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Decision 19-12-040 December 19, 2019

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric
Company (U39E) for Approval of
Demand Response Programs, Pilots and
Budgets for Program Years 2018-2022.

Application 17-01-012

And Related Matters.

Application 17-01-018

Application 17-01-019

DECISION REFINING THE DEMAND RESPONSE AUCTION MECHANISM

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DECISION REFINING THE DEMAND RESPONSE AUCTION MECHANISM

Summary

We continue our refinements to the Demand Response Auction Mechanism (Auction Mechanism) in our effort to improve reliability and performance of resources procured through the mechanism. To this end, we adopt certain recommendations from a stakeholder working group report as well as other revised recommendations from the report. Reliability and performance will be improved through the adoption of a required delivery by Auction Mechanism resources of 30 MWh per MW of average Qualifying Capacity, defined qualitative criteria, refinements to the communication processes between utilities and demand response providers, and the establishment of a schedule for the Energy Division-led refinement process. As discussed herein, we also confirm that the Auction Mechanism is a mechanism to procure not only resource adequacy but energy as well.

1. Background

Decision (D.) 17-12-003 adopted demand response activities and budgets for years 2018 through 2022 but kept open the demand response applications filed by Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SCE) (jointly, the Utilities)¹ (Applications (A.) 17-01-012, A.17-01-018, and A.17-01-019) to consider remaining matters in the consolidated proceeding. With the exception of the demand response auction mechanism (Auction Mechanism), all other remaining matters have been addressed in D.18-11-029 and D.19-07-009.

¹ The singular term “Utility” is used throughout this decision to generically refer to any one of the three Utilities (PG&E, SDG&E, and SCE).

In addition to the Utilities, the following entities are also parties to this proceeