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CA Efficiency + Demand Management Council Comments on CEC DSGS Proposed Draft Program Guidelines

Additional submitted attachment is included below.

CALIFORNIA
Efficiency + Demand Management
COUNCIL

May 11, 2023

California Energy Commission
Docket No. 22-RENEW-01

Delivered via email

Re: Comments on Energy Commission's Demand Side Grid Support (DSGS) Program Guidelines, Second Edition - Proposed Draft Program Guidelines

The California Efficiency + Demand Management Council ("Council") appreciates the opportunity to respond to the California Energy Commission's ("Energy Commission") April 21, 2023 Demand Side Grid Support ("DSGS") Program Guidelines, Second Edition - Proposed Draft Program Guidelines ("Draft Guidelines").

The Council is a statewide trade association of non-utility businesses that provide energy efficiency ("EE"), demand response ("DR"), and data analytics services and products in California. Our member companies include EE, DR, and distributed energy resources ("DER") service providers, implementation and evaluation experts, energy service companies, engineering and architecture firms, contractors, financing experts, workforce training entities, and EE product manufacturers.

The Council appreciates and commends the Energy Commission and staff's continued efforts to build upon the DSGS as established in Assembly Bill ("AB") 205[1] (Committee on Budget, Energy and climate change; 2022), expanded in AB 209[2] (Committee on Budget, Energy and climate change; 2022), implemented in expedited fashion in 2022,[3] and addressed during the January 27, 2023[4] and April 26, 2023[5] workshops. The Energy Commission proceeds to work at a rapid pace to revise DSGS guidelines so the program can be operational in time to mitigate grid stress in the summer of 2023.

The Council is supportive of the Energy Commission's progress towards developing a "**statewide** program" [emphasis added] as stated in AB 209 Sec. 15 (25792.(b)). The progress demonstrated in the Draft Guidelines include IOU customer eligibility under Option 2 and the recognized benefit of behind-the-meter ("BTM") battery storage towards reliability under Option 3. The Energy Commission's proper expansion of the DSGS in time to serve grid reliability needs by this summer is important. The Council acknowledges the continued expeditious pace the Energy Commission staff continue to work under.

We offer several recommendations in this document to improve the DSGS but underscore the importance of updating program guidelines as we head into summer 2023 and prepare for summer 2024. The Council

[1] AB 205 at Article 3. Demand Side Grid Support Program
[2] AB 209 at Sec. 15. Section 25792 of the Public Resources Code
[3] Demand Side Grid Support (DSGS) Program, First Edition
[4] Session 1 - Lead Commissioner Workshop on the Demand Side Grid Support Program and Distributed Electricity Backup Assets Program. More information can be found here: https://www.energy.ca.gov/event/workshop/2023-01/session-1-lead-commissioner-workshop-demand-side-grid-support-program-and
[5] Staff Workshop on the Demand Side Grid Support Program. More information can be found here: https://www.energy.ca.gov/event/workshop/2023-04/staff-workshop-demand-side-grid-support-program

intends for our recommendations to continue improving the DSGS by advancing the plain language of AB 209 in ensuring "**all** energy customers in the state, except those enrolled in demand response or emergency load reduction programs…"[6] [emphasis added] are eligible to participate in the program.

The Council continues to emphasize the value of demand side resources towards lowering customer energy bills, reducing energy-related emissions, improving the reliability of our power systems, and expanding equitable access to clean energy technologies - all of which are critical to achieving California's ambitious energy and climate goals. The Council believes the DSGS is an important tool in relieving stresses on California's grid, particularly in the face of a rapidly changing climate. We agree with Vice Chair Gunda's statement that we "cannot understate the importance of load flexibility as an important part of California's future."[7]

The Council looks forward to further collaborating with the Energy Commission and participating agencies and stakeholders in continuing to improve the DSGS into and beyond summer 2023.

Sincerely

Joseph Desmond; Executive Director

Clark McIsaac; Director, Policy & Strategy

California Efficiency + Demand Management Council

[6] AB 209 at Sec. 15. Section 25792(b)

[7] Staff Workshop on the Demand Side Grid Support Program. More information can be found here: https://energy.zoom.us/rec/play/ZashEFUpGTt1eZTTxACruQjX7VYcQ66OKhb60hp3tqaErC0JtAUt2m4q1_5VyASbiZQKi0Iac3jiLtg9.PAuHMjXRZKRm11Bz

General Support for DSGS Progress Towards Expanded Customer Eligibility

The Council acknowledges and generally supports the Energy Commission's progress towards expanding DSGS eligibility relative to the plain language of AB 209. In particular, the Council appreciates the Energy Commission's proposed improvement of Option 2 in relation to their proposed potential guideline modifications in January 2023 ("proposed guideline modifications").

Throughout this document, the Council continues to advocate for the importance of and need to further expand DSGS eligibility across the state to serve statutory requirements. Though the Council also has concerns and questions regarding Option 2's complexities, we underscore the Energy Commission staff's diligent efforts to rapidly establish improvements in their Draft Guidelines thus far.

