

Application: 22-05-002  
(U 39 E)  
Exhibit No.: (PG&E-4)  
Date: August 5, 2022  
Witness(es): Sebastien Csapo

---

**PACIFIC GAS AND ELECTRIC COMPANY**

**DEMAND RESPONSE AUCTION MECHANISM,  
PURSUANT TO THE JULY 5, 2022 SCOPING MEMO IN A.22-05-002**

**SUPPLEMENTAL TESTIMONY**

---



PACIFIC GAS AND ELECTRIC COMPANY  
DEMAND RESPONSE AUCTION MECHANISM,  
PURSUANT TO THE JULY 5, 2022 SCOPING MEMO IN A.22-05-002  
SUPPLEMENTAL TESTIMONY

TABLE OF CONTENTS

A. Introduction..... 1

B. Background ..... 2

C. Assessment of Nexant Report..... 3

    1. Overall Conclusions ..... 3

    2. Response to Recommendations in the Nexant Report ..... 4

        a. Nexant Recommendation 1: Performance Incentives..... 4

        b. Nexant Recommendation 4: CAISO Market Availability ..... 5

D. Conclusion..... 5

1                                   **PACIFIC GAS AND ELECTRIC COMPANY**  
2                                   **DEMAND RESPONSE AUCTION MECHANISM,**  
3                                   **PURSUANT TO THE JULY 5, 2022 SCOPING MEMO IN A.22-05-002**  
4                                   **SUPPLEMENTAL TESTIMONY**

5   **A. Introduction**

6                   Pacific Gas and Electric Company (PG&E) submits this supplemental  
7                   testimony to its 2023-2027 Demand Response Application (Application  
8                   (A.) 22-05-020), consistent with the Assigned Commissioner’s Ruling (ACR) and  
9                   Scoping Memo, issued July 5, 2022, as further clarified by a July 14, 2022,  
10                  Ruling from Administrative Law Judge (ALJ) Jungreis (ALJ Ruling). On June 24,  
11                  2022, Resource Innovations and Gridwell Consulting submitted a report  
12                  evaluating the Demand Response Auction Mechanism (DRAM) Pilot from 2018  
13                  to 2021 (Nexant Report).<sup>1</sup> The ACR requests that parties submit supplemental  
14                  testimony using the “findings and recommendations” in the Nexant Report to  
15                  explain whether PG&E, Southern California Edison Company, and San Diego  
16                  Gas & Electric Company (together the Utilities) should be directed to conduct  
17                  DRAM solicitations in 2023, for 2024 deliveries (2024 DRAM), as a continued  
18                  pilot without further technical refinements, and if so, what budget should be  
19                  authorized.<sup>2</sup>

20                 The ACR indicates that DRAM issues beyond the 2024 delivery year would  
21                 be addressed at a later time in this proceeding.<sup>3</sup> Furthermore, the ALJ Ruling  
22                 further clarified the scope of supplemental testimony, which was to “focus upon  
23                 the sole Auction Mechanism issue set forth in the Scoping Memo would be of  
24                 greatest relevance.”<sup>4</sup>

25                 In response to the ACR, PG&E recommends against undertaking a 2024  
26                 DRAM. The basis for this recommendation stems from PG&E’s existing position

---

1   DRAM Evaluation submitted by Nexant in Partnership with Gridwell Consulting, dated  
   May 23, 2022, as included with the ACR issued July 5, 2022.

2   ACR issued July 5, 2022, at p. 3-4.

3   *Ibid* 2.

4   A Ruling from ALJ Jungreis was issued on July 14, 2022, in response to a request by a  
   party via a July 11, 2022, e-mail. The ALJ’s Ruling among other things indicates that  
   parties will have the opportunity to file comments on the Nexant Report on issues  
   “beyond 2024” at a later date.

