



California Public
Utilities Commission

Incentive-Based SDR QC Working Group

July 27, 2023

1:00 p.m. – 1:50 p.m. PT

Hosted by the Energy Division of the California Public Utilities Commission

With support from the California Energy Commission



California Public
Utilities Commission

Introductions

- **Host: Energy Division**
 - Eleanor Adachi
 - David Oliver
- **Co-Host: California Energy Commission**
 - Daniel Hills-Bunnell
 - Erik Lyon

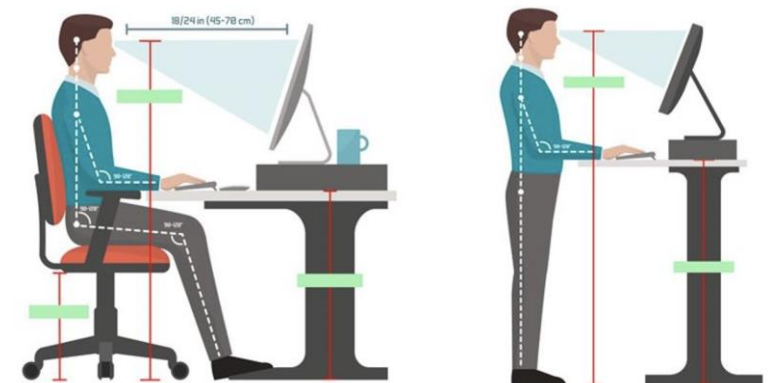
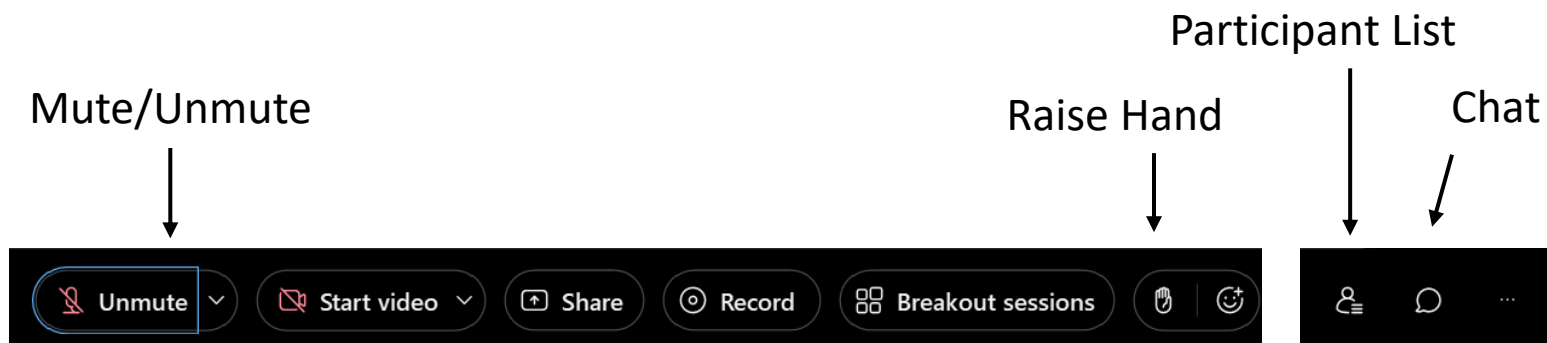
Agenda

Note that times are approximate. There will be a brief pause for questions after each section. Participants may raise their (virtual) hand to ask a question at any time.

#	Topic	Time
1	Introductions, Logistics and Background	1:00 PM – 1:15 PM
2	Working Group Goals	1:15 PM – 1:35 PM
3	Next Steps (Schedule & Format of Future Meetings)	1:35 PM – 1:45 PM
4	Looking Ahead (Broader Timeline & “What-If” Analysis)	1:45 PM – 1:50 PM

Logistics

- Presentation will be uploaded onto [DR Workshops](#) website at a later time.
- All attendees are muted upon entry. Please stay muted unless you are speaking. Only one person should be speaking at a time.
- Please “raise your hand” if you would like to speak or use the chat.
- Safety: (1) Note surroundings & emergency exits, (2) Ergonomic check, (3) In case of emergency, call 9-1-1.
- Refrain from discussing any other proceedings in case Commissioners are present to avoid inadvertent ex-partes.



