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)

OPENING BRIEF OF THE UTILITY REFORM NETWORK ON THE DEMAND RESPONSE AUCTION MECHANISM

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OPENING BRIEF OF THE UTILITY REFORM NETWORK

ON THE DEMAND RESPONSE AUCTION MECHANISM

1. Introduction

Pursuant to Rule 13.11 of the CPUC Rules of Practice and Procedure, and to the Rulings of Administrative Law Judge Hymes issued on July 31 and August 13, 2014, The Utility Reform Network ("TURN") respectfully submits this opening brief concerning the outstanding issue of encouraging participation in the Demand Response Auction Mechanism ("DRAM"). TURN is a signatory to the proposed Settlement Agreement on Phase Three Issues (the "Settlement"),[1] and urges the Commission to adopt the Settlement expeditiously, so that parties can begin the working group processes described in the Settlement.

In addition to the Phase Two issues of cost allocation and back-up generators, the Settlement identified the issues of whether the DRAM "should be a preferred means of procuring Supply DR," and of "encouraging participation in the Demand Response Auction Mechanism (DRAM) Pilot and the potential interaction of other (i.e. non-DRAM Pilot) solicitations for Supply Resources with the DRAM Pilot," as issues remaining for briefing. TURN is separately filing a joint brief with SDG&E concerning cost allocation issues. In this brief, TURN explains why there is a need for some mechanisms that would encourage bidder

[1] See, Motion for Adoption of Settlement Agreement, Attachment A, August 4, 2014 in this proceeding.

participation in the DRAM, given that there are multiple different alternative procurement mechanisms for demand response products for 2017-2019.

2. Testimony Positions and Settlement Terms Concerning the Demand Response Auction Mechanism ("DRAM")

2.1. Testimony Positions

A Demand Response Auction Mechanism ("DRAM") was proposed by Energy Division as the primary means for the IOUs to procure incremental Supply Resource demand response products.[2] In the testimonies served on May 6, 2014 the IOUs and the Demand Response Providers (DRPs) expressed strong concerns with the staff's original DRAM proposal. The parties' concerns included the following:

- The use of an "as-bid" price rather than a market clearing price;
- The computation of a "cost cap" based on bids submitted to a DRAM auction;
- The potential for procurement of less cost-effective DR than the utilities can procure in their own Requests for Offers ("RFOs").

In the testimony of Marcel Hawiger, TURN noted that prices for demand response programs and products have been generally in the $120-$130/kW-year range, with little evidence of competitive price pressure. TURN suggested that

[2] The staff DRAM proposal was appended to the April 2, 2014 Joint Ruling and Revised Scoping Memo.

the DRAM offers an opportunity to better test the range of opportunity costs of customers willing to provide demand response services, and recommended a transition to procurement solely through the DRAM.[3]

In the testimony of Kevin Woodruff, TURN also offered that the DRAM could be a useful procurement mechanism, but explained that additional clarity was needed on whether the DRAM was intended to procure pure RA tags or a bundled capacity and energy product.[4] Mr. Woodruff discussed how product valuation would depend upon the definition of the products being procured, especially given the intent to procure system, local and flexible RA products through the DRAM.[5]

TURN acknowledged in its testimonies that some auction design details needed to be worked out. However, TURN is concerned that many of the alleged problems with the DRAM are really difficulties and costs associated with participating in the CAISO market, irrespective of the procurement mechanism used to acquire a Supply Resource demand response product.

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[3] Ex. TRN-02, pp. 9-10, 13-16, TURN/Hawiger.

[4] The term "Resource Adequacy tag" (or "RA tag") refers to a contract between a Load-Serving Entity (LSE) and supplier that provides the LSE capacity it can use to satisfy its RA procurement obligations, but no other goods or services.

[5] Ex. TRN-01, p. 2-12, TURN/Woodruff.