Continue Rapid Process to Implement DSGS This Summer

The Council offers our perspectives and suggestions in this document through the lens that the DSGS guidelines must be updated in time to be operational this summer in order to mitigate anticipated grid stresses. The guidelines must be updated and finalized quickly to be approved by the Energy Commission and made available for this summer. However, in the scenario, and to the extent that the program start is delayed until later this summer, the Council suggests that participants still receive compensation at levels representative of a full season of participation. Cutting incentive levels due to implementation delays would significantly reduce initial participation in the program for 2023 given other competing programs, which would hinder the ability for the 2023 season to provide meaningful learnings for future refinement of the program.

Return After Summer 2023 to Assess and Improve DSGS

The Council believes the DSGS will continue to benefit from further assessment and improvement following summer 2023. This is particularly true depending on the Energy Commission's ability to address our suggestions in this document in time for this summer. Accordingly, the Council continues to urge the Energy Commission to adopt guidelines for summer 2023 that build on current market rules, measurement and verification procedures, and enrollment pathways. The Council intends the updated guidelines to allow for the flexibility to develop pilots and alternative approaches that can be implemented for the end of summer, 2023, in the fall of 2023 and beyond.

Incorporate Non-Market-Integrated Options to Unlock Greater DSGS Benefits

The Council finds value in and supports the Energy Commission's efforts to establish a market-integrated DSGS option as it has done in Option 2. However, the Council notes that due to the framework of Options 1 and 2 and the storage-centric scope of Option 3, the Energy Commission's Draft Guidelines effectively do not incentivize non-market integrated resources and result in unnecessary limitations on program participation.

The Draft Guidelines Inadvertently Build Barriers to Program Participation / Benefits
The Council is concerned that without an additional DSGS option or participation pathway explicitly designed to incentivize non-market-integrated resources, the Draft Guidelines will incidentally hinder program participation:

- **ELRP and Option 1**: Though Option 1 is not explicitly market-integrated, the Council understands the Energy Commission thoughtfully crafted Option 1 to reflect aspects of the Emergency Load Reduction Program ("ELRP") while preserving the existing ELRP in particular and DR programs in general. However, the ELRP is not designed to maximize the value of automated (and non-market-integrated) responses by residential energy technology such as smart thermostats to Flex Alerts. There are two ELRP participation pathways that are ostensibly open to this technology; Category A6 - Residential Customers, and Category B1 - Third Party Demand Response Aggregators. However, the former is intended to elicit a behavioral or manual response to Flex Alerts, which lends itself to being far less effective than an automated response at shifting load.

  The latter category, B1, is defined as a market-integrated Proxy Demand Resource. There remain significant challenges in registering customers in a supply-side program via the click-through process and until those issues are resolved, a separate non-market-integrated pathway is needed for customers to avoid click-through issues, where applicable, and participate in the DSGS.

- **Option 2**: This option specifically limits program eligibility to market-integrated resources. In this context, the challenge with Option 2 is as addressed by an EnergyHub white paper. In that white paper, Energy Hub's review of the "acquisition funnels revealed that the steps and requirements imposed on the customer during the enrollment process can create significant friction, resulting in poor participation results."[8] The Council expects that the Share My Data requirements would have similar impacts on DSGS Option 2 participation.

- **Option 3**: This option specifically narrows its scope to BTM storage. As already stated, the Council sees value in spotlighting BTM storage benefits that can be provided through proper policy and incentive mechanisms. However, as crafted and as just noted, the

[8] EnergyHub, Optimizing the demand response program enrollment process (2021). More information can be found here: https://www.energyhub.com/resource/optimizing-demand-response-enrollment/

scope of this option is limited to BTM storage and would forego potential benefits of other demand management technologies such as smart meters.

Expand DSGS Eligibility to Non-Market-Integrated Resources Through an "Option 4"
Without clear options/pathways for non-market-integrated resources to participate in the DSGS, the Council is concerned the current Draft Guidelines may not go far enough to serve the stated intent and plain language of AB 209. The Council acknowledges the short time window to thoughtfully address this issue, but urges the Energy Commission to explore the following option before finalizing the Draft Guidelines and implementing the program in time for summer 2023 reliability needs.

The Council sees value in the Energy Commission considering an additional option, "Option 4", that would explicitly incentivize non-market-integrated resources to deliver reliability benefits and receive incentive payments through the DSGS. Though the Draft Guidelines limit the scope of Option 3 to BTM storage resources only, the Council supports Advanced Energy United's proposal to leverage Option 3's framework in a new Option to expand DSGS eligibility and incentivize technologies with responsive capabilities comparable to BTM storage (such as smart thermostats, grid-enabled water heaters, etc.).

"Option 4" would open incentives to an entire suite of resources that are effectively and inadvertently sidelined by the Draft Guidelines by expanding access to automated, market-informed device response activities - increasing potential customer/resource engagement with and delivered benefits via the DSGS.