Background

- **D.21-06-029:** CEC to develop (via stakeholder working group process) & submit recommendations for DR measurement & verification (M&V) strategy, including qualifying capacity (QC) counting methodology, by March 2022
 - **Key Recommendation:** Extend/expand WG to develop long-term QC methodology & address broad DR challenges
- **D.22-06-050:** CEC to develop & submit long-term (2025 RA year & beyond) recommendations for supply-side DR (SSDR) QC methodology that is compatible with slice-of-day (SoD) framework by February 2023
 - **Key Recommendation:** Adopt CEC staff's incentive-based proposal
- **D.23-06-029:** ED to lead working group, with support from CEC staff, to refine incentive-based QC proposal & submit joint proposal in December 2024
 - **Elements to be refined:** Bid-normalized load impact metric formula, design of capacity shortfall penalty, penalty enforcement mechanism

Working Group Structure

Refining elements from the CEC incentive-based approach



Working Group Goals

1. Refine formula for Bid Normalized Load Impact (BNLI) metric
2. Refine the design of the Capacity Shortfall Penalty (CSP)
3. Propose an enforcement mechanism of CSP

* Can include other topics if needed

Format of Working Group Meetings

1

Introduction of topic
and problem analysis

2

Collect feedback and
proposals from working
group participants

3

Reach consensus and
finalize revisions



Summary of Elements

Elements from CEC proposal for further discussion in this working group

BNLI Formula

- Intention to address the effect of partial dispatches on the assessed performance of DR resources
- Uses ratio of delivered load impacts to bid amount in *ex post* calculations of delivered capacity
- **Key Challenges:** Could incentivize DR resources to inflate bid prices, deviate from dispatch instructions

CSP Design

- Revenue decreased proportionally by shortfalls in demonstrated capacity
- Proposed penalty mechanism initiates after a 94.5% shortfall threshold
- **Key Challenges:** Striking right balance of incentives and penalties, “net payment” vs. “claw-back”

CSP Enforcement

- Definition needed on enforcement mechanism and administration of penalty
- Role of State Agencies/CAISO
- **Key Challenges:** Lack of visibility into contract prices, no direct authority over third party DRPs, potential need for collateral payments



Bi-Weekly Schedule through November

Workshop Schedule

Months	August		September		October		November	
	08/10	08/24	09/7	09/21	10/5	10/19	11/2	11/16
BNLI	Intro Discussion	Feedback and Proposals	Finalize Element					
CSP			Intro Discussion	Feedback and Proposals	Finalize Element			
Penalty Enforcement					Intro Discussion	Feedback and Proposals	Finalize Element	

*LIP comparison with incentive-based QC to happen by April with *ex post* data from 2023



Timeline from Decision 23-06-029

Milestone	Timeframe
Initiate Working Group to refine specific elements of the CEC proposal, as directed by Commission Decision.	July 2023
LIP process begins for 2025 RA compliance year. In ex post analysis on 2023 performance, the CEC methodology is run side-by-side by LIPs on a “what if” basis with no penalties applied.	December 2023
Final LIP reports for 2025 RA compliance year filed. Energy Division and CEC draft joint report summarizing ex post results for 2023.	April 2024
Energy Division and CEC continue refining incentive-based proposal, incorporating learnings from “what if” exercise.	April -December 2024
Energy Division and CEC submit refined incentive-based proposal to the RA proceeding.	December 2024
LIP process begins for 2026 RA compliance year.	December 2024