2.2. Summary of Settlement Terms Concerning the Demand Response Auction Mechanism

The Settlement proposes a pilot Demand Response Auction Mechanism Pilot for 2015-2016.[6] The DRAM is a mechanism for the utilities to procure Supply Resource demand response products, with the understanding that the utilities would purchase Resource Adequacy ("RA") tags from third party winning bidders in an auction, and those bidders would then be responsible for meeting all CAISO requirements for demand response products participating in the CAISO market.

The Settlement intends that the first auction be held in the summer of 2015 for delivery in 2016 and the second auction be held in 2016 for delivery in 2017-2019.[7] Parties have committed to initiate a process prior to December 2014 to develop the DRAM Pilot design and protocols. The Settlement adopts the following parameters for the DRAM Pilot:

- The DRAM would procure only RA tags. The 2015 auction would be for system RA only, while the 2016 auction would be for system, local and/or flexible RA products.
- Bidders would be paid as-bid prices.[8]

[6] The DRAM is described in Section II.C. (pages 24-30) of the Settlement Agreement, included as Attachment A to the Motion for Adoption of Settlement filed on August 4, 2014.
[7] Settlement, Sec. II.C.4.a and 4.b, p. 27.
[8] Settlement, Sec. II.C.3.c.

- Utilities would use "their respective valuation processes" to evaluate and select DRAM bids.
- Bidders will be responsible for integrating in the wholesale market;[9] though the IOUs will "provide optional [Scheduling Coordinator] and related services to winners of the DRAM Pilot via a third party."[10]

Parties to the Settlement have agreed to collaborate over the next few months to determine other necessary elements of the DRAM pilot.

The IOUs have agreed to procure "a minimum" of 22 MW through the DRAM Pilot, though there is no enforcement or penalty mechanism should DRAM Pilot procurement not meet this target.

3. Potential Conflict between the DRAM and IOU RFOs

The Settlement terms allow for the IOUs to procure Supply Resource demand response products through non-DRAM RFOs for the 2017-2019 program cycle.[11] The IOUs would use the RFOs to contract with customers or with aggregators for products "that have additional features beyond 'RA tags.'" The IOUs would purchase a bundled supply resource product, such that the utility would act as the Scheduling Coordinator ("SC") and would handle CAISO integration. The contract between the IOU and the aggregator would have to

[9] Settlement, Section II.C.3.d, p. 25.
[10] Settlement, Section II.C.3.h, p. 26
[11] Settlement, Sec. II.C.3.f, p. 26.

conform to CAISO availability requirements, but the IOU could presumably negotiate terms concerning, for example, the price at which the resources would be bid into CAISO energy or ancillary services market.

The DRAM Pilot is intended to assess the feasibility of using an auction process for procuring cost-effective Supply Resource DR.[12] To participate in the DRAM, which requires a bid only for the RA tag, the third party bidder would have to take on all the risks of being the SC and integrating with the CAISO markets. While the third party aggregator would obtain the benefit of any energy revenues, it is possible that the costs (especially in the first couple of years) of performing the SC function could outweigh the energy revenue benefits. This concern may be mitigated by the fact that the IOUs "will provide" optional SC services to winning bidders, and will record the costs of those services in balancing accounts.[13]

Nevertheless, there may be other incentives to participate in a utility RFO instead of the DRAM Pilot. For example, depending on the RFO design, bidders may believe they can earn higher revenues in a utility RFO. TURN is concerned that the success or failure of the DRAM might not depend on the auction mechanism itself, but might instead reflect third party bidders' preferences to participate in utility RFOs rather than the DRAM.

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[12] Settlement, Sec. II.C.5 and 6, p. 28.

[13] Settlement, Sec. II.C.3.h and II.C.7, pp. 26 and 28.

4. Encouraging Participation in the DRAM Pilot

In the pending Settlement, parties agreed to brief the issues of:

> "…whether the DRAM should be a preferred means of procuring Supply DR and if so, with respect to encouraging participation in the DRAM Pilot, the potential interaction of IOU solicitations for Supply Resources with the DRAM Pilot with respect to encouraging participation in the DRAM Pilot and possible limitations on the IOUs solicitations for Supply Resources."[14]

TURN will address these issues below.

