Comment Received From: Jennifer Privett
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PGE Comment Letter on IEPR Workshop Supply Side Demand Response

PG&E's Comment Letter on the CEC/CPUC IEPR Supply-Side Demand Response Workshop held on 12/3/21 is attached. Please let me know if you have any questions or if we can provide greater clarity. Thank you.

Additional submitted attachment is included below.

Pacific Gas and Electric Company

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California Energy Commission
Commissioner Andrew McAllister, and Vice Chair Siva Gunda
517 P Street
Sacramento, CA 95814
Docket Number 21-IEPR-04

RE: Pacific Gas and Electric Company Comments on the Integrated Energy Policy Report (IEPR) Commissioner Workshop on Supply-Side Demand Response (Docket Number 21-IEPR-04)

Dear Commissioner, McAllister and Vice Chair Gunda:

Pacific Gas and Electric Company (PG&E) appreciates the opportunity to comment in response to the California Energy Commission's (CEC) 2021 Integrated Energy Policy Report (IEPR) Commissioner workshop on Supply-Side Demand Response held on December 3, 2021.

PG&E applauds the CEC's efforts in organizing this workshop and offers comments on several important issues raised during the forum. Coordination by the California Public Utilities Commission (CPUC), California Independent System Operator (CAISO), and the CEC is critical in the wake of the grid challenges that began in 2020, and PG&E supports further workshops and collaboration between the three state agencies to aptly address these challenges. As illustrated by Simon Baker of the CPUC in his overview presentation, Demand Response (DR) has experienced a number of challenges in the last several years including bifurcation (i.e., CAISO market integration) and the rise of third-party DR (Rule 24 and the Demand Response Auction Mechanism), as well as in more recent efforts to address near-term grid needs (CPUC Reliability Rulemaking). To this end, DR resources have been a useful resource in supporting state policy and reliability objectives. With this backdrop in mind, PG&E shares the following perspective for enhancing DR.

1- Load Modifying Demand Response

The idea of increasing the level of Load Modifying DR (LMR) as compared to Supply Resource DR (SR) is worth greater exploration. This is in the context of not only the challenges both Investor-Owned Utilities (IOU) and third-party DR providers experience with SR administration (i.e., Qualifying Capacity measurement, supply plans, and dispatch), but also from the push for broader load flexibility (e.g., Load Management; Distributed Energy Resources Action Plan 2.0; Unified, Universal, Dynamic, Economic (UNIDE) signal; Dynamic Rates; Virtual Power Plants; etc.). To date, critical peak pricing programs, such as PG&E's SmartRate and Peak Day Pricing (PDP), have successfully operated as LMR. Moreover, with the introduction of the Emergency Load Reduction Program (ELRP), a non-market integrated pilot, it is clear that out-of-market resources can meaningfully support the grid. Market integration could very well be appropriate in certain cases such as economic DR, while less so in other situations (e.g., emergency DR and rate-based programs). Therefore, further exploration is warranted.

2- Demand Response Auction Mechanism (DRAM) Performance

PG&E notes the CPUC's recognition of poor DRAM resource performance. While it is true there has been a fair amount of "tinkering" since its 2016 inception and the DRAM evaluation is expected to be finalized by April 2022, it is not clear that the DRAM pilot is the appropriate structure for procuring reliable Resource Adequacy (RA) from third-party DR providers. With the rise of all-source Requests-For- Offers (RFOs) and multiple ELRP participation options, there is a wide range of programs and pilots currently available for DR resources. Ultimately, PG&E questions whether after seven DRAM RFOs, it is time for this pilot to transition to a bilateral contracting mechanism, comparable to one called for by the CPUC in the Reliability Rulemaking (R.20-11-003)[1].

