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CALIFORNIA ENERGY COMMISSION SUPPLY SIDE DR QC WORKING GROUP (21-DR-01)

Informal Comments of OhmConnect on Demand Response ("DR") Qualifying Capacity ("QC") Proposed Methodology, Intra-Cycle QC Updates, and Adders

October 17, 2022 (Corrected October 25, 2022)

I. Overarching Comments on DR QC Proposals

All five proposals under discussion broadly fall into one of two buckets: 1) up-front methodological rigor using the load impact protocols ("LIPs") as the foundational process, and 2) up-front flexibility in QC determination with back-end penalties. OhmConnect offers comments on these two alternative approaches below.

1. ***Up-front rigor with LIP foundation:*** Three proposals retain the LIP as the foundational exercise: OhmConnect's Simplified LIP, CLECA's Slice-of-Day Counting Proposal, and DSA's Slice-of-Day Counting Proposal. CLECA and DSA's proposals do not change the underlying LIP. Rather, they either adopt the existing outputs to the 24 hour framework (CLECA) or layer on top an additional process by which to convert the LIP outputs into 24 hourly capability values (DSA). The Simplified LIP proposal, on the other hand, streamlines the foundational LIP process; it does not opine on the adaptation of the LIPs to the 24-hour RA framework. As such, it should be adopted ***together with*** a proposal that addresses the 24 hour RA framework. OhmConnect strongly believes that the CEC should not recommend the layering of additional elements on top of the already lengthy and complex LIP exercise. If either CLECA or DSA's proposals are recommended for adoption, they should be paired with the Simplified LIP proposal.

2. ***Up-front flexibility with back-end penalties:*** Two proposals allow DRPs the flexibility to determine their own capacity values, but pair this with back-end penalties based on performance: CEC's Hourly Regression Capacity Counting Methodology and CEDMC's Incentive-Based Method. OhmConnect has two broad comments regarding this set of proposals.
    a. If either proposal is adopted, the CEC should recommend that all ex post requirements, especially the standardized set of calculations described in the CEC proposal, be equally applied to third-party and IOU DR programs. The benefit of standardized ex post measurements is greatly reduced if these are applied only to a subset of California's supply-side DR programs. All DR should be measured by the same standards.

b. The penalty structure should be sufficiently punitive to encourage reliability, while not so severe as to greatly exceed the value of the contract for modest under-delivery. The CEC should also explore avenues to reward performance of above 100 percent in order to provide an upside to conservative capacity commitments.
c. The CEC should recommend that any penalty structure be centrally administered. LSEs should not be required to assess performance and penalties. Many are small and do not have the resources to administer a penalty structure. Placing such a burden on these entities will raise the cost of doing business with DR providers.

Both approaches have benefits and drawbacks and we do not necessarily support one over another. Within each bucket, OhmConnect supports a hybrid approach. Within (1) **OhmConnect supports CLECA's proposal, if paired with the Simplified LIP**. Within (2) **OhmConnect supports CEC's Hourly Regression Capacity Counting Methodology, if implemented as recommended above**.

Phased Implementation

OhmConnect believes that most proposals can be implemented within one year and do not require phases. If either the CEC or CEDMC's proposal is adopted by the Commission, demonstrated capacity and associated penalties should be calculated following the first year of deliveries under the new QC structure. I.e., the ex post assessment and penalties should not be applied to 2024 if the QC methodology comes into effect in 2025.

Use of DR QC Principles

OhmConnect recommends that the CEC use the DR QC principles as a guide rather than a definitive lens through which to judge each proposal. While the principles were helpful in shaping the proposals that were offered into the Working Group process, they are less relevant to determining the most appropriate QC methodology. This is particularly true given the fact that the final set of principles appears to be interpreted differently by different entities. Moreover, it is difficult to judge whether or not a proposal meets any given principle because the answer is typically not a clear "yes" or "no", but somewhere in between, depending on how the principle is interpreted. To that end, in the section below, we review each proposal according to the principles *relative to what exists today*, rather than in absolute terms. Specifically (=) indicates that the proposal meets the principle to the same extent as the existing LIP methodology, (+) indicates that it better meets the principle relative to LIP methodology, and (-) indicates that it is poorer at meeting the principle relative to LIP methodology.

II. Comments on Individual DR QC Proposals

OhmConnect's Simplified LIP

OhmConnect supports simplifying the underlying exercise if the LIPs are retained and augmented for the 24-hour RA framework. OhmConnect's proposal eliminates several existing LIP requirements that are not useful for the determination of RA QC in order to make the process shorter and less costly. All other existing outputs remain the same. The adoption of the Simplified LIP proposal is essential if any new complexity is added to the QC process to align with the 24-hr framework.

Transparent/ understandable	Informed by best data	Amenable to quick QC determination & updates	Consistent with RA program	Inclusive of DR limitations
=	=	+	+[1]	=
Reflective of contribution to reliability	Aligns ex post with ex ante	Reduces barrier to entry	Reflective of capacity at time of greatest need	
=	=	+	=	

CLECA's Slice-of-Day Counting Proposal

OhmConnect supports CLECA's proposal, if adopted together with the Simplified LIPs. CLECA correctly notes that the LIPs already provide the necessary outputs to align with the 24-hour RA framework. As such, CLECA does not propose complex new processes and calculations to adapt the outputs to slice-of-day. CLECA's proposed modification to allow a DR program's operational (and therefore RA) window to vary rather than be fixed to 4-9pm is also sensible.