“What if” Analysis for 2023 *ex post* data

December 2023 through April 2024

- Meeting cadence to change as CPUC and CEC staff complete *ex post* capacity assessments, including determination of resulting (hypothetical) penalties, on 2023 data for each IOU/DRP
 - CPUC and CEC staff propose to use CAISO subpoena data if CAISO bids and settlements remain the basis for the incentive-based methodology
- In April/May, staff will share aggregated results and receive from the working group
 - Each working group participant with DR resources will be invited to one-on-one meetings to review their resources' data with staff
- This analysis will serve as a point of comparison between status quo LIPs and the proposed incentive-based methodologies



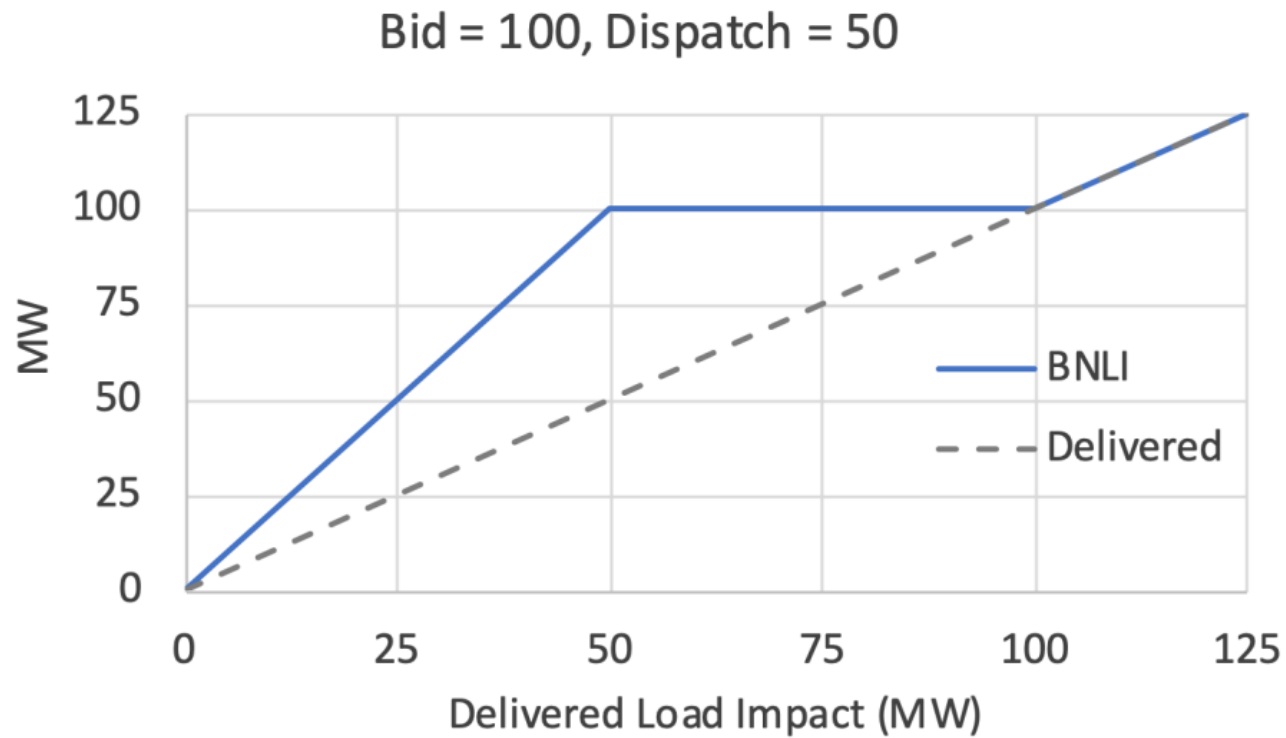
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Thank you!