1 set forth in opening testimony,<sup>5</sup> along with findings from the Nexant Report.  
 2 PG&E observes that most of the recommendations in the Nexant Report for  
 3 modifications to DRAM would require further deliberation, as part of Phase 2 or  
 4 a dedicated process, and would therefore not be implementable for a 2023  
 5 DRAM auction for deliveries in calendar year 2024. However, there are  
 6 two exceptions as it relates to modifications for a 2024 DRAM, which are  
 7 identified in the Nexant Report and are discussed in this supplemental  
 8 testimony. These two recommendations would constitute “technical  
 9 refinements,”<sup>6</sup> which PG&E believes would be implementable for a 2024 DRAM.  
 10 These two are specifically discussed in Section C.2 below.

## 11 **B. Background**

12 PG&E’s opening testimony discussed its own experience with DRAM,<sup>7</sup>  
 13 which is in part supported by the Nexant Report. Despite incremental  
 14 improvements over the years, DRAM has not delivered the reliable Resource  
 15 Adequacy (RA) capacity that was envisioned.

16 Even with the release of the Nexant Report, PG&E continues to  
 17 recommend against a permanent DRAM without significant changes.<sup>8</sup>  
 18 Moreover, there are growing opportunities available to third-party Demand  
 19 Response Providers (DRP) both with Investor-Owned Utilities (IOU) and  
 20 Community Choice Aggregators (CCA),<sup>9</sup> which would enable a pivot away from  
 21 DRAM to competitive, need based solicitations. PG&E views this as a better  
 22 path forward.

---

5 PG&E Application 22-05-020 Exhibit (PG&E-2), filed May 2, 2022, Chapter 5, “Third-Party Demand Response.”

6 PG&E interprets the ACR’s qualifier “...without further technical refinements” as one that can be answered in agreement or in disagreement, rather than being limited to not allowing further technical refinements.

7 PG&E’s opening testimony focused on challenges related to Criterion 5 (contractual obligations) and Criterion 6 (performance) from the Nexant Report.

8 PG&E A.22-05-020 Exhibit (PG&E-2), Chapter 5, pp. 5-7 to 5-8.

9 PG&E A.22-05-020 Exhibit (PG&E-2), Chapter 5, p. 5-7, lines 26-27 and p. 5-8, lines 1-3.

## 1 C. Assessment of Nexant Report

### 2 1. Overall Conclusions

3 PG&E recognizes the significant effort and complexity that went into the  
4 development of the Nexant Report. In some cases, data issues made it  
5 difficult to render a full assessment.<sup>10</sup> Furthermore, the Nexant Report  
6 contains a number of redactions which limits our ability to comprehensively  
7 review it. Even so, the overall take-away based on the six criteria assessed  
8 indicates mixed results.

9 Specifically, as it relates to Criterion 5 (Did DRPs meet their contractual  
10 obligations?) and Criterion 6 (Were resources reliable when dispatched?),  
11 the findings are mixed<sup>11</sup> and are in line with PG&E's experience as  
12 presented in opening testimony. Other criteria, which are broader based  
13 market assessments, suggest neutral to positive outcomes.<sup>12</sup> On the other  
14 hand, Criterion 4 (Were offer prices competitive in wholesale markets)  
15 indicates they were not; although, it's qualified with improvements having  
16 occurred in recent years.<sup>13</sup> On positive outcomes, the Nexant Report  
17 concludes that DRAM has been successful in engaging new providers  
18 (Criterion 1) and new participants (Criterion 2),<sup>14</sup> which suggests that a  
19 market for 3rd Party DRPs and participants has been developed and is  
20 available to support Demand Response (DR) needs.

---

<sup>10</sup> Nexant Report, Section 7.1.1 at pp. 76-77.

<sup>11</sup> Slide deck, "Demand Response Auction Mechanism Evaluation Workshop," dated July 7, 2022. Criterion 5 on p. 117 and Criterion 6 on p. 118. Also, Nexant Report, p. 2, Table 1-1. <https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/demand-response/demand-response-workshops/dram-2022-evaluation/dram-evaluation-workshop---2022-07-07.pdf>.

