

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Enhance  
the Role of Demand Response in Meeting  
the State's Resource Planning Needs and  
Operational Requirements.

R.13-09-011  
(Filed September 19, 2013)

**REPLY COMMENTS OF OHMCONNECT, INC., ELECTRIC MOTOR WERKS, INC.,  
AND STEM, INC. TO PARTIES' OPENING COMMENTS ON PROPOSED DECISION  
AND ALTERNATE PROPOSED DECISION ADDRESSING THE COMPETITIVE  
NEUTRALITY COST CAUSATION PRINCIPLE, THE DEMAND RESPONSE  
AUCTION MECHANISM, AND FUTURE MODELS OF DEMAND RESPONSE**

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**I. INTRODUCTION**

Pursuant to Rule 14.3 of the Commission’s Rules of Practice and Procedure, OhmConnect, Inc. (OhmConnect), Electric Motor Werks, Inc. (eMotorWerks), and Stem, Inc. (Stem) respectfully submit these timely joint Reply Comments in response to parties’ October 5, 2017 Opening Comments on the Proposed Decision (“PD”) and Alternate Proposed Decision (“APD”) mailed September 15, 2017 in the above-captioned proceeding. We respond to comments by Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E) (collectively, the “Investor-Owned Utilities”, or “IOUs”), and we reaffirm our support for the APD over the PD, with the one modification that PG&E be required, rather than authorized, to conduct an additional DRAM auction in 2018 for deliveries in 2019.

**II. REPLY TO PARTIES**

**A. The DRAM market experienced a “flattening of growth” from 2018 to 2019.**

In their respective Opening Comments on the APD, all three IOUs recommend deleting Finding of Fact (FOF) 22,<sup>1</sup> which states: “The one-year demand response auction mechanism budget authorized for the third Pilot, divided over two years of contract deliveries resulted in a

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<sup>1</sup> PG&E Opening Comments, at Appendix p. 1; SCE Opening Comments, at p. A-1; SDG&E Opening Comments, at p. A-1. SDG&E proposes a modification to FOF 22 that reverses (and, thus, effectively deletes) the original finding.

flattening of growth in capacity procured through the Pilot over the 2018-2019 contract delivery years”.<sup>2</sup> SCE contends that FOF 22 “is not accurate” because “for August 2018, SCE procured 88.5 MW and for August 2019, SCE procured 99.2 MW, a 12 percent growth in capacity”.<sup>3</sup> SCE is technically correct in that growth rates of DRAM capacity procurement from 2018 to 2019 were not zero; however, as Table 1 indicates, growth rates were, on average, nearly four times lower from 2018 to 2019 than they were from 2017 to 2018. Thus, it is reasonable for the APD to affirm (in FOF 22) that the DRAM market experienced a “flattening of growth” from 2018 to 2019.

**Table 1: DRAM Pilot Capacity Procurement and Growth Rates, 2017-2019<sup>4</sup>**

	<b>PG&amp;E</b>	<b>SCE</b>	<b>SDG&amp;E</b>	<b>Total</b>
<b>2017 procurement</b>	56 MW	56 MW	12 MW	124 MW
<b>2018 procurement</b>	80 MW	88.5 MW	13.9 MW	182.4 MW
<b>2019 procurement</b>	90 MW	99.2 MW	15.7 MW	204.9 MW
<b>2017-2018 growth rate</b>	42.9%	58.0%	15.8%	47.1%
<b>2018-2019 growth rate</b>	12.5%	12.1%	12.9%	12.3%

PG&E also contends that FOF 22 should be deleted “because the fact was not the function of a Commission authorized budget”,<sup>5</sup> and the “modest growth” in DRAM capacity procured from 2018 to 2019 apparent in Table 1 was “purely a function of the offers received and awarded”.<sup>6</sup> In our judgment, however, there is reason to believe that DRAM capacity procured for each of 2018 and 2019 did, in fact, depend on the budgets authorized (by D.16-06-029) for the DRAM III auction. The public version of each IOU’s DRAM III results advice letter (or the Independent Evaluator (IE) Report appended thereto) suggests available budget was a limiting factor in each IOU’s overall procurement.<sup>7</sup> Consequently, had each IOU been authorized additional budget for

<sup>2</sup> Alternate Proposed Decision, Finding of Fact 22, at pp. 69-70.

<sup>3</sup> SCE Opening Comments, at p. 3.

<sup>4</sup> DRAM procurement data for 2017 are from PG&E Advice 4946-E, SCE Advice 3442-E, and SDG&E Advice 3004-E. DRAM procurement data for 2018 and 2019 are from PG&E Advice 5109-E, SCE Advice 3629-E, and SDG&E Advice 3095-E.

<sup>5</sup> PG&E Opening Comments, at p. iii.

<sup>6</sup> Ibid., at p. 3.