Appendix Slides

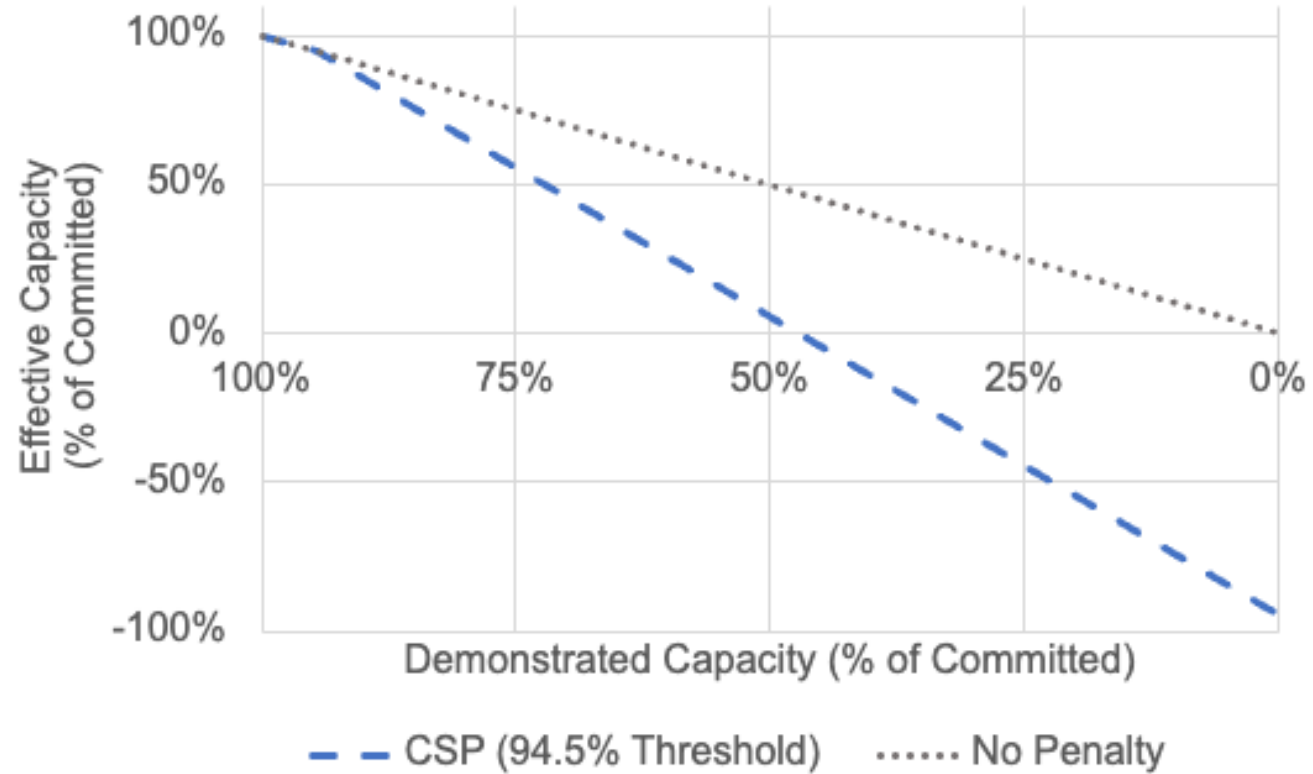
Appendix A1:

BNLI Graphical Representation:



Appendix A2:

CSP Graphical Representation:





Appendix A3: Additional Background

- **R.19-11-009 OIR** identified third-party DR counting conventions & requirements as an issue to be addressed
 - Several arguments for & against LIPs were raised by parties in R.19-11-009

Arguments for LIPs

- Transparent
- Straightforward to implement
- Not burdensome
- Provide relatively accurate results
- Creates level playing field when applied to both IOUs and third parties

Arguments against LIPs

- Can overvalue reliability contribution of DR
- Data confidentiality issues
- Financial and administrative burden
- Lack of flexibility (e.g., do not allow for changes in program composition)
- Lack of guidance on enrolment forecasts

- **ED Staff Proposal (Apr. 2021)**: Request that CEC launch WG process to develop recommendations for comprehensive and consistent M&V strategy