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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Reforms and Refinements, and Establish Forward Resource Adequacy Procurement Obligations.	Rulemaking 21-10-002

REPLY COMMENTS OF OHMCONNECT, INC. ON IMPLEMENTATION TRACK PHASE 3 PROPOSALS

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BEFORE THE PUBLIC UTILITIES COMMISSION
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REPLY COMMENTS OF OHMCONNECT, INC. ON IMPLEMENTATION TRACK PHASE 3 PROPOSALS

Pursuant to the September 2, 2022 *Assigned Commissioner's Amended Scoping Memo and Ruling* ("September Ruling") and the February 13, 2023 *Email Ruling Granting Western Power Trading Forum's Request for Extension to File Comments on Phase 3 Proposals,* OhmConnect, Inc. ("OhmConnect") respectfully submits this reply to parties' opening comments on proposals put forward in the Implementation Track 3 of the above-captioned proceeding.

I. INTRODUCTION

OhmConnect's reply focuses solely on Energy Division's proposals regarding demand response ("DR") resources. Adopting multiple Energy Division proposals will directly harm DR resources with little to no system benefits. While each proposal is problematic on its own, the impact of, for example, *both* limiting DR wholesale market bids to $500/MWh bid cap *and* expanding its availability requirements would make it incredibly difficult, if not impossible, for demand response providers ("DRPs") to properly manage the resource's use limitations. Any potential limited benefits of these proposals would be vastly outweighed by the strain they would place on the resource and its underlying customers. Specifically, the Commission should find that:

1. A $500/MWh bid cap is neither necessary nor appropriate;
2. The proposal to expand DR's availability requirements is unworkable as described;
3. Applying a test-based derate does not solve capacity valuation challenges.

II. REPLY TO PARTY'S COMMENTS

A. A $500/MWh bid cap is neither necessary nor appropriate.

Adopting a $500/MWh bid cap would significantly hinder DR resources, particularly during times when those resources are both needed most by the grid. There is also no need for such a bid cap. The Department of Market Monitoring ("DMM") correctly "cautions against setting the proxy demand response bid cap too low since the marginal cost of these resources is unclear."[1] DMM further highlights that "because these resources are use-limited, an inefficiently low bid cap could lead to market dispatches in milder conditions that result in some proxy demand response capacity being fatigued during hours when market conditions are tighter."[2] Vistra also observes that "[t]his proposal would lead to suppressing prices when it is crucial for the CAISO market to send the appropriate price signal to resources."[3] The California Energy Storage Alliance ("CESA") and Middle River Power ("MRP") similarly reject the imposition of a resource-specific bid cap.[4]

Pacific Gas and Electric ("PG&E") is the only party to outright support a bid cap on DR resources, arguing that it would "support greater dispatches of PDRs."[5] *First,* as the California Efficiency + Demand Management Council, CPower, and OhmConnect ("Joint Parties") discuss at length in Opening Comments, recent DMM data does not suggest that proxy demand response

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[1] DMM Opening Comments, at 5.
[2] *Id.*, at 5.
[3] Vistra Opening Comments, at 27.
[4] CESA, at 10; MRP, at 24.
[5] PG&E Opening Comments, at 14.

resources ("PDRs") continue to be infrequently dispatched.[6] In fact, in every market performance report from the summer of 2022, the California Independent System Operator ("CAISO") has noted that "PDR resources were consistently dispatched in both the day-ahead and real-time markets."[7] As such, it is not clear that a proposal that "support[s] greater dispatches of PDRs" is either necessary or warranted at this time. Rather, the Energy Division proposal appears to be solving a "problem" that no longer exists; therefore, it should not be adopted. *Second,* to the extent that the Commission would like to ensure that PDRs are nearly always dispatched ahead of reliability demand response resources ("RDRR"), a bid cap of $949/MWh—just below the $950/MWh bid insertion price for RDRR—could be sensible. Vistra's proposal to allow RDRR to submit offers above the $1,000/MWh cap[8] is another potential solution.

B. The proposal to expand DR's availability requirements is unworkable as described

While it is reasonable to desire that DR be fully available at times of emergency, Energy Division's proposal lacks critical implementation detail, has the potential to actually harm a DR resources' ability to be available during emergency events and thus should not be adopted at this time. In opening comments, the Joint Parties outlined the numerous formidable implementation challenges of this proposal.[9] One particular challenge is that, because DRPs cannot have perfect insight into whether an alert will be called, it is "virtually impossible for a DR provider to *ensure*

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[6] Joint Parties Opening Comments, at 4-5.
[7] CAISO, *Summer Market Performance Report June 2022*, at 67 (July 22, 2022); CAISO *Summer Market Performance Report July 2022*, at 69 (Aug. 23, 2022); CAISO *Summer Market Performance Report August 2022*, at 71(Sept. 23, 2022); CAISO*, Summer Market Performance Report September 2022*, at 39-40 (Nov. 2, 2022).
[8] Vistra Opening Comments, at 27-28.
[9] Joint Parties Opening Comments, at 9.

that its capacity is offered to the day-ahead market *ahead* of a Flex Alert".[10] Even if the proposal is amended to state that PDRs should be made available *after* an emergency declaration, the declaration could follow the close of the Day Ahead Market ("DAM"). The Joint Parties further highlight that "[w]hat the proposal would require DR providers to do in these instances – a Flex Alert is called but the DAM has closed – is not clear. The same is true of all other emergency declarations."[11] PG&E recommends that "the Commission consider whether requiring DR to be available prior to a Flex Alert may be operationally challenging or even infeasible…."[12] Because compliance with the expanded availability requirements would be difficult, if not impossible, the Commission should reject this proposal.