<sup>12</sup> Slide deck, "Demand Response Auction Mechanism Evaluation Workshop," dated July 7, 2022. Criterion 1: Did DRAM engage new, viable DRPs – Yes (p. 113); Criterion 2: Did DRAM engage new customers – Yes (p. 114); Criterion 3: Were auction bid prices competitive – neutral to positive (p. 115). Also, Nexant Report, on p. 2, Table 1-1.

<sup>13</sup> Slide deck, "Demand Response Auction Mechanism Evaluation Workshop," dated July 7, 2022. Criterion 4 on p. 116.

<sup>14</sup> Nexant Report, p. 2, Table 1-1.

1           Since PG&E generally concurs with the findings<sup>15</sup> in the Nexant Report,  
2           the focus of this supplemental testimony will be on addressing  
3           two *recommendations for improvements*, which are feasible to implement for  
4           a 2024 DRAM.

## 5           **2. Response to Recommendations in the Nexant Report**

6           PG&E provides responses associated with recommendations in the  
7           Nexant Report and related workshop presentation from July 7, 2022 that  
8           could be implementable for a 2024 DRAM. While PG&E has developed  
9           positions on certain other recommendations in the Nexant Report, we refrain  
10          from providing our views based on guidance in the ACR and subsequent  
11          ALJ Ruling.<sup>16</sup> However, PG&E stands ready to provide further input if a  
12          subsequent ruling is issued for matters pertaining to DRAM beyond calendar  
13          year 2024.

### 14          **a. Nexant Recommendation 1: Performance Incentives**

- 15           • Nexant Recommendation – Align incentives of DRAM capacity  
16           contracts with demonstrated performance, including consistency  
17           and availability, and unique characteristics of DR.<sup>17</sup>
- 18           • PG&E Assessment – PG&E broadly agrees with the Nexant Report  
19           that incentives should be aligned with performance. Specifically,  
20           PG&E supports elimination of the Must Offer Obligation (MOO) for  
21           compensation.<sup>18</sup> Instead, compensation should solely be based on  
22           actual dispatch or testing that meet contract requirements.

---

<sup>15</sup> While PG&E generally concurs with the findings and supports certain recommendations, it does not necessarily agree, in part or in whole, to all the recommendations set forth in the Nexant Report.

<sup>16</sup> The July 14, 2022, ALJ Ruling states, “For present purposes, party comment drawn to focus upon the sole Auction Mechanism issue set forth in the Scoping Memo would be of greatest relevance.”

<sup>17</sup> Nexant Report at p. 159; Nexant workshop presentation at p. 121.

<sup>18</sup> Nexant Report, Section 11 at p. 159, which states:

“Eliminate any form of capacity compensation based on bid amounts, such as the Must Offer Obligation (MOO), which has been shown to loosely reflect performance and demonstrated capacity based on actual dispatches.”

Nexant workshop presentation, slide deck at p. 121.

- PG&E Recommendation – PG&E believes elimination of the MOO for compensation is implementable for a 2024 DRAM and could be achieved by updating either the solicitation protocol and/or the DRAM Proforma, including relevant exhibits.

**b. Nexant Recommendation 4: CAISO Market Availability**

- Nexant Recommendation – Further evaluate the impact of minimum load costs, start-up times, and market rules on resource availability and market dispatch.<sup>19</sup>
- PG&E Assessment – PG&E is not opposed to the DRAM evaluating entity (i.e., Nexant, etc.) obtaining Masterfile data more frequently to support the evaluation process, including information on minimum load costs, start-up times and other parameters associated with market bidding and dispatch. Furthermore, it appears that part of the data sufficiency concern stems from resources being under 1 megawatt (MW). Relatedly, Nexant suggests that aggregation of resources within each sublap would reduce “statistical noise” for baseline assessments.<sup>20</sup> In this regard, PG&E observes that establishing a minimum 1 MW requirement for each resource ID for a 2024 DRAM would have a number of benefits, including subjecting Resources to the California Independent System Operator’s (CAISO) Resource Adequacy Availability Incentive Mechanism.<sup>21</sup>
- PG&E Recommendation – PG&E believes a minimum 1 MW resource size is implementable for a 2024 DRAM and could be achieved by updating either the solicitation protocol and/or the DRAM Proforma, including relevant exhibits.