4.1. The DRAM, or Similar Competitive Procurement Mechanism, Should be the Preferred Means for Acquiring Demand Response Products

As discussed above, in its testimony, TURN endorsed the DRAM as a promising means for facilitating the transparent procurement of cost-effective DR. TURN continues to have such hopes for the DRAM, but believes such issues will be better addressed after the DRAM Pilot auctions are conducted.

4.2. Mechanisms to Encourage Participation in the DRAM Pilot

Utilities, DR providers and customers now have several avenues for providing DR services, including through utility tariffed programs, utility contracts with aggregators (the so-called Aggregator Managed Programs), and the separate SCE all-source RFO for locational resources in the LA Basin. One challenge to making the DRAM Pilot a meaningful test of the DRAM concept is the fact that much current DR is already being provided pursuant to these other

[14] Settlement, Sections III.7 and III.15.

avenues and that much of the potential incremental DR may also be procured by these other means, particularly the utilities' RFOs. Some of these other mechanisms may offer more attractive terms to DR providers and interruptible customers than a competitive auction. Absent some provisions to address this "crowding out" effect, each utility's DRAM Pilot may thus receive limited bids – or even no bids. Some measures to provide the DRAM Pilot auctions a reasonably-sized test market are thus likely necessary for a meaningful test of the DRAM.

TURN believes these goals can be balanced by establishing a "set-aside" for each IOU's DRAM Pilot auctions that would provide a reasonably-sized potential market while enabling current DR procurement mechanisms – including utility RFOs – to continue as they are for loads outside the set-aside. Broadly speaking, such set-asides can be defined by such key variables as:

(i) Location: A DRAM Pilot auction could focus on procuring DR in specific geographic areas that are expected to offer DR potential.[15] Such locations could include, for example, a Sub Load Aggregation Point ("SLAP") within a utility's service territory. An SLAP set-aside would be feasible for PG&E, which has 16 SLAPs, and SCE, which has 6 SLAPs. Possible criteria for an SLAP set-aside include: a) an SLAP with at least 10 MW of existing demand response load,

[15] In its Local Capacity Requirements Request for Offers, SCE is seeking DR resources in specific geographical areas of its service territory.

and b) an SLAP with at least 100 MW of commercial and industrial load.[16]

(ii) Customer Class or Attribute: A pilot auction could focus on serving a specific class of customers or customers with certain attributes, such as a minimum or maximum load. Another alternative is to eliminate a particular utility program from providing Supply Resource demand response, such as the Capacity Bidding Program or the Aggregator Managed Portfolio, to prevent competition between two similar procurement mechanisms.

(iii) End-Uses: A pilot auction could acquire only DR programs that focus on managing specific end uses, such as the current Air Conditioner cycling programs. It appears that there is market interest in providing technologies (smart thermostats, home automation systems, mobile apps for controls) to the residential market for air conditioning controls, though existing registration processes make integration of residential customers into the CAISO market problematic.[17]

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[16] The numbers are illustrative only. The key is selecting an SLAP with adequate market potential.

[17] The typography of demand response program ability to integrate into CAISO markets, presented by Olivine on behalf of PG&E, indicates that the programs presently most able to integrate into CAISO markets include BIP, CBP and AMP. Ex. PGE-02, p. E-21.

Other parties may propose other means to define set-asides in their Opening Briefs.

It is conceivable a DR provider could offer competitive proposals if required to meet two or more such criteria, but TURN is concerned that each added limitation to the size of the set-aside will limit the DRAM Pilot's potential market.

TURN also believes it is reasonable – and perhaps even desirable – for each utility to use a different attribute to create its DRAM Pilot set-aside.

Finally, TURN does not believe the actual specification of such set-asides can be completed in this briefing process, but that, if the Commission adopts TURN's policy recommendation, the DRAM Pilot Working Group will need to develop recommended set-asides for Commission approval.

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Respectfully submitted,

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