C. Applying a test-based derate does not solve capacity valuation challenges.

The Joint Parties correctly highlight that this proposal is "discriminatory in that it does not address penalties vis-a-vis the RA capacity credited to ["investor-owned utility"] IOU DR programs."[13] Only third-party providers must currently undergo quarterly 4-hour testing. The fact that utility-administered programs do not face the same requirement is alone neither fair nor reasonable. Using the results of these tests to derate the RA capacity of third-party *only* deepens the discriminatory treatment.

Southern California Edison Company ("SCE") appears to argue that the application of performance penalties such as the test-based derate may be reasonable for third-party demand response because the problem lies only with these resources, stating that "[t]he availability and

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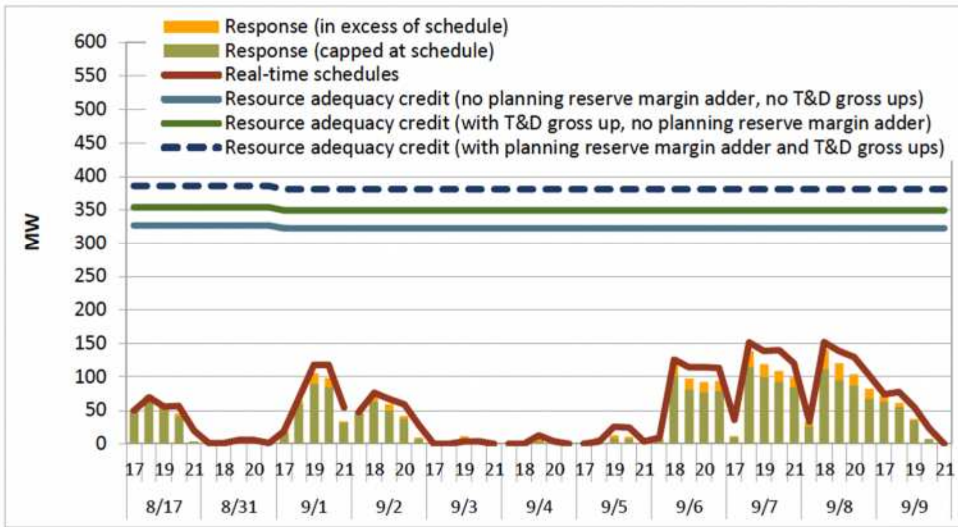
[10] *Id.* (emphasis in original).
[11] Joint Parties Opening Comments, at 9.
[12] PG&E Opening Comments, at 5.
[13] Joint Parties Opening Comments, at 10.

performance issues are with DR resources outside SCE's control."[14] To support this statement, SCE cites DMM's conclusion that "[u]tility demand response reported substantially higher performance than third party demand response."[15] This is not an accurate description of what is actually happening. While it does appear to be the case that utility economic DR programs met a greater proportion of their CAISO dispatch instructions, this likely stems from the fact that IOUs are permitted to bid only a portion of their RA credited capacity into the CAISO market.[16] Figure 2.7 from the same report cited by SCE demonstrates this issue. Utility PDRs were dispatched for quantities well below their full RA credited capacity on all days of the Labor Day heatwave. At most, 150 MW were dispatched on 9/7 and 9/8 out of a total of 350 MW of credited RA value. If the IOUs were bidding the full 350 MW into the market on each of these days, it is likely that nearly all of this capacity would have been scheduled by the CAISO, at least on 9/6.

[14] SCE Opening Comments, at 10.
[15] CAISO DMM, *Demand Response Issues and Performance 2022*, at 4 (Feb. 14, 2023).
[16] Unlike third-party DR, utility DR programs do not have a fixed must-offer obligation. Thus, they are free to bid their resources below their RA credited capacity without any penalty.

Figure 2.7 CPUC-jurisdictional utility proxy demand response performance



Therefore, it is simply not true that "performance" is only an issue for third-party demand response. While utility DR appears to perform closer to dispatch instructions, they are also likely not making their full RA capacity available to the CAISO via bids. As such, capacity valuation appears to be problematic across both utility and third-party economic DR programs. It simply appears in the data in different ways.

Because it is not true that "[t]he availability and performance issues are with DR resources outside SCE's control", one-off proposals that primarily target third-party resources are inefficient, unlikely to achieve the stated objectives, and should not be adopted.

The Commission is considering more holistic changes to DR capacity valuation, including the potential imposition of penalties, in this proceeding.[17] The CEC's proposal is intended to address these issues in a manner that touches on all parts of the Qualify Capacity process and applies evenly across DR administrators. The Commission should adopt the CEC's proposal rather than any of the one-off solutions presented by Energy Division Staff.

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[17] *See* February 15, 2023 *Administrative Law Judge's Ruling on Comment Schedule for California Energy Commission's Supply-Side Demand Response Report.*

III. CONCLUSION

Respectfully submitted,

By: ________/s/________

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