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**Comments on Qualifying Capacity of Supply-Side Demand
Response Working Group Final Report (Docket 21-DR-01)**

Additional submitted attachment is included below.



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California Energy Commission
Docket Office
Docket No. 21-DR-01
715 P Street
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SUBJECT: San Diego Gas & Electric Company Comments on the Qualifying Capacity of Supply-Side Demand Response Working Group Final Report (Docket No. 21-DR-01)

Dear Vice Chair Gunda:

San Diego Gas & Electric Company ("SDG&E") appreciates the opportunity to provide comments on the Qualifying Capacity of Supply-Side Demand Response Working Group ("Working Group") Final Report ("Final Report"), released on December 5, 2022.¹ Unfortunately, some of the concerns that SDG&E raised in its response to the Draft Report on this same issue have still not been addressed,² and additional issues are presented in the Final Report that are cause for concern. SDG&E strongly urges California Energy Commission ("CEC") staff to continue to work with interested stakeholders engaged in the Working Group to resolve outstanding concerns prior to submitting a report to the California Public Utilities Commission ("CPUC") in February 2023.

CPUC Decision 22-06-050 ("D.22-06-050" or "Decision") adopted local capacity requirements for 2023-2025, flexible capacity requirements for 2023, and refinements to the Resource Adequacy program scoped as Phase 2 of the Implementation Track.

As the Final Report states in its introduction, the CPUC originally requested in the Decision that the CEC launch a stakeholder working group to gather proposals for short-term qualifying capacity ("QC") methods³ that provided actionable recommendations for a list of seven issues, and then develop long-term recommendations for new DR QC

¹ <https://efiling.energy.ca.gov/GetDocument.aspx?tn=247917&DocumentContentId=82227>

² <https://efiling.energy.ca.gov/GetDocument.aspx?tn=241491&DocumentContentId=75448>

³ D.21-06-029, OP11

methodologies consistent with the Reform Track framework, which is referred to as the 24-hour Slice of Day (“SOD”) framework.⁴

The Working Group met regularly during 2022,⁵ and SDG&E was a regular participant. In addition to developing long-term recommendations for DR QC methodologies, the Working Group was tasked with weighing how various proposals presented addressed seven issues that the long-term recommendations should consider for the 2025 Resource Adequacy (RA) year:

11. The California Energy Commission (CEC) Working Group is requested to continue to develop long-term recommendations for a new demand response (DR) qualifying capacity (QC) methodology, consistent with the Reform Track framework adopted in this decision. The CEC Working Group is requested to develop recommendations that consider the following issues for the 2025 Resource Adequacy (RA) year:

- (a) Whether the proposals that are presented in the CEC’s stakeholder process are reasonable and appropriate to determine the QC of DR resources;
- (b) Whether the DR QC methodology reflects the contributions of DR resources to reliability;
- (c) Whether the DR QC methodology is compatible with the new RA framework for the 2025 RA year and beyond;
- (d) Whether the DR QC methodology is transparent and how it could be implemented in a time-efficient manner;
- (e) Whether and to what extent alignment of DR measurement and verification methods in the operational space for the California Independent System Operator market settlement purposes with methods to determine DR QC in the planning space should be achieved, and if so, how;
- (f) Whether, and if so what, enhancements to intra-cycle adjustments to DR QC during the RA compliance year, as adopted in Decision 20-06-031, are feasible and appropriate to account for variability in the DR resource in the month ahead and operational space; and
- (g) Whether, and if so how, any changes to DR adders should be reflected in DR QC methodology.

The CEC Working Group is requested to submit recommendations into this proceeding by February 1, 2023, for consideration for the 2025 RA year.

⁴ D.22-06-050, OP11

⁵ The Working Group Meetings were typically held every two weeks on Thursdays. There were at least 13 meetings held in 2022.

During the workshops, there were five proposals made by different participants: CLECA, OhmConnect, DSA, CEDMC, and the CEC. Each of these proposals was presented during the workshops and discussed at length; some even had examples on how the QC process would work under the new SOD framework. Some proposals were very thorough and detailed, and others were only trying to address certain issues. The CEC provides a comparison of the proposals in “Table 1. Comparison of Proposals” on page 17 of the Final Report. However, this comparison does not include the seven issues as identified in D.22-06-050 OP11.

