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21-IEPR-04 CLECA Comments on December 3, 2021 Meeting

Additional submitted attachment is included below.

December 17, 2021

VIA E-MAIL (DOCKET@ENERGY.CA.GOV)

Commissioner J. Andrew McAllister
Vice Chair Siva Gunda
California Energy Commission
715 P Street
Sacramento, California 95814-5512

**Re: CEC Docket No. 21-IEPR-04;
IEPR Commissioner Workshop on Supply-Side Demand Response**

Dear Commissioner McAllister and Vice Chair Gunda:

The California Large Energy Consumers Association (CLECA) provides these comments on the Integrated Energy Policy Report (IEPR) Commissioner Workshop on Supply-Side Demand Response on December 3, 2021.

Summary of Concerns

The Working Group (WG) process addressed in the Workshop focused on interim proposals for 2023 at the expense of a more permanent methodology for counting Qualifying Capacity (QC) for Demand Response (DR) for Resource Adequacy (RA).

The interim proposal of the CAISO and Investor-Owned Utilities (IOUs):

- was not developed with participation of any other parties in the WG;
- is so complex and data intensive that it is not clear it will produce results in time for the 2023 RA Compliance Year;
- has not yet produced any results that have been vetted, and thus could lead to underestimates of DR capacity under different weather conditions that could

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inaccurately devalue DR capacity, resulting in needless, costly additional procurement;

- is incompatible with the CPUC’s adopted Slice of Day methodology for RA starting in 2024; and
- has resulted in a deferral of consideration of a methodology that is consistent with Slice of Day until the second half of 2022, rendering that methodology unlikely to be available for RA Compliance Year 2024.

Comments

CLECA is an organization of large, high load factor industrial customers located throughout the state; the members are in the cement, steel, industrial gas, pipeline, beverage, cold storage, food packaging, and mining industries, and share the fact that electricity costs comprise a significant portion of their costs of production. Some members are bundled customers, others are Direct Access (DA) customers, and some are served by Community Choice Aggregators (CCAs); a few members have onsite renewable generation. CLECA has been an active participant in California Public Utilities Commission (CPUC) regulatory proceedings since the mid-1980s, and all CLECA members engage in DR programs to both promote grid reliability and help mitigate the impact of the high cost of electricity in California on the competitiveness of manufacturing. CLECA members have participated in the Base Interruptible Program (BIP) and its predecessor interruptible and non-firm programs since the early 1980s. Thus, CLECA is knowledgeable about DR and very committed to it. CLECA strongly supports accurate determination of the capacity value of DR and incenting high levels of DR performance.

CLECA is participating in the WG process at the CEC to develop a methodology to establish a QC for supply-side DR to be used for RA. Ordering Paragraph 11 of the CPUC’s D. 21-06-029 asked the CEC to facilitate the development of a replacement QC methodology for “the 2023 RA compliance year *or thereafter*”.¹ The intent of the CPUC was to develop a durable counting method. In addition, CPUC D. 21-07-014 adopted the Slice of Day concept to reform its RA program. Instead of focusing on developing a durable QC methodology, the CEC process has resulted in the development of one or two² interim QC methodologies for 2023, along with retention of the current load impact protocol (LIP) methodology for 2023.

The LIP has been used to determine the QC for RA for many years. It is based on a series of regressions that are applied to DR performance in a previous year, and is used to estimate ex ante DR performance in a future year based on a forecast of participant enrollment. It was developed for IOU DR programs, and has recently been extended to third- party DR resources

¹ D. 21-06-029, Ordering Paragraph 11 at 78 (emphasis added).

² It is not clear if the CEDMC proposal mentioned later in these comments has been proposed for 2023, or beyond.

for RA counting purposes. The CAISO is not supportive of use of the LIP for RA capacity valuation. The CAISO supports another methodology, as discussed below.