3- Performance Measurement for Qualifying Capacity (QC)

PG&E reiterates its support for the IOU recommendations that propose a phased approach with optionality for RA 2023. While the permanent QC valuation methodology has yet to be developed, the current Load Impact Protocols (LIPs) or the LIP-informed Effective Load Carrying Capability (ELCC) method as an alternative option should be considered for 2023. This alternative option combines the benefits of the current LIP with the enhancements set forth in CAISO's advocated ELCC framework.

PG&E finds the California Efficiency and Demand Management Council's (CEDMC) proposed valuation methodology inadequate and not implementable for RA 2023. CEDMC indicated that the accuracy of the LIPs is questionable due to the dynamic nature of the third-party DR portfolios. To address the concern, CEDMC suggested two options:

a) PJM/NYISO[2] method that replaces up-front analytical rigor of the LIPs with an after-the-fact assessment and a penalty structure for under-performance; and,
b) Streamlined LIPs method, which eliminates approximately 50% of the current LIPs.

PG&E disagrees with the proposal for the following reasons:

i. As LIPs only require certain outputs to be reported and do not prescribe a specific evaluation approach, the accuracy of the evaluation is not limited to the LIPs and is, instead, determined by the model the evaluator chooses. Because the LIPs allow for a high degree of model specification flexibility, PG&E feels that if the accuracy of an impact evaluation is questionable, the problem should not be immediately attributed to the LIPs.

ii. While some easing of provisions and increased flexibility across DR providers may be very reasonable, it could be considered poor policy to reduce the level of rigor. Reducing the level of

[1] CPUC Decision 21-12-015, Attachment 1 at pp 3-4. The IOUs were ordered to undertake bilateral contracting for 2022 and 2023 leveraging the payment/penalty structure of the Capacity Bidding Program.
[2] PJM is a Regional Transmission Organization (RTO) serving several states in the Mid-West and Mid-Atlantic Area; NYISO is the grid operator for the State of New York.

rigor would make the QC values less accurate and also less consistent across DR providers. Based on PG&E's experience with the DRAM pilot, which employs a similar structure as the CEDMC's PJM/NYISO proposal, the employed methodologies lack analytical rigor and have frequent flaws in underlying assumptions.

Proposals that trade off more rigorous forecasting methodology with after-the-fact penalty structures are concerning in this context, particularly as many of these penalty provisions have long feedback loops and lead to inconsistent counting of resources. Given this experience and the DRAM resource performance reports, there is no evidence that this could be an effective methodology. It is also poor resource planning to remove up-front rigor because it would be too late to replace the resources if a large quantity of capacity was not available.

iii. While PG&E is not opposed to streamlining the LIPs, any modification would require thorough discussion. A CPUC decision on LIP modification would not be available in time for the year-ahead RA allocation for 2023. The streamlined LIPs method, unfortunately, is not a viable option for RA 2023, but may be possible for RA 2024 and beyond.

4- Procedural Guidance for LIP-Informed ELCC

While the CPUC expressed support for an alternative approach, it may be difficult to reach full "consensus" among all stakeholders, as desired by the Commission. PG&E notes that QC counting methodologies have been considered in the RA proceeding since early 2020 and parties remain conflicted, despite a robust working group process. Consequently, the CPUC may ultimately need to decide on a preferred option, based on input and data from the CEC and CAISO, in order to move forward with improved methodologies and avoid a 'stalemate.' To provide sufficient lead time for the 2023 RA process, such guidance should occur no later than the first quarter of 2022. However, this could pose a challenge based on the Scoping Memo for Resource Adequacy that was recently issued.[3]

PG&E appreciates the opportunity to comment on this IEPR workshop and to share our perspective on the demand response methodologies. Please reach out to me if you have any questions.

Sincerely,

Licha Lopez
State Agency Relations

[3] According to the Scoping Memo dated December 2, 2021 in the RA proceeding (R.21-10-002), the QC Counting Convention proposals from the CEC DR Working Group Report is slotted for Phase 2 with a final decision in June 2022. Realistically, the ELCC methodology would have to be undertaken in the April to early June timeframe.