Option 2's Complexity May Hinder DSGS Success

The Council is generally supportive of Option 2: Incremental Market-Integrated DR Capacity, in particular:

- The general eligibility expansion across IOU and non-IOU service areas,
- Market-integrated DR resources,[9]
- The framework of basing incentives on demonstrated capacity in excess of capacity commitments, and
- The sensitivities towards protecting against the double counting of benefits or dual participation, as demonstrated through the proposed Option 2 Data Requirements.

However, the Energy Commission proposes potentially burdensome detail and requirements in Section D "Measuring Performance". In the Draft Guideline's current state, the Council believes Option 2 is the primary route for IOU entities to engage in the DSGS. Unfortunately, the Council is concerned that the proposed level of detail builds unnecessary complexity into Option 2 and could inhibit stakeholder understanding of and participation in the option. In that scenario, the Council is further concerned and troubled by the potential for this option to fail to drive the

[9] To clarify, the Council supports a market-integrated DR resource option in the DSGS, but is concerned there is no clear pathway for non-market-integrated resource participation, as discussed in the previous section.

participation levels required to make a meaningful contribution to the state's reliability needs. The Council recommends the Energy Commission seek simplifying Option 2 structures to reduce confusion and potential impacts to option and program successes.

Update Option 2 and 3 Incentive Levels to Reflect Current Prices

The incentive levels proposed in Option 2 and captured in Table 1: Incremental DR Capacity Prices by Month ($/MW) are based on years-old data and do not reflect the current rapid escalation of energy and capacity prices. As Energy Commission staff noted in their April 26 Workshop, the incentive levels are based on the 2021 Resource Adequacy Report[10] as published by the California Public Utilities Commission in April 2023. Though published just last month, the data that informed the Option 2 price levels is based on price data from as far back as 2019. It goes without saying that three to four year old data does not reflect the recent levels of inflation, the War in Ukraine's impacts on energy prices, and other factors that have dramatically increased resource adequacy ("RA") prices over the last five years.

The Council urges the Energy Commission to leverage more recent data or reliable methodologies to update and modernize its incentive levels. The Council suggests the Energy Commission pursue one of two options in order to inform and update incentive levels:

1) Update energy prices through an adjustment metric applied to the 2021 Resource Adequacy Report data, or
2) Conduct a survey among LSEs and leverage their responses regarding recent market energy prices

In addition, the incentive levels for Option 3 do not seem to reflect current RA price levels, and should similarly be adjusted based on updates provided by either of the two methodologies discussed above. The Council believes that, given the increased frequency of dispatch in this program (i.e. a potential maximum of 35 events per year), the RA construct provides a better comparison point for incentive levels than programs like the ELRP, which dispatches far less frequently.

Alternatively, battery-based virtual power plant ("VPP") programs outside of California can also offer helpful comparison points, considering similarities in resource mix and frequency of dispatch. Across New England, these types of programs tend to feature higher compensation levels to incent customer participation despite more frequent dispatch commitments, offering compensation in the range of $225-400 $/kW-year.[11] Updating Option 3's compensation levels to

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[10] 2021 Resource Adequacy Report, California Public Utilities Commission (April, 2023). More information here: https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/resource-adequacy-homepage/2021_ra_report_040523.pdf

[11] More information on the ConnectedSolutions Program in Massachusetts here: https://www.masssave.com/residential/rebates-and-incentives/connectedsolutions-batteries.
More information on the Rhode Island ConnectedSolutions Battery Program here: https://www.rienergy.com/RI-Home/ConnectedSolutions/BatteryProgram

reflect current RA price levels would help bring the program in line with national best practices and enhance the likelihood that it will attract enough customers to succeed.

General Questions

The Council offers the questions below following our analysis of the Energy Commission's Draft Guidelines and the presentations and discussions provided during the April 26 Workshop. The Council asks the Energy Commission to explore the following issues further:

- Clarify the policy and program justifications for granting Community Choice Aggregators ("CCAs"), Publicly Owned Utilities ("POUs") and other non-IOU Load Serving Entities authority to deny aggregator participation. If the Energy Commission wishes to preserve this authority in its final updated draft DSGS guidelines, the Council aligns with several stakeholder comments made during the April 26 Workshop, including:
  - Consider standardizing the permissions process and considerations that would lead to the approval, denial, or continued dialogue with an interested aggregator;
  - Consider the potential implications of the issue above, which appears to grant CCAs and POUs a competitive advantage over interested aggregators, and investigate solutions to avoid creating such competitive advantages; and
  - Consider the potential delays that would be created in program implementation if aggregators are required to seek explicit permission from each individual CCA, and consider potential solutions to streamline this process.
- The term "Customer Agreement Form" is not defined in the Draft Guidelines. The Council requests that the Energy Commission provide a more detailed description of what this would entail and how it could be integrated into aggregator's current permission agreements with their customers.
- Clarify whether customers with both combustion resources and non-combustion resources can participate and get credit for load reduction absent a Governor's Order.
- The Option 1 standby capacity nomination requirements and standby payment structure (particularly for non-performance or under-performance) are unclear. The Council suggests illustrative examples would be helpful in clarifying both the communication process and incentive structure. Additionally, the Council requests the Energy Commission clarify the eligibility and reporting requirements for standby payments for non-combustion resources (e.g. water pumping).