SDG&E offers the following, specific feedback, on the Final Report.

I. The Final Report does not adequately respond to the results of the Working Group survey on stakeholder proposals.

In our February 2022 comments on the Draft Report, SDG&E requested that the CEC include the Working Group Principles as part of the Final Report. SDG&E appreciates the CEC addressing this request via the addition in Appendix A. However, we are troubled by the approach taken in Appendix A, and the Final Report more generally, with respect to addressing the Working Group survey results, which summarize how each stakeholder proposal aligns with the nine agreed-upon Principles established by the group.

Presumably in hopes of reaching a consensus, the CEC conducted a survey of the Working Group participants to determine if there was any agreement on certain proposals (or aspects thereof): *“CEC staff provided a survey to working group participants on September 28, 2022. CEC staff requested that respondents rate how much they agree (or disagree) that each proposal meets or aligns with each of the nine principles on a five-point scale. The survey closed October 4, 2022, and the results were discussed during a meeting of the working group October 6, 2022”*.⁶

All Working Group stakeholders were invited to participate in the survey and help shape the Working Group Final Report. The aggregate survey results include input from 11 active participants: Sunrun, SCE, CEC staff, SDG&E, California ISO, Leap, DSA, PG&E, CEDMC, Olivine, and CLECA. There were 30 distinct organizations on the distribution list (though many were not participating in the workshops); however, the 11 participants represented their respective organizations throughout 2022 and directly engaged in the more than 13 meetings held over the year.

As appropriately shown in Appendix A, the results of the working group survey show that the highest scores were associated with the DSA proposal. The DSA proposal had the most agreement amongst parties as it includes a Slice of Day and monthly QC example as well as a time temperature matrix example.

⁶ Appendix A-2, Final Report.

However, the Final Report does not incorporate the elements of this proposal in its recommendations and instead proposes structures that, in fact, conflict with the top two highest scoring proposals.

The Final Report asserts that the survey results “should not be considered conclusive for several reasons,” citing concerns with limited participation in the survey and engagement of survey participants in shaping the proposals. SDG&E strongly disagrees with this finding and characterization. Unfortunately, dismissing the responses provided by those who set aside resources to analyze the proposals runs contrary to the idea of establishing a Working Group. If there are clear disagreements with the results of the survey, those matters should be transparently raised and robustly discussed in Working Group meetings.

II. SDG&E does not agree with the CEC’s proposal to adopt an incentive-based approach for assessing Demand Response Qualifying Capacity (QC).

SDG&E must respectfully disagree with the CEC proposal to adopt the incentive-based approach for assessing DR QC performance. This approach is based on assessing DR QC performance using monthly settlement baselines, which is problematic and does not clearly align with existing QC processes. Currently, QC is established far in advance, such that QC values are determined in April, then modified in July for QC values used in January of the following year. SDG&E does not understand how the CEC proposal would be reconciled with the advanced lead time that is needed in the current resource adequacy process.

In addition, settlements utilizing baseline methodologies currently do not consider the characteristics of DR such as spillover effects, limitations on max dispatch hours, load impact decay or weather sensitivity of demand response resources. The purpose of the day-matching method (baselines) is that it produces estimates within a few days after an event to provide payments to participants in a timely manner. On the other hand, the Load Impact Protocols (LIPs) collect more information, including data variables such as temperature, customer notification, event performance over the entire season, event performance when called for three or more days consecutively, and a wide range of customer interval data. SDG&E understands that the load impact process takes time and is more costly than calculating baselines. While SDG&E agrees that there can be improvements made with the LIPs, SDG&E asserts that using the LIPs will provide more accurate estimates.

Both the CEC and CEDMC proposals want to shift away from using LIPs and instead rely on baselines only. However, this change would result in a significant departure from existing practice that is being implemented as a result of numerous CPUC decisions. Specifically, the CPUC has agreed to implement methodologies that use LIPs, requiring all DR providers (except for DRAM) to utilize them in their annual evaluations. Decision (D.) 19-06-026 OP18 in R. 19-11-001 directed all non-Demand Response Auction mechanism (DRAM) Demand Response (DR) resources to file LIP

reports⁷ to receive Qualifying Capacity (QC). On April 6, 2020, the Energy Division issued LIP⁸ schedules for filing year 2020 and filing years 2021 and beyond.