<sup>7</sup> PG&E’s 2018-2019 DRAM IE Report states (p. 37, footnote 40): “PG&E then selected offers from additional counterparties to secure contracts with a total cost that approached the budget cap”. SCE’s 2018-2019 DRAM IE Report states (p. 32): “SCE decided to limit its procurement [...] because the next highest ranked offer in rank order

its DRAM III auction, each likely would have procured additional capacity for 2018 and/or 2019, potentially increasing the observed growth rates from 2018 to 2019. Hence, it is reasonable for the Commission to find that the “flattening of growth” in DRAM capacity procurement from 2018 to 2019 is at least in part attributable to the “budget authorized for the [DRAM III] Pilot”.

**B. Non-DRAM alternatives for 2019 are limited and inconsistent with principles and policies for DR adopted in D.16-09-056.**

Each of the IOUs recommends deleting FOF 23 in the APD,<sup>8</sup> which states: “Business opportunities for growth in third party-provided demand response in 2019 have been limited”.<sup>9</sup> SCE contends there is “no evidence in the record” to support FOF 23,<sup>10</sup> while SDG&E asserts that “[a] policy preference for DRAM does not mean ignoring other proven market opportunities”.<sup>11</sup>

As OhmConnect, eMotorWerks, and Stem explained in detail in our Opening Comments, there is ample evidence in the record that non-DRAM alternatives for 2019 are not feasible for DRPs whose business models are based on Rule 24/32 direct participation in CAISO.<sup>12</sup> And contrary to SDG&E’s assertion, most of the alternatives for 2019 are not “proven” at all. The distribution deferral pilot projects and solicitations underway in the Commission’s Distribution Resources Plans (DRP) proceeding (R.14-08-013) and Integrated Distributed Energy Resources (IDER) proceeding (R.14-10-003) are the first of their kind in California. Moreover, the Capacity Bidding Program (CBP) has never before been open to residential customers, and key program enhancements (e.g. electronic customer authorization) remain unresolved.<sup>13</sup>

In many cases, the alternatives for 2019 also are not true “market opportunities”. Unlike the DRAM, CBP procurement and pricing are determined via administrative cost-effectiveness calculations rather than competitive market forces. Thus, denying an additional DRAM auction in favor of IOU-administered DR alternatives is inconsistent with the Commission principle in D.16-09-056 that “[DR] shall be **market-driven** [...] with a preference for services provided by

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was a non-residential offer which would result in SCE exceeding the budget cap if selected.” Table 1 in SDG&E Advice 3095-E indicates that SDG&E met the requirement that it procure “\$3.0 [million] or up to price outliers”.

<sup>8</sup> PG&E Opening Comments, at Appendix p. 1; SCE Opening Comments, at p. A-1; SDG&E Opening Comments, at p. A-1.

<sup>9</sup> Alternate Proposed Decision, Finding of Fact 23, at p. 70.

<sup>10</sup> SCE Opening Comments, at p. 3.

<sup>11</sup> SDG&E Opening Comments, at p. 3.

<sup>12</sup> OhmConnect, eMotorWerks, and Stem Opening Comments, at pp. 3-5.

<sup>13</sup> PG&E has proposed (in A.17-01-012) to open its Capacity Bidding Program to residential customers in 2018.

third-parties through performance-based contracts at **competitively determined prices**”,<sup>14</sup> and the Commission policy in D.16-09-056 that DRAM is a “**primary tool** to fulfill [the] goals of expanding the role of [DR] and expanding the role of third-party providers”.<sup>15</sup> For these reasons, the Commission should reject the IOUs’ recommendation that FOF 23 be deleted.

**C. Changes to the DRAM auction design in 2018 are not necessary to provide “further insights into the evolving state of the demand response market”, because the regulatory environment in which DRPs operate has changed since the DRAM III auction.**

FOF 24 in the APD affirms that “[a]n additional auction for 2019 deliveries can provide further insights into the evolving state of the demand response market, including consolidation”.<sup>16</sup> In its Opening Comments on the APD, however, PG&E contends:

“Using the same auction design that was tested in prior DRAM RFOs, without addressing the issues raised by the DRAM Independent Evaluator regarding fewer participants, consolidation of the market, and reduced residential offers, would not lead to new insights and would likely only award contracts to the same dominant counterparties that were awarded contracts in prior DRAM RFOs.”<sup>17</sup>

Similarly, SDG&E contends in its Opening Comments on the APD:

“The [APD’s] approach to offer only small changes to the auction design protocols is not sufficient to create demand response growth opportunities and will not provide additional insight into the evolution of the market.”<sup>18</sup>

Consequently, PG&E recommends that FOF 24 be deleted, while SDG&E recommends that FOF 24 be modified to such an extent it is effectively deleted.<sup>19</sup>

OhmConnect, eMotorWerks, and Stem disagree with PG&E’s and SDG&E’s reasoning and recommendations regarding FOF 24 in the APD. As we noted in our Opening Comments, “several areas of regulatory uncertainty have been resolved since the close of the IOUs’ 2018-2019 DRAM III auctions (on April 10, 2017)”.<sup>20</sup> Thus, even though the design of the additional DRAM auction in 2018 is mostly unchanged from 2017, the regulatory environment in which DRPs operate has changed. These changes will likely attract new DRPs to the additional DRAM auction in 2018 and induce existing DRPs to update their bidding strategies, thereby providing the Commission with “further insights into the evolving state of the demand response market”.

