

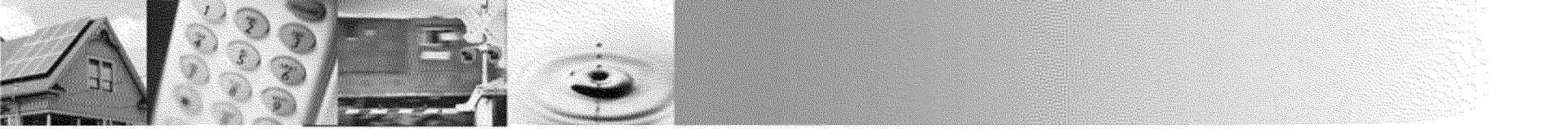
# **Demand Response Auction Mechanism Proposal Q&A Meeting**

**CPUC Energy Division Workshop**

**April 28, 2014**

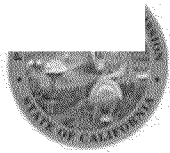
**9:30 am to 2:30 pm**

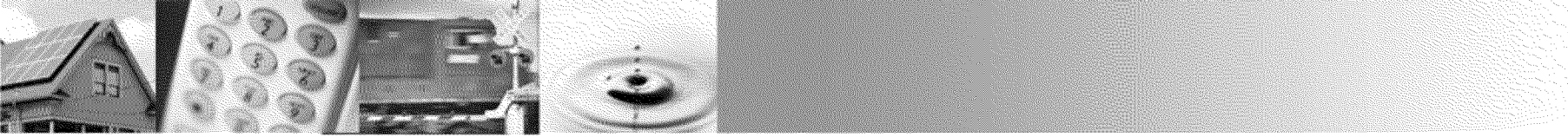




# Agenda

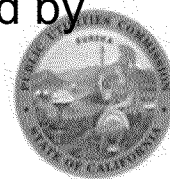
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|----------------------|--|
| 9:30 – 10            | Introduction, DRAM Structural Overview |
| 10 – 10:30           | Procurement Obligation                 |
| 10:30 – 11           | Cost Cap                               |
| 11 – 11:45           | Bid and Product Criteria               |
| <b>11:45 – 12:45</b> | <b>LUNCH</b>                           |
| 12:45 – 1:30         | Standard Contract                      |
| 1:30 – 2 pm          | Auction Timing and Schedule            |
| 2 – 2:30 pm          | Approval Process                       |
| <b>2:30 pm</b>       | <b>ADJOURN</b>                         |





## Structural Overview

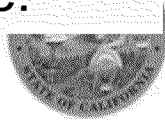
- Reverse auction – lowest bid selected first, up to the procurement obligation, or the capacity cost caps are reached, whichever comes first. A cost cap will be set for each auction, based on the average of bids received.
- Procurement obligation is based on percentage of peak for each year. Goal is to increase price-responsive DR to 5% by 2020, from 2.5% in 2014, of peak. Annual DRAM procurement obligations will be counted toward each IOUs' system, local and flexible RA requirement.
- Separate category for emergency DR capacity – no greater than 2% cap as set forth in D.10-06-034, and associated settlement, unless and until revised by the CPUC. Emergency DR does not count toward overall procurement obligation.
- Annual auctions for 1, 2 or 3 year contracts, for deliveries starting the following year. First auction in 2015 for deliveries starting in 2016.
- Auction runs annually in April, and contracts signed by August and approved by October. Bidders may either select 12 months or one of two seasons.  
Bidders and buyers will enter standardized contracts.





## Procurement Obligation

- Price-Responsive Goal = 5% by 2020, from ~2.5% in 2014, of total system peak, based on most recent CEC forecast, as modified by the latest LTPP proceeding.
- Emergency DR cap = 2% of peak load, per Settlement adopted in D.10-06-034.
- Annual DR procurement target obligation will be used to satisfy system, local and flexible RA requirements, included in annual RA showings.
- Procurement of DR bids start with least cost first, up to procurement target or capacity cost cap, whichever is reached first.
- Bids may be rejected at any price point if they find evidence of market manipulation – including: bids at artificial or unreasonable prices, bids offered for customers/resources for which there is suspect evidence.