D.22-06-050 OP11 directs the Working Group to consider whether proposed recommendations are “reasonable and appropriate to determine the QC of DR resources,” and whether the methodology “reflects the contributions of DR resources to reliability.” However, the CEC’s full proposal was not thoroughly vetted during the Working Group meetings. In OP11, the first 3 issues listed below were not evaluated in the Working Group:

- (a) Whether the proposals that are presented in the CEC’s stakeholder process are reasonable and appropriate to determine the QC of DR resources;
- (b) Whether the DR QC methodology reflects the contributions of DR resources to reliability;
- (c) Whether the DR QC methodology is compatible with the new RA framework for the 2025 RA year and beyond.

Further, no examples were provided, nor testing performed or included, in the CEC proposal described in the Final Report.

While the CEC proposal would seemingly be easier to implement, it does not include the level of accuracy that the RA process requires. For instance, the CEC proposal does not conform to the established RA process which requires QC to be established in the prior year and uses the more accurate load impact protocol process.

There are other reasons why it is important to keep RA (QC) valuation with the CPUC: cost effectiveness is calculated for IOU DR programs, and resource adequacy credits. **SDG&E maintains that the jurisdiction for determining QC should stay with the CPUC and not with the CAISO.**

III. Additional stakeholder discussion is needed before adopting a capacity shortfall penalty incentive mechanism.

Even though the capacity shortfall penalty incentive mechanism was included in the draft workshop report, it was not discussed or vetted thoroughly during the last year of workshops. SDG&E believes that it is premature to assign a penalty structure given there is little supporting data or analysis available to suggest how an accurate penalty structure could be designed. Further, it is critical that evaluation of alternatives and potential impacts on customer participation in demand response be weighed in considering appropriate design. We recommend that another Working Group session be convened to explore potential options before a recommendation is made.

⁷ LIPs were adopted in D.08-04-050

⁸ Demand Response Load Impact Protocols Schedule for Filing Year 2021 and beyond, January 6th, 2020

IV. CEC's proposed bid normalization for load impacts in ex post capacity valuation is not balanced in responding to over- vs. under-performance.

The Final Report introduces a new proposal that has not been vetted in Working Group discussions: the bid-normalized load impact (BNLI) metric. This metric was presented during the workshop process as a metric only. It utilizes an asymmetric approach, i.e., a downward bias in assessing performance.

$$BNLI = \text{Max} \left(\text{Bid} \left(\frac{\text{Min}(\text{Delivered}, \text{Dispatch})}{\text{Dispatch}} \right), \text{Delivered} \right)$$

SDG&E does not endorse the adoption of this bid normalization calculation for load impacts in ex post capacity valuation. This is because it is one sided: if a DR resource overperforms, the overperformance will not be counted but if a DR resource underperforms, the overperformance will count against it. If a DR resource is bid at 50 MWs and awarded at 50 MWs, but delivers only 20 MWs, then the credit for the DR resource is 20 MWs. However, if the DR resource is bid at 50 MWs, awarded 50 MWs, but performs at 70 MWs, the resource is valued at 50 MWs, not 70 MWs where it performed. In addition, the CEC assumes that its bid approach incorporates the characteristics of DR, but it does not. It just uses bid data, not performance data.

The Final Report also includes an alternative bid normalization metric on page 42 which was not previously discussed:

$$BNLI = \begin{cases} \text{Bid}, & \text{if } \text{Dispatch} \leq \text{Delivered} \leq \text{Bid} \\ \text{Delivered}, & \text{if } \text{Delivered} < \text{Dispatch} \text{ or } \text{Delivered} > \text{Bid} \end{cases}$$

This alternative option has not been vetted, tested, or evaluated. SDG&E cannot support this alternative until it has been tested and evaluated with DR QC methodologies once those have been established.

Conclusion

Thank you for your consideration of these comments. SDG&E would appreciate the opportunity for additional discussion of these issues to ensure that recommendations being presented to the CPUC are fully reflective of a collaborative Working Group discussion. Please contact me if you have any questions about the issues raised in this letter.

Sincerely,

/s/ Sarah M. Taheri

Sarah M. Taheri
Regulatory Affairs Manager