Transparent/ understandable	Informed by best data	Amenable to quick QC determination & updates	Consistent with RA program	Inclusive of DR limitations
=	=	=	+	=
Reflective of contribution to reliability	Aligns ex post with ex ante	Reduces barrier to entry	Reflective of capacity at time of greatest need	
=	=	=	=	

DSA's Slice-of-Day Counting Proposal

OhmConnect does not support DSA's proposal on the grounds that it adds too much complexity on top of an already unreasonably long and complex process, and creates the possibility that the

[1] Once adopted with another proposal that adapts LIP outputs to the 24 hour framework, as recommended.

extra outputs will be rendered useless if the CPUC does not approve the ex ante values as modeled. DSA proposes to retain the existing LIP exercise, but add four new required outputs: 1) the slice-of-day load impact table, 2) a time-temperature matrix, 3) performance alignment matrix, 4) bid-alignment matrix. These new outputs add too much complexity and cost to an already burdensome exercise. In theory, only (1) is directly helpful for the 24 hour framework. The other outputs are interesting, but are not essential.
A more problematic issue is that the CPUC often does not approve a DRP's ex ante values as modeled. In such cases, the extra outputs would be largely useless, unless modified by Energy Division Staff to match their various assumptions and adjustments, and aligned with the final QC value. It is unclear that ED Staff will have the resources to perform such an exercise for every DRP whose QC values it modifies.

OhmConnect strongly opposes increasing the time, cost, and complexity of an already burdensome process, especially when, in cases where ED Staff do not approve the ex ante modeling as described in the LIPs during review, the added complexity serves no purpose.

Transparent/ understandable	Informed by best data	Amenable to quick QC determination & updates	Consistent with RA program	Inclusive of DR limitations
-	=	=	+	=

Reflective of contribution to reliability	Aligns ex post with ex ante	Reduces barrier to entry	Reflective of capacity at time of greatest need
=	=	-	+

CEC Hourly Regression Capacity Counting Methodology:

OhmConnect supports CEC's proposal if 1) the standardized ex post methodology is equally applied to third-party and IOU DR programs, 2) the severely punitive nature of the penalty structure is moderated and performance is incentivized, and 3) penalties are centrally administered. CEC elegantly combines up-front flexibility with standardization of performance measurement and addresses two key concerns: scenarios where a full resource dispatch does not occur/is not warranted, and instances where events occur outside of the planning temperature. OhmConnect's primary concern with this approach is the penalty structure. While the imposition of penalties is sensible in a world where DRPs have some flexibility to determine their QC, allowing penalties to greatly exceed the value of the contract is unreasonable. OhmConnect recommends that the payment be proportional to delivery up to 50 percent as recommended by CEDMC, with any delivery below 50 percent receiving no payment and facing a penalty. Moreover, OhmConnect recommends that the penalty structure include a payment for delivery above 100 percent, as is done for Capacity Bidding Program, in order to incentivize growth of

the resource. Payment for delivery >100 percent can be funded through a separate mechanism, not the LSE, as the LSEs cannot be expected to pay for capacity that they did not purchase.

Transparent/ understandable	Informed by best data	Amenable to quick QC determination & updates	Consistent with RA program	Inclusive of DR limitations
+	=	=	+	=
Reflective of contribution to reliability	Aligns ex post with ex ante	Reduces barrier to entry	Reflective of capacity at time of greatest need	
=	+	+	=	

CEDMC Incentive-Based Proposal:

Of the two proposals that combine up-front flexibility with back-end penalties, OhmConnect prefers CEC's proposal. While CEDMC's elimination of the complexity associated with the LIPs is welcome, OhmConnect is concerned that the proposed application of the ex post calculations and assessment of penalties leaves the process vulnerable to the same criticisms that have been levied on the Demand Response Auction Mechanism. That said, OhmConnect supports CEDMC's proposed penalty structure and recommends the CEC adopt it within its own proposal.

Transparent/ understandable	Informed by best data	Amenable to quick QC determination & updates	Consistent with RA program	Inclusive of DR limitations
=	+	+	-	=
Reflective of contribution to reliability	Aligns ex post with ex ante	Reduces barrier to entry	Reflective of capacity at time of greatest need	
=	=	+	=	

III. Comments on QC Update Proposals

The CEC should recommend deferring this issue to the RA proceeding. This recommendation is based on: 1) the fact that no specific proposals to amend the QC update process were put forward by Working Group participants; 2) the topic was discussed only very briefly within the Working Group; and 3) the specific process and implementation details thereof depend heavily on the type of QC methodology that is ultimately adopted. Given the complexity of the QC methodology discussions and subsequent lack of attention given to this issue, the CEC has little basis on which to offer specific recommendations. The QC update should be considered in a track of the RA proceeding immediately following the adoption of the QC methodology.

IV. Comments on DR Adders

DLF Adder:

OhmConnect does not recommend changes to the adder for avoided distribution line losses. The DLF adder is sensible. It should be retained in its current form and included in the QC/resource NQC as is done today.

TLF Adder:

OhmConnect does not recommend changes to the adder for avoided transmission line losses. OhmConnect agrees with CLECA that "[t]he load forecast is at the transmission level, so the load impact at the meter should be grossed up for distribution losses to calculate qualifying capacity losses."[2] Therefore, the adder should be retained and credited until such time that it can be included in settlement calculations.

PRM Adder:

OhmConnect does not provide an opinion on the PRM adder.

[2] CLECA's Slice of Day Proposal, at p. 7.