTION</u>.

CESA continues to believe the DRAM should be incrementally improved in the short term with changes that do not overly burden Demand Response Providers ("DRP") or overly complicate the program in order to ensure a timely launch of the bridge period auction. However, in the long-term, some of the proposals and ideas proposed by the Commission and parties to this proceeding may be considered upon further discussion, analysis, and negotiation, which should align with the to-be-determined long-term objectives established for the DRAM. As proposed in our opening comments, CESA believes that the long-term DRAM should be focused on customer engagement, creation and maintenance of a level-playing field, grid reliability, and greenhouse gas ("GHG") reductions. Thus, these reply comments focus on the following points in response to parties' comments:

- Until a pervasive problem is identified around the ability to deliver contracted capacity into the utilities' Supply Plans, additional testing for Qualifying Capacity ("QC") should not be adopted at this time.
- Penalties and incentives should mirror the Capacity Bidding Program ("CBP") in the short term as other long-term structural changes are explored at a later time.
- Reasonably-sized set-asides should continue to promote necessary market transformation while fostering competitive and reliable outcomes for the majority of megawatts available in the DRAM.
- Minimum dispatch hours and energy components should be explored later.

CESA recognizes the need to make smaller changes to the DRAM quickly at this time and feels the changes above will best meet the short-term concerns of the program that also addresses some of the issues raised in the DRAM Evaluation Report. Upon further discussion and stakeholder review, some of the above improvements may be incorporated into a long-term change of the program or may need adjustments.

II. <u>UNTIL A PERVASIVE PROBLEM IS IDENTIFIED AROUND THE ABILITY TO DELIVER CONTRACTED CAPACITY INTO THE UTILITIES' SUPPLY PLANS, ADDITIONAL TESTING FOR QUALIFYING CAPACITY SHOULD NOT BE ADOPTED AT THIS TIME</u>.

CESA believes that the Commission should not substantially change the currently available methods for verifying QC in Supply Plans. Specifically, CESA recommends against subjecting all DRPs to regular testing as suggested by the IOUs. Only incremental improvements should be made in the bridge period and the introduction of a Load Impact Protocol or additional testing, as proposed by Southern California Edison Company ("SCE")[2] and San Diego Gas and Electric Company ("SDG&E"),[3] is not an incremental change and requires further discussion. These substantive changes could also represent a barrier to new market entrants and should be explored later.

The current testing methods for QC in Supply Plans have produced generally positive overall results that should provide the IOUs with certainty of DRAM resources in Supply Plans, especially for "high-performing" DRPs in the four DRAM pilots, according to the DRAM Evaluation Report. Under the current verification scheme, high-performing DRPs delivered 98% of contracted capacity in 2017 Supply Plans,[4] indicating a very high-level of commitment to accurate bidding without exposure to additional penalties. A minority of DRPs were identified as

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[2] SCE comments at p. 14.

[3] SDG&E comments at p. 13.

[4] *Energy Division's Evaluation of Demand Response Auction Mechanism Final Report* ("DRAM Evaluation Report") at p. 76 as attached in *Administrative Law Judge's Ruling Issuing Evaluation Report on the Demand Response Auction Mechanism, Noticing January 16, 2019 Workshop, and Denying Motion to Require Audit Reports in the Evaluation Report*, issued on January 4, 2019 in A.17-01-012, *et al*. http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M254/K771/254771618.PDF

"struggling" that would be best addressed in the bridge period auction through an audit scheme that the IOUs can initiate when suspicious or doubtful bidding behavior is exhibited. Auditing only the lower-performing DRPs will allow existing high-performing DRPs to continue to focus on providing high reliability and not subject all DRPs to potentially burdensome additional testing requirements. The problems of a few should not "punish" good-acting DRPs that operate within the rules of the DRAM contract and Resource Adequacy ("RA") rules.

Importantly, the reason for avoiding excessive testing requirements, where possible, is that such requirements may result in resource fatigue, such that DRAM resources may have a "reduced" response to real grid-service events due to more frequent response to test events. Energy storage assets, with its charging load separate from the end-use host customer load, are unique in that resource fatigue is less of a factor in impacting its response capabilities but is still subject to some asset degradation and dispatch fatigue as well if testing requirements are too onerous or frequent. The Commission should consider these factors when considering testing requirements. CESA is willing to potentially consider these additional requirements as a long-term change to the DRAM if a pervasive problem is indeed identified, but according to the DRAM Evaluation Report, it appears that the inability to deliver contracted capacity into the Supply Plan is limited to a subset of poor-performing DRPs.

III. <u>PENALTIES AND INCENTIVES SHOULD MIRROR THE CAPACITY BIDDING PROGRAM IN THE SHORT TERM AS OTHER LONG-TERM STRUCTURAL CHANGES ARE EXPLORED AT A LATER TIME</u>.

CESA believes the CBP should serve as a guide in the development of the penalty and incentive structures for DRAM in the short term for the bridge period auction, with potential modifications to these structures to be explored as part of the long-term improvement discussion.

CESA agrees with several parties in this regard.[5] The Commission previously decided the CBP settlement bands are in line with Commission goals to procure all cost-effective demand response. Importantly, CESA believes the Commission-approved incentive structure be extended to 105% to reflect the existing CBP Program. CESA agrees that these CBP settlement bands will "encourage and reward high performance, will be more consistent with the amount of load reduction actually delivered, and will still maintain the incentive for the DR Aggregator to avoid significant under-performance."[6] As a short-term measure for the bridge period auction, the Commission should mirror the DRAM penalties and incentives structure with that of the CBP Program.