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<sup>14</sup> D.16-09-056, at p. 52 (emphasis added).

<sup>15</sup> Ibid., at p. 71 (emphasis added).

<sup>16</sup> Alternate Proposed Decision, Finding of Fact 24, at p. 70.

<sup>17</sup> PG&E Opening Comments, at p. 4.

<sup>18</sup> SDG&E Opening Comments, at p. 5.

<sup>19</sup> PG&E Opening Comments, at Appendix p. 1; SDG&E Opening Comments, at p. A-2.

<sup>20</sup> OhmConnect, eMotorWerks, and Stem Opening Comments, at p. 8.

**D. There is time to incorporate into the permanent, post-pilot DRAM design the learnings that result from an additional DRAM auction in 2018.**

In its Opening Comments, PG&E states:

“If the 2018 auction were held under the same timeline as the recently concluded 2017 auction for the 2018-2019 DRAM, the advice letters for contract approval would be submitted at the end of June 2018, which is the same month the Energy Division would be providing its report evaluating the pilots, and thus the findings from the new auction would be too late to be incorporated into the Energy Division report.”<sup>21</sup>

PG&E therefore proposes modifications to FOF 25 in the APD to address its concerns regarding timing of the additional DRAM auction and Energy Division’s evaluation of the DRAM pilots.<sup>22</sup> However, the Commission should reject PG&E’s proposed modifications to FOF 25 because there are (at least) two alternative actions the Commission can take to ensure the results of an additional auction in 2018 are able to inform the design of the permanent DRAM.

First, the Commission can condense the timeline for the additional DRAM auction in 2018. This auction, if approved, will be the fourth DRAM auction to date, and DRPs and the IOUs have sufficient accumulated experience to navigate an accelerated auction process. It is also true that the IOUs conduct other (non-DRAM) RA solicitations on comparatively faster timelines.<sup>23</sup>

Second, D.16-09-056, Ordering Paragraph 10 provides that “Energy Division will hold a workshop within 30 days of the approval [to transition the DRAM from pilot status] [...] to confirm the steps to implement the [DRAM] post pilot”.<sup>24</sup> This workshop will occur no sooner than July 2018 – i.e. *after* submission of the IOUs’ advice letters for contract approval for the additional DRAM pilot auction. The Commission can therefore incorporate the learnings from this additional auction into the workshop recommendations.

### **III. CONCLUSION**

OhmConnect, eMotorWerks, and Stem appreciate the opportunity to provide these Reply Comments regarding the September 15, 2017 Proposed Decision and Alternate Proposed

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<sup>21</sup> PG&E Opening Comments, at p. 4.

<sup>22</sup> *Ibid.*, at Appendix p. 1.

<sup>23</sup> For example, PG&E’s 2014 Resource Adequacy and Import Energy RFO ended 75 days after launch (see [https://www.pge.com/en\\_US/for-our-business-partners/floating-pages/2014-resource-adequacy-and-import-energy-request-for-offers-rfo/2014-resource-adequacy-and-import-energy-request-for-offers-rfo.page](https://www.pge.com/en_US/for-our-business-partners/floating-pages/2014-resource-adequacy-and-import-energy-request-for-offers-rfo/2014-resource-adequacy-and-import-energy-request-for-offers-rfo.page)), whereas the 2018-2019 DRAM III RFOs ended 113 days after launch (see [https://www.pge.com/en\\_US/business/save-energy-money/energy-management-programs/demand-response-programs/2018-demand-response/2018-demand-response-auction-mechanism.page](https://www.pge.com/en_US/business/save-energy-money/energy-management-programs/demand-response-programs/2018-demand-response/2018-demand-response-auction-mechanism.page)).

<sup>24</sup> D.16-09-056, Ordering Paragraph 10, at p. 99.

Decision addressing an additional DRAM auction in 2018 for deliveries in 2019. In our assessment, the record indicates both need and cause for an additional DRAM auction in 2018. We therefore recommend that the Commission reject the PD and adopt instead the APD, with the single modification that PG&E be required, rather than authorized, to conduct an additional DRAM auction in 2018 for deliveries in 2019.

Respectfully submitted,

October 10, 2017

/s/ JOHN ANDERSON

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