Problems for DR in CAISO Markets

The CAISO's must offer rules are problematic for DR. They do not allow DR resources on a supply plan to vary their output based on weather, or different availability on weekends. In addition, if a DR resource is on a CAISO supply plan, it is subject to the CAISO's RA Availability Incentive Mechanism (RAAIM). This means that if the resource does not bid or perform as indicated on the supply plan, it is subject to a RAAIM penalty. The RAAIM was designed for resources with constant output and does not allow for daily or hourly changes to availability. Thus, RAAIM cannot recognize changes to DR output due to circumstances like weather. This is the reason the IOUs' DR capacity is not listed on supply plans but is provided in daily reports and bids based on the IOUs' assessment of how the DR will perform under forecast temperature and day-of-week conditions. The CAISO has refused to provide an exemption from RAAIM for DR resources or to allow bidding of variable amounts, even though the CAISO exempts solar and wind from RAAIM and allows variable bids.³

To get a RAAIM exemption and to account for the variable nature of DR that is weather-sensitive, the CAISO says it needs a change to its tariff, which is approved by the CAISO's regulator, the Federal Energy Regulatory Commission (FERC). But CAISO is not willing to seek such tariff changes at FERC unless a counting methodology that meets CAISO's "principles" is chosen (the only methodology which can do so is the CAISO's preferred Effective Load Carrying Capability (ELCC) QC methodology (see below)). We note that a recent CPUC decision, D. 21-06-029, states clearly: "We find that ELCC has *not* at this point been proven to be superior to LIPs or any other methodology at this time for DR."⁴ The CPUC also found, as Finding of Fact 6, that a reasonable approach is to put DR on supply plans *after* the CAISO adopts a variable DR model exempt from RAAIM penalties, and permits variable bids.⁵ Thus, the CAISO position is in opposition to the CPUC decision.

Despite the CPUC's decision that RAAIM is not appropriate for DR, the CAISO has *not* gone to FERC to request a waiver of RAAIM or to allow variable bids for DR. Instead, the CAISO is holding to its position in the CEC WG process that *only if ELCC is used for QC for DR*, will it file a proposal at FERC to waive RAAIM and allow variable bids for DR. Indeed, the CAISO stated in the WG that its resource counting "principles" must be met for it to seek a RAAIM exemption, and, as noted above, these "principles" effectively only allow for an ELCC-based methodology. Thus, CAISO is seeking to effectively dictate the QC method to be used.

³ Third party DR providers' resources on supply plans are exempt from RAAIM if they are under 1 MW.

⁴ D. 21-06-029 at 37 (emphasis added).

⁵ D. 21-06-029, Finding of Fact 6 at 73.

This is in violation of the CAISO tariff, Section 40.4.1, which makes it clear that the jurisdiction over RA QC lies with the local regulatory agency. That section reads:

The CAISO shall use the criteria provided by the CPUC or Local Regulatory Authority to determine and verify, if necessary, the Qualifying Capacity of all Resource Adequacy Resources; however, to the extent a resource is listed by one or more Scheduling Coordinators in their Resource Adequacy Plans, which apply the criteria of more than one Local Regulatory Authority that leads to conflicting Qualifying Capacity values for that resource, the CAISO will accept the methodology that results in the highest Qualifying Capacity value. Only if the CPUC, Local Regulatory Authority, or federal agency has not established any Qualifying Capacity criteria, or chooses to rely on the criteria in this CAISO Tariff, will the provisions of Section 40.8 apply.⁶

Issues with the Interim CAISO-IOU Proposal

The interim methodology presented at the Workshop by the CAISO and the IOUs, referred to as LIP-informed ELCC, was not developed with the participation of the full WG. It is our understanding it was developed only by the CAISO and the IOUs. It proposes to use ELCC to determine the capacity value of DR based on LIPs modeled under different weather conditions. This will require numerous modeling exercises that are time-consuming. Since ELCC only develops one capacity value per resource, if that resource has output that varies over the course of a day, the ELCC will either over- or under-value the resource.

This LIP-informed ELCC methodology has not been fully developed and certainly its results have not been vetted for reasonableness. The CPUC representative at the December 3, 2021, workshop said that the CPUC staff could perform the ELCC modeling if there was “general consensus” on the approach. There is not. Furthermore, ELCC modeling is complex and it is not clear that the LIP-informed ELCC modeling can be performed in time to have the results vetted in order to be usable for the RA Compliance Year 2023. The RA timeline requires that RA showings by load-serving entities (LSEs) be made in October 2022 based on whatever RA value is assigned to resources based on the adopted RA counting methodology at that point.

