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# Incentive-Based QC Method Proposal

**CEC Supply Side DR QC  
Working Group**

May 12, 2022



*Advancing Our Clean Economy*

## ➤ Preface & Terms

- This proposal is subject to change; constructive feedback is welcomed
- Key terms
  - Claimed QC Value: QC value proposed by the IOU/DRP for consideration by the Energy Division (ED)
  - Awarded QC Value: QC value approved by the ED
  - Demonstrated Capacity (DC): Performance of DR resource/portfolio vs. month-ahead Supply Plan

## ➤ Premise

- In its current form, the LIP process is highly flawed and does not reflect the needs of third-party DRPs
  - Requires too much time to perform
  - Is far too expensive
  - Does not always reflect most current enrollment forecasts or per-customer load impacts
  - Cannot always accurately predict enrollment levels, penetration levels of enabling technologies, or other potential innovations that could improve DR customer participation & performance
- IOUs & DRPs are best positioned to know these inputs but there is a need to temper the temptation of overly-enthusiastic estimates

## ➤ Methodology Process

- The following are the primary steps for utilizing the methodology:
  1. IOU/DRP Analysis: IOU/DRP estimates its monthly Claimed QC at System-level (LCA-level for Local RA) for up to 1 year (**changed from 3 years**) in advance; provides a completed template w/ supporting data to ED
    - a. Current & projected no. of SAs
    - b. Customer class, size, and technology type, if applicable
    - c. Projected aggregated load (aggregated capacity for BTM energy storage)
    - d. Projected % of load impact or reduction (% of energy storage capacity)
    - e. Nature of load being aggregated
    - f. Dispatch method
    - g. Historical performance, incl. penalties
  2. Energy Division Assessment: Assess the Claimed QC values and supporting data to determine Awarded QC; ED can compare to past performance vs. Claimed QC values and any prior performance penalties; may request additional information if necessary

## ➤ Methodology Process (cont.)

- The following are the primary steps for utilizing the methodology: (cont.)
  3. Contracting DR Capacity: Once IOU/DRP receives its Awarded QC, may include in Supply Plan (IOU/DRP) or sell (DRP)
    - No collateral requirement for DRPs; based on Interim Report and party feedback, this will be too administratively burdensome for the ED
  4. Performance Assessment: On annual basis, IOUs/DRPs submit to ED a completed DC template and associated invoices showing the amount of capacity delivered against the Monthly Supply Plan QC for each DR program/RA contract at the resource level; underperformance may be subject to a penalty (see penalty structure in later slide)
    - Basis of performance is 1) economic dispatch (prorated if partial dispatch), 2) full test event dispatch (per CPUC requirements), 3) Availability Assessment Hour bids (if no economic or test dispatches)
    - A DRP is exempt from a given month if less than 95% of Revenue Quality Meter Data is provided by the local IOU

## ➤ Key Details

- **Double-Counting & Customer Movement:** IOUs/DRPs are prohibited from double-counting customer performance; customer location movement between resources within a month is prohibited, except when:
  - Newly enrolled customers are added to a resource
  - A customer who exits a program/contract is dropped from the resource
  - To maintain the minimum 100 kW size for Proxy Demand Resources and remain below the 10 MW telemetry requirement
- **Baselines:** The baseline used for CAISO energy settlement must be the same as used to demonstrate DC

# > Proposed Timeline

Stage	Step	Dates	Action
IOU/DRP analysis	1	N/A	IOU/DRP performs internal analysis to develop Claimed QC
Energy Division assessment	2	Feb. 1 May 1 Aug. 1 Nov. 1	IOU/DRP provides Claimed QC and supporting data to ED
	3	N/A	ED assesses & requests additional information as necessary
	4	Mar. 1 June 1 Sept. 1 Dec. 1	ED awards final QC values & posts on current NQC list
Implementation	5	N/A	IOU/DRPs update YA & MA Supply Plans as necessary
Measurement & Verification	6	Jan. 1	IOU/DRPs submit to DC info to ED
	7	Mar. 1	ED assesses penalties as necessary

## ➤ Penalty Structure

- Penalties would be determined annually and assessed by ED based on the penalty structure on the next slide
  - Based on monthly performance relative to month-ahead Supply Plan; no month-to-month netting allowed (i.e., over-performance in one month cannot zero out under-performance in another)
- Application of penalties by ED
  - IOUs: Penalties levied as a disallowance through ERRA (or other appropriate mechanism)
  - DRPs: ED would notify LSE and DRP; DRP would be required to remit penalty payment to LSE within 90 days

# ➤ Proposed Penalty Structure

<b>Incentive-Based Method (same as PG&amp;E CBP)</b>	
<b>DC Value vs. Monthly Supply Plan QC</b>	<b>Multiplier</b>
100% to 75% of Monthly Supply Plan QC	100% of DC
60% to 75% of Monthly Supply Plan QC	50% of DC
0% to 60% of Monthly Supply Plan QC	(60%-Hourly Delivered Capacity Ratio)% of DC

# ➤ Consistency with Principles

Principle	Disposition
The QC methodology should translate a DR resource's load reduction capabilities into its reliability value	Yes; the IOU/DRP is incentivized to ensure their Claimed QC value reflects its capability
The QC methodology should use best available information regarding resource capabilities, including recent historical performance and participant enrollment and composition projections	Yes; the IOU/DRP is incentivized to use its most recent information to ensure an accurate forecast of its capabilities
The QC methodology should allow DR providers to quickly determine or update QC values	Yes; eliminating the need for an intermediate party and minimizing reporting requirements will dramatically shorten the QC timeline

## > Consistency with Principles (cont.)

Principle	Disposition
<p>The QC methodology should be consistent and compatible with the resource adequacy program. [Separate ratings will be provided for each of the following frameworks]</p> <ul style="list-style-type: none"> <li>- Single-value RA program (status quo)</li> <li>- Twenty-four-slice proposal (SCE)</li> <li>- Two-slice proposal (Gridwell)</li> </ul>	<p>Yes; IOU/DRP can calculate its monthly Claimed QC values at the hourly, peak/net peak, or average hourly level</p>
<p>The QC methodology should account for any use limitations, availability limitations, and variability in output of DR resources</p>	<p>Yes; the IOU/DRP will be incentivized to ensure that regardless of these limitations, they must be capable of delivering their QC values</p>
<p>The QC methodology should translate a DR resource's load reduction capabilities into its reliability value</p>	<p>Yes; the IOU/DRP will be incentivized to ensure that its analysis accurately translates resource capability into its QC value</p>

## ➤ Consistency with Principles (cont.)

Principle	Disposition
The QC methodology should include methods to determine delivered capacity (ex-post) that are compatible with the determination of qualifying capacity (ex-ante)	No; each IOU/DRP will have flexibility in how it translates ex post to ex ante
The QC methodology should not present a substantial barrier to participation in the RA program	Yes; this eliminates all existing barriers due to the LIPs
The QC methodology should account for a resource's capacity when reliability needs are highest	Yes; the IOU/DRP forecast can be based on acute system conditions

# Questions?

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