**D. Conclusion**

PG&E advises the California Public Utilities Commission (CPUC or Commission) against undertaking another DRAM solicitation for calendar year

---

<sup>19</sup> Nexant Report at pp. 161-162; Nexant workshop presentation at p. 124.

<sup>20</sup> Nexant Report at p. 159; Nexant workshop presentation at p. 121.

<sup>21</sup> CAISO webpage:  
<http://www.caiso.com/informed/Pages/StakeholderProcesses/CompletedClosedStakeholderInitiatives/ResourceAdequacyAvailabilityIncentiveMechanism.aspx>.

1 2024, as this essentially continues the flawed DRAM product. Instead, the  
 2 Commission should take a pause and assess whether continuation of DRAM is  
 3 in the best interest of all stakeholders in supporting state policy. If continuation  
 4 of DRAM beyond calendar year 2024 is determined to be appropriate by the  
 5 Commission, then necessary technical modifications should be made in advance  
 6 of continuation.

7 If the Commission does order a 2024 DRAM, then in response to the ACR's  
 8 question regarding appropriate funding, authorizing a PG&E budget of \$6 million  
 9 based on the 2023 calendar year DRAM would be necessary. Furthermore, if a  
 10 2024 DRAM is ordered then it should include, at minimum, two "technical  
 11 refinements" identified in the Nexant Report. These two refinements include, as  
 12 previously discussed in Section C.2 (Response to Recommendations in Nexant  
 13 Report), the following: (1) Elimination of the MOO as a basis for compensation,  
 14 and (2) Establishment of a 1 MW minimum requirement for each DRAM  
 15 Resource.

16 PG&E raises two issues and a process matter that merit consideration by  
 17 the Commission in order to ensure that if a 2024 DRAM is ordered that it is  
 18 properly carried out. First, the Commission should clarify in its upcoming DRAM  
 19 Proposed Decision the appropriate testing convention for a 2024 DRAM.<sup>22</sup>  
 20 Second, a 2021 Resource Adequacy Decision<sup>23</sup> called for a change with  
 21 respect to the treatment of the Distribution Loss Factor (DLF), which may  
 22 necessitate updating the Proforma DRAM Agreement. Process wise, any  
 23 modifications to the existing Proforma DRAM Agreement, including  
 24 exhibits/attachments, would require sufficient stakeholder input. However, the  
 25 ACR's schedule leading up to a December 2022 Proposed Decision (with a

---

**22** D.22-06-050 (pp. 44-45) expanded the 4-hour testing convention for third-party DR procured by all Load Serving Entities, including IOUs. Although, this decision specifically excluded the 2023 calendar year DRAM from the 4-hour testing convention. If the Commission extends DRAM to the 2024 calendar year then it should clarify whether the existing testing requirement for the 2023 calendar year will be carried over to 2024 or whether the new 4-hour testing convention would apply.

**23** D.21-06-029, Ordering Paragraph (OP) 13, and pp. 42-43 and p. 70. Previously the DRAM seller did not include distribution line losses (DLF) in its supply plan Qualifying Capacity. OP 13 changes this and suggests that the DLF be included in the Qualifying Capacity. Consequently, if a new auction is ordered, the current DRAM contract and protocols may need clarification or modification.



- 1 presumed final decision in January 2023) would limit the time to collaboratively
- 2 make necessary changes before launching of the solicitation.<sup>24</sup>

---

<sup>24</sup> Based on prior DRAM solicitations and RA filing requirements, a launch in the February-March is generally needed in order to receive timely CPUC approval of executed contracts.