CESA believes several parties suggested penalty and incentive structures that are overly complicated or require further discussion as a long-term improvement area. Cascading penalties as proposed by SCE and Pacific Gas and Electric Company ("PG&E") may be challenging and unnecessary, though their simpler solutions focused on performance penalties and incentives, including the potential RA Availability Incentive Mechanism ("RAAIM") may be worth exploring in the future.[7]

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[5] California Energy + Demand Management Council ("CEDMC") comments at pp. 17-18 and Joint DR Parties ("JDRP") comments at p. 6.

[6] *Advice Letter 4332-E: Revise Electric Schedule E-CBP to Make Improvements to the Capacity Bidding Program*, submitted by PG&E on December 24, 2013, p. 4. https://www.pge.com/nots/rates/tariffs/tm2/pdf/ELEC_4332-E.pdf

[7] PG&E comments at p. 14 and SCE comments at p. 17.

IV. REASONABLY-SIZED SET-ASIDES SHOULD CONTINUE TO PROMOTE NECESSARY MARKET TRANSFORMATION WHILE FOSTERING COMPETITIVE AND RELIABLE OUTCOMES FOR THE MAJORITY OF MEGAWATTS AVAILABLE IN THE DRAM.

CESA disagrees with some parties that the DRAM has reached a maturity level at which set-asides are no longer necessary. The existing DRAM is concentrated with just three companies receiving 94% of the total DRAM capacity after contract re-assignments and the participation of new DRPs in the DRAM have been in decline.[8] CESA agrees with the Energy Division's assessment that existing market concentration in the DRAM may run counter to the Commission's goals of increasing customer choice and fostering a competitive market,[9] especially in the early stage of the DRAM where many DRPs are still learning about how to bid into and operate as DRAM resources. CESA thus suggests a new 10% new entrant set-aside to further the goals of the program.

At the same time, CESA is not necessarily opposed to some level of market concentration, especially if high-performing DRPs claim the majority of megawatts in the DRAM auctions and subsequently deliver cost-competitive and reliable capacity services. As such, CESA agrees with OhmConnect around the impacts on competitive market prices and the achievement of the contracted grid services with a cap on DRP market share.[10] However, rather than capping the market share of any given DRP, CESA suggests creation of a new entrant set-aside of 10% of total program capacity as a more effective means to promote market transformation of a growing marketplace of DRPs while mitigating the broader impacts on DRAM prices and/or delivery of capacity services. CESA agrees with the JDRPs in this regard who suggested a similar type of set-

[8] DRAM Evaluation Report at p. 26.

[9] *Ibid*, at p. 90.

[10] OhmConnect comments at p. 23.

aside.[11] CESA believes that a reasonably diverse and competitive marketplace of DRPs will result in the most efficient and cost-effective DR delivered at the benefit of ratepayers and will promote customer choice.

Similarly, CESA supports a 10% residential set-aside that is half the size of the previous set-aside, which should mitigate some concerns by multiple parties around the potentially distortionary effects of a residential set-aside while continuing to animate a large customer segment and to facilitate the growth of different DRPs serving these customers.[12] The Commission must balance residential customer engagement and cost-effective DR. Though residential demand response may be more expensive than non-residential demand response, CESA argues that the Commission should not eliminate the residential set-aside as it allows the Commission to meet their goals of engaging a "uniquely complex" residential customer base and may also "help the residential market to develop and solidify with a greater diversity of providers" as identified by the DRAM Evaluation Report.[13] CESA notes that the 20% residential set-aside facilitated high residential participation, albeit from a limited set of providers, but as proposed in our opening comments, a separate new entrant set-aside within the residential set-aside may foster more diversity among DRPs serving the residential customer segment.

Finally, CESA agrees with the suggestion by SCE that set-asides may be used to focus on serving disadvantaged communities ("DACs") or low-income customers[14] and supports the smart development of rules and structures for such DRAM resources. The experience with the Self-

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[11] JDRP comments at p. 5.

[12] JDRP comments at p. 5; OhmConnect comments at pp. 23-24; PG&E comments at p. 19; SDG&E comments at p. 22; and SCE comments at pp. 24-25.

[13] DRAM Evaluation Report, pp. 91-92.

[14] SCE comments at p. 26.

Generation Incentive Program ("SGIP") has highlighted how simply setting aside funding to serve DACs and low-income customers can be ineffective, as evidenced by the lack of uptake of Equity Budget dollars for more than a year.[15] While CESA supports this objective, careful consideration of any potential customized or modified rules, contract price adders, qualitative factors in the bid selection criteria, and/or certain reasonable exemptions may need to be explored to successfully direct DRAM resources to serve these communities.

V. MINIMUM DISPATCH HOURS AND ENERGY COMPONENTS SHOULD BE EXPLORED LATER.

CESA agrees with most parties that the energy dispatch requirement be further studied and implemented in subsequent program years.[16] If the Commission decides to explore a minimum dispatch requirement, CESA encourages the Commission to explore how DRAM participants can be dispatched to meet a specific grid need. CESA also recognizes that energy storage is likely to be reliably dispatched and is uniquely qualified to meet specific grid needs.

[15] As of March 18, 2019, only $32,063 have been claimed from the Residential Storage Equity budget category, as compared to the $31,232,458 of money available across all Equity budget categories (*i.e.*, 0.1% of the total funding available), despite this money being made available for more than a year in many cases. See https://www.selfgenca.com/home/program_metrics/

[16] CEDMC comments at p. 17; JDRP comments at p. 16; OhmConnect comments at p. 14; PG&E comments at p. 12; SDG&E comments at p. 14; and SCE comments at p. 16.

VI. CONCLUSION.

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

Respectfully submitted,

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