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## **CESA's Comments on CEC DR QC Report**

*Additional submitted attachment is included below.*

December 20, 2022

Email to: [docket@energy.ca.gov](mailto:docket@energy.ca.gov)

Docket Number: 21-DR-01

Subject: Supply Side Demand Response

**Re: Comments of the California Energy Storage Alliance on the Qualifying Capacity of Supply-Side Demand Response Working Group Final Report**

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Dear Sir or Madam:

The California Energy Storage Alliance (“CESA”) appreciates the opportunity to submit these comments on the draft *Qualifying Capacity of Supply-Side Demand Response Working Group Final Report* (“Report”). CESA acknowledges the California Energy Commission’s (“CEC”) efforts in hosting and facilitating the Supply Side Demand Response (“SSDR”) Qualifying Capacity (“QC”) Working Group and summarizing the proposals and discussion from the group in this report.

CESA is a 501(c)(6) organization representing over 120 member companies across the energy storage industry. CESA member companies span the energy storage ecosystem, involving many technology types, sectors, configurations, and services offered. As the definitive voice of energy storage in California, CESA has a direct interest in the proceeding in shaping the policies, procedures, and rules for the Resource Adequacy (“RA”) QC value for SSDR resources. Energy storage is often a critical resource and technology type included in demand response (“DR”) portfolios and programs, and DR QC methodologies should be able to reflect the unique value provided by behind-the-meter (“BTM”) energy storage.

**I. INTRODUCTION & SUMMARY.**

The SSDR QC Report provides an overview of the five proposals discussed in the SSDR QC Working Group and offers several recommendations based on the direction of Decision (“D”).22-06-050, discussions in the working group, and written feedback and surveys. The CEC has done an excellent job in listening to feedback from diverse stakeholders to ensure that all interested parties had an opportunity to add to the discussion and provide feedback in this process.

The Report makes 17 recommendations for the California Public Utilities Commission (“CPUC”) to consider, including a QC methodology, penalty mechanism, QC valuation timeline, streamlining, and adders. CESA supports most of the recommendations but opposes the inclusion of Recommendation 2 to adopt the Capacity Shortfall Penalty (“CSP”) mechanism. Additionally, CESA does not have a position on Recommendations 14, 15, and 17, which discuss the Planning Reserve Margin (“PRM”) adder, forced outage adder, and transmission loss factor adder.

CESA is highly supportive of the CEC’s recommendation to adopt an incentive-based methodology, whereby DR providers (“DRP”) are responsible for determining an appropriate

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amount of capacity they can offer given their unique resources and position. As highlighted by CESA in comments on the proposals, “not all DR resources are the same – resources can be significantly weather dependent, sensitive to customer fatigue, backed by physical distributed energy resources (“DER”) such as generation or storage, or can be called frequently.”<sup>1</sup> Given this wide variety in types of resources, determining a single best analytical approach for all DR is infeasible, and even the existing Load Impact Protocols (“LIP”) result in significant variations among DRP submissions.

We acknowledge that adjusting to the practice of evaluating different types of ex ante analyses may require additional work by Energy Division in the short term. However, the CEC also recommends creating streamlined QC approval criteria for DRPs that have proven their ability to meet obligations and are not requesting large QC changes,<sup>2</sup> which will greatly reduce the burden of ex ante analysis review on Energy Division and will allow DRPs to make minor adjustments without the need for CPUC staff to spend significant amounts of time reviewing models and inputs. CESA strongly supports this recommendation and the adoption of this streamlining proposal.

While CESA generally supports the CEC proposals for flexibility in ex ante analysis and standardization in an ex post regression analysis, the CEC’s recommendation to adopt a very strict CSP mechanism to ensure compliance will significantly chill the third-party DR market, incentivizing DRPs to participate in investor-owned utility (“IOU”) programs or leave the California market entirely. CESA therefore suggests that the CEC recommend the following in the Final Report:

- The CEC should develop an alternative penalty structure to the CSP.
- If the CSP is maintained as the recommended penalty structure, Recommendation 10, to phase-in penalties over time, should be emphasized and discussed further in the Report.

## **II. THE CEC SHOULD DEVELOP AN ALTERNATIVE PENALTY STRUCTURE TO THE CSP.**

In the Report, the CEC recommends adopting an incentive-based approach with a CSP. In the CEC’s original proposal, the CSP was structured such that penalties would begin at DRP performance under 94.5% of committed capacity. Performance below that threshold would be penalized by the amount of shortfall below 94.5% (*e.g.*, if a resource committed 10 MW and only demonstrated 5 MW, the penalty would be 4.45 MW times the price of capacity, leaving the DRP with a net revenue for 0.55 MW). In the Report, the CEC recommends a modification to the CSP outlined in their proposal to remove the 94.5% threshold and instead include a forced outage adder of 5.8%. This change creates slightly more punitive penalties, particularly at lower levels of performance, although penalties are still only assessed on performance below roughly 94.5%.

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<sup>1</sup> CESA, “Amended Comments of the California Energy Storage Alliance on Stakeholder Supply-Side Demand Response Qualifying Capacity Proposals” at 4.

