

BEFORE THE PUBLIC UTILITIES COMMISSION OF
THE STATE OF CALIFORNIA

Order Instituting Rulemaking To
Enhance the Role of Demand
Response in Meeting the State's
Resource Planning Needs and
Operational Requirements.

Rulemaking 13-09-011
(Filed September 19, 2013)

PREPARED TESTIMONY OF KEVIN WOODRUFF
ON BEHALF OF THE UTILITY REFORM NETWORK REGARDING
PROPOSED DEMAND RESPONSE AUCTION MECHANISM

Kevin Woodruff
Principal
Woodruff Expert Services
1100 K Street, Suite 204
Sacramento, CA 95814
(916) 442-4877

kdw@woodruff-expert-services.com

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1 COST CAP

2

3 Q. Do you support the proposed cost cap based on an average of bid prices?

4 A. Yes. I fully support the apparent intent of the cost cap to mitigate potential market
5 power. The purchasing utility will not be obligated to purchase DR that has a price
6 higher than the cost cap.⁸ That is, the utility would only be obligated to procure a DR
7 offer if its capacity bid price is less than the average of all capacity bid prices. This cost
8 cap would have the beneficial impact of forcing DR bidders to consider their immediate
9 competition when pricing their bids for a DRAM auction. This cost cap could also be
10 useful in analyzing potential market manipulation.⁹

11

12 Q. Do you have any concerns with the proposed cost cap?

13 A. I think the cost cap could be interpreted to limit the procurement of cost-effective DR.
14 Further, the cost cap itself might be “game-able,” that is, prone to manipulation.

15

16 Q. Why do you state that the cost cap might be interpreted to limit procurement of cost-
17 effective DR?

18 A. As I read the cost cap, the utilities would apparently be able to procure DR offers above
19 and beyond their procurement obligations and the cost cap if such offers were cost-
20 effective. However, I do not believe this apparent authority is clearly stated in the
21 DRAM Proposal. I thus think the DRAM Proposal should be clarified as to the utilities’
22 *optional* authority to procure DR capacity at prices higher than the cost cap and/or in
23 quantities greater than their obligation – but if and only if such DR capacity offers are
24 cost-effective.¹⁰

⁸ DRAM Proposal, pp. 5 and 13.

⁹ DRAM Proposal, pp. 5-6.

¹⁰ Similarly, if the Commission instead *prevents* the utilities from procuring DR capacity in quantities greater than the lesser of their procurement obligation or prices below the cost cap, they should clarify this prohibition before adopting the DRAM. Such a policy would limit the procurement of cost-effective DR if the cost cap is lower than the cost-effectiveness threshold. ~~If the Commission adopts this policy, I~~

1 Q. How do you recommend the Commission implement this clarification of the cost cap for
2 the DRAM auction?

3 A. I believe the Commission should also direct the utilities to compute an additional cost-
4 effectiveness threshold based on the Commission-adopted DR cost-effectiveness
5 protocols.¹¹ The DRAM Proposal appears to anticipate computing this measure when it
6 says “[t]he demand response cost-effectiveness protocols will be used as a benchmark for
7 an additional measuring point for the reasonableness of DRAM bids and contracts”.¹²
8

9 Q. Are you referencing the Commission’s adopted DR cost-effectiveness protocols when
10 you use term “cost-effective”?

11 A. Yes. These protocols generally value DR capacity based on the “annualized fixed cost of
12 a new combustion turbine, less the net revenues...that the CT could earn in operating in
13 the real-time energy and ancillary services markets”.¹³ I am not herein offering an
14 opinion on the appropriateness of the current cost-effectiveness protocols. However, I
15 will observe that an alternative perspective on cost-effectiveness could be reference to the
16 current or recent market prices of RA capacity, data which the ED can routinely obtain.¹⁴
17

18 Q. Do you have any other concerns about the cost cap, as proposed?

19 A. Yes. I am concerned that the cost cap itself could be game-able, in the sense that parties
20 could enter bids for purposes of raising the cost cap to increase the amount of capacity a
21 utility would procure. The proposal does address these concerns in part by eliminating
22 “disproportionately high bids” from the computation.¹⁵ But the DRAM should also
23 explicitly require utilities to assess whether some bids that are not “disproportionate”

~~recommend it allow procurement of DR capacity up to the lesser of utility’s procurement obligation or
capacity priced at (the lesser of the cost cap or the cost-effectiveness threshold).~~

¹¹ See Decision (D.) 10-12-024, Attachment 1.

¹² DRAM Proposal, p. 7.

¹³ D.10-12-024, Table 3 (p. 21).

¹⁴ See, for example, pp. 21-29 of ED’s *2012 Resource Adequacy Report*, available at
<http://www.cpuc.ca.gov/PUC/energy/Procurement/RA/>.

¹⁵ DRAM Proposal, p. 6. The DRAM Proposal also suggests at p. 5 that “bids at artificial and
unreasonable prices” might be evidence of market manipulation.

1 BENEFIT AND COST ALLOCATION

2

3 Q. What is your concern over the allocation of the benefits and costs of DR products
4 procured via the DRAM?

5 A. As it has with regard to other types of resources, the Commission is placing the utilities
6 in the role of procuring DR resources in pursuit of the state’s energy policy goals. If the
7 utilities are not procuring DR for their bundled customers on a “least-cost, best-fit” basis
8 but instead procuring to meet some broader need, some allocation of the benefits and
9 costs of such procurement to customers of other Load-Serving Entities (LSEs) is
10 necessary. Such DR procurement may be directed to meet the state’s environmental
11 goals or reliability needs. One approach to ensuring all customers share equally the
12 benefits and costs of such efforts would be the use of a mechanism like the Cost
13 Allocation Mechanism (CAM) to allocate the benefits and costs of DRAM-procured DR
14 among LSEs that serve all customers. Another option is to impose equivalent
15 procurement requirements on LSEs that serve unbundled customers to procure similar
16 amounts of DR, as was implemented for storage resources.²⁰

17

18 DRAM PROGRAM GOALS

19

20 Q. Do you have any comments on the DRAM Proposal’s goal that PRDR meet five percent
21 of system peak by 2020?²¹

22 A. Yes. The five percent goal is an acceptable goal, *but only for the time being*.

23

24 Q. Why do you believe the five percent goal is “acceptable” for the time being?

25 A. The Commission has been pursuing this goal for the several years since it was adopted in
26 the Energy Action Plan.²² My sense is that the target was then and continues to be

²⁰ D.13-10-040, Section 4.8.3 (pp. 46-48).

²¹ DRAM Proposal, pp. 2 and 7.

²² DRAM Proposal, p. 2. See also D.03-06-032, pp. 8-10.