## Cost Cap and Cost Effectiveness

### Capacity Cost Cap

- Capacity cost cap based on average of bids received for each auction.
- Separate caps set for emergency and economic DR.
- IOU responsible for calculating the capacity cost cap specific to its auction.
- Capacity cost cap based on \$/kW-year.
- Disproportionately high bids eliminated for purposes of calculating the cap.

### Cost Effectiveness Benchmark


- Energy price cost-effectiveness determined by CAISO per FERC direction.
- Proposal to use cost-effectiveness protocols as benchmark for DRAM reasonableness review. Functions as a second check on cost reasonableness.



## Bid and Product Criteria

- Meet CPUC product-specific RA criteria for system, local or flexible DR.
- Participate in the CAISO energy market, either bid or scheduled independently or via the utility, and subject to applicable MOO.
- Bids must be unique – cannot include customers or resources from a utility program, procurement, or other DRAM offer. Also may not offer the same bid into more than one utility solicitation.
- Must meet current CAISO bidding criteria of the appropriate product (availability, located in same subLAP, etc.)
- Bids must be offered in minimum 100 kW blocks.
- Capacity awards and obligations may not be sold, traded, or otherwise transferred to another capacity resource type – either conventional or preferred.





## Auction Timing

Auction runs (RFO issued) in April of each year. Contracts signed by August and approved by October for annual RA showing.

Bidders have a maximum 12 month COD, and may be delivered sooner.

Bids can be for annual or seasonal products.

Two seasons proposed: May-October for system and local products; and November – April for system and flexible.





# Auction Schedule

2015*												
ACTION	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
RFO Issued				1								
Bids Ranked and Selected					1	1						
Contracts Signed							1					
AL Filed with CPUC							1					
AL Approved by CPUC									1			
COD												
Annual RA Showing										31st		
2016*												
RFO Issued				2								
Bids Ranked and Selected					2	2						
Contracts Signed							2					
AL Filed with CPUC							2					
AL Approved by CPUC									2			
COD												
Annual RA Showing										31st		

Annual auctions for year-ahead deliveries. 1e – 2015 auction for 2016 RA year.







## Standard Contract

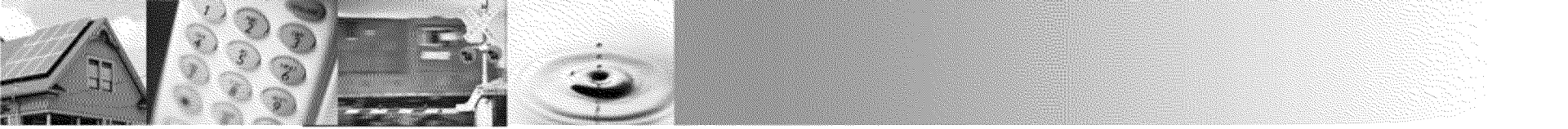
- One standard contract with option to select whether the resource will deliver system and local, or system and flexible products, as well as an option for the appropriate delivery months.
- Additional modifiable terms shall be limited to the following: capacity price(s), delivery point/bid location, and duration (1, 2 or 3 years).
- Contracts shall include penalties in the form of capacity de-rates for under-deliveries. If 105% or greater, payment = 1.05 x capacity rate. If between 75% and 105%, payment = actual capacity % x capacity rate. If between 60% and 75%, payment = 50% x capacity rate. If < 60%, payment = 0% x capacity rate. Penalties may apply.
- Aggregator Managed Portfolio contracts as the starting place for the standard contract, including the following provisions, and others as determined by the Commission. The Commission will require that the utilities each file a proposed standard contract incorporating these elements, for vetting and approval.



## Approval Process

- Utilities file Application with bid and ranking protocol and standard contract, and anything else required, for approval before first auction.
- Changes can be made to auction process, protocols and standard contract by staff, on its own motion and/or by formal request of parties, in form of a resolution.
- Contracts proposed and approved via one AL and resolution, not individually. CPUC reserves 60 days for review and approval, including vote.
- Utilities file a report each year with aggregated program data.





# **Contact Information**

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