CEDMC Alternative Proposal

An alternative proposal was made by the California Energy and Demand Management Council (CEDMC). The CEDMC proposes the use of a QC methodology used by PJM, NYISO, and ISO-NE in lieu of the LIP for non-IOU DR. This approach is based on the pre-posting of

⁶ CAISO Fifth Replacement Electronic Tariff, Section 40.4.1.

collateral and penalties paid after-the-fact for non-performance. It is not entirely clear whether this proposal is for the 2023 RA Compliance Year or for 2024. Either way, the demand response providers (DRPs) have had to start the LIP process this month for RA Compliance Year 2023, and will have to continue with the LIP process until such time as the CPUC adopts an alternative QC methodology for them.⁷

Timing Concerns Remain

It is very important to understand that the LIP-informed ELCC option is not consistent with the CPUC's decision (D. 21-06-029) directing that a Slice of Day methodology be used for DR for the RA compliance year 2024. Indeed, the CEC staff, as part of its proposed process for the WG, has suggested deferring the development of a permanent QC for DR based on Slice of Day until the second half of the year 2022, apparently *after* the CPUC issues a June 2022 decision adopting further Slice of Day details. As a result, parties have been unable to even start a discussion of the Slice of Day requirement because of the focus on interim solutions. This puts at serious risk the possibility of having a final DR QC methodology for RA compliance year 2024. If a new WG process for 2024 does not start until after June 2022, there will be very few months left for it to reach a resolution, since the LIP process for the 2024 RA compliance year starts in early December 2022. The WG is unlikely to have a proposal presented to the CPUC before that time, much less have one adopted by the CPUC. Thus, the LIP process would have to be started for each DR program, with associated detail and expense, anyway. Furthermore, if a new WG process has a final result in early 2023, it would have to be presented to the CPUC and vetted through comments, and possibly workshops, in time for a June 2023 RA decision.

ELCC Is Incompatible with Slice of Day

We will now explain why ELCC is not compatible with Slice of Day. The intent of Slice of Day is to capture the capacity value of resources in either every hour in a day, or in different sets of hours in a day by month or season. An ELCC value is for an entire month, and does not reflect diurnal or temperature variability within a month. We do not know if the LIP-informed ELCC will successfully capture temperature variability, but we seriously doubt it will feasibly capture diurnal variability.⁸ Running an ELCC model for each slice or hour of the day would create a huge computational burden. Even running ELCC for each DR program under different weather conditions as proposed for one of the interim options is burdensome, and has no clear

⁷ As noted earlier, many non-IOU DRPs do have resources on supply plans, so they are not subject to RAAIM. However, third-party DRPs can achieve a RAAIM exemption if their resources are less than 1 MW, which creates an incentive for such small resources; thus, a RAAIM exemption is not just a function of placement on supply plans. We further note that, as indicated by the CPUC representative at the workshop, in aggregate third-party DR resources have some performance issues.

⁸ This has been a problem in using ELCC to determine the QC of solar resources. The single ELCC value for solar understates the capacity value in the afternoon for the gross peak, and overstates it in the evening after sunset for the net peak.

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path forward for implementation. At the December 3 workshop, the CPUC representative stated it would consider doing the modeling if there is a “general consensus” on an interim approach using ELCC. Again, there is no such consensus.

Conclusion

The Scoping Ruling for R. 21-10-002, the new CPUC RA proceeding, has requested a draft conclusion from the CEC WG process in February 2022.⁹ At the December 13, 2021 WG meeting, we learned that the CEC staff will present a draft report/proposal to the CEC at its February 16, 2022 business meeting. This schedule leaves very little time for a report to be drafted and to get participant feedback, since there are only a few more WG meetings before the end of January, 2022.

For all of these reasons, we are concerned that the CEC WG process has not been structured to meet the CPUC’s requirements—development of a durable QC counting methodology for supply-side DR—in the best possible way. Equally importantly, CLECA cannot support the joint IOU/CAISO proposed interim solution.

Very truly yours,

BUCHALTER
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By: Nora Sheriff
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⁹ Assigned Commissioner’s Scoping Memo and Ruling in docket R. 21-10-002, Dec. 2, 2021 at 9.