<sup>2</sup> CEC Report, Recommendation 8 at p.50.

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Additionally, DRPs can receive compensation for overperformance compared to the 94.5% threshold. Given the minor differences in effective penalties between the 94.5% threshold and the 5.8% adder approach, CESA does not opine on a preferred version of the CSP at this time.

Instead, CESA urges the CEC to reconsider the CSP mechanism and any penalty structure that begins assessing harsh penalties at roughly 94.5% of performance. As highlighted by multiple parties, the CSP structure is “severely punitive”<sup>3</sup> and removes “incentives to maximize the Demonstrated Capacity of the DR resources or portfolio, despite DR being a variable resource, due to the risk of incurring penalties from a shortfall of Demonstrated [capacity] against 94.5% of Committed capacities.”<sup>4</sup> While the incentive-based approach is new to the California process to determine QC values for the Resource Adequacy (“RA”) Program, the IOU DR programs have long implemented penalties on DRPs for underperformance against commitments made in their program. Penalties are assessed in the Base Interruptible Program (“BIP”), the Capacity Bidding Program (“CBP”), the Demand Response Auction Mechanism (“DRAM”), and others. These penalties are lower than the CSP purposed by the CEC, and the CEC and CPUC must ensure that a level playing field is established between third-party and utility-managed DR mechanisms and programs. CESA continues to recommend using penalty structures from these existing programs or the Hybrid Penalty Structure proposed in the CEC Interim Working Group Report instead of the CSP.

### **III. IF THE CSP IS MAINTAINED AS THE RECOMMENDED PENALTY STRUCTURE, RECOMMENDATION 10, TO PHASE-IN PENALTIES OVER TIME, SHOULD BE EMPHASIZED AND DISCUSSED FURTHER IN THE REPORT.**

If the CEC decides to maintain the CSP structure, CESA believes that Recommendation 10 on phasing in the incentive structure is of even more importance to the success of this transition to the incentive-based approach. In the Report, the CEC recommends that the CPUC “[c]onsider phase-in of incentive-based approach over time,”<sup>5</sup> finding it “reasonable to reduce or waive the penalty in the first year of implementation”<sup>6</sup> to allow DRPs to gain experience with the new framework and penalty structure. Although penalties would be reduced, the otherwise applicable penalties would be calculated for DRPs to learn the level of penalty that would have been assessed had the full CSP been in place.

CESA strongly supports the above recommendations and rationale; however, there is little discussion of why the phase-in is important for the CPUC to not only consider but adopt. Of the 17 recommendations made by the CEC, this recommendation received the least discussion across the report. We do acknowledge that there has been relatively little discussion in the working group compared to other elements of the QC methodology or proposals, but the CEC should include a

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<sup>3</sup> OhmConnect, “Informal Comments of OhmConnect on Demand Response (“DR”) Qualifying Capacity (“QC”) Proposed Methodology, Intra-Cycle QC Updates, and Adders” at 4.

<sup>4</sup> Southern California Edison (“SCE”) “Southern California Edison Company’s Comments on the California Energy Commission’s Supply Side Demand Response” at 13.

<sup>5</sup> CEC Report, Recommendation 10 at p.50.

<sup>6</sup> Ibid.

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discussion section in the report on the phased-in approach, highlighting insights such as Southern California Edison's ("SCE") suggestion that penalties be approved for trial periods in order to avoid unintended consequences of a structure that disincentivizes DRP participation.<sup>7</sup> CESA is concerned that without this discussion in the report, the CPUC will not understand the importance of the phase-in.

Additionally, the CEC should remove the word "consider" from the recommendation, which will emphasize the importance of a phased-in approach, especially for a stricter penalty structure. The final recommendation would read "10. ~~Consider~~ Phase-in of incentive-based approach over time."

#### IV. CONCLUSION.

CESA appreciates the opportunity to provide these comments and feedback on the Report and looks forward to collaborating with the CEC and other stakeholders in this docket.

Respectfully submitted,



Jin Noh  
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<sup>7</sup> See SCE, "Southern California Edison Company's Comments on the California Energy Commission's Supply Side Demand Response" at 13: "For fear of incurring penalties, DR providers may also commit to the minimum, instead of maximizing, the hourly capacity values of their resources. Due to the unintended consequences of penalties, any such modifications should be tested through a trial period and implemented, only if penalties are proven to be effective through the trial period."

See also California Efficiency + Demand Management, "California Efficiency + Demand Management Council Comments on Supply Side Demand Response Working Group Phase 2 Proposals" at 10: "Adoption of a new DR counting methodology will create initial uncertainty for IOUs and DR providers because the new methodology's effectiveness will ultimately not be known until it is tested [...] Therefore, for one year following CPUC approval of the new methodology, DR providers should have the option to use the LIPs or the new methodology, or both (in which case they could choose which load impacts to adopt for Energy Division consideration)"

See also Pacific Gas and Electric Company, "Pacific Gas and Electric Company Comments on the final Demand Response Qualifying Capacity Proposals" at 5: "if the CEC adopts any additional elements, such as the capacity shortfall penalty structure included in the CEC proposal [...] PG&E recommends that any new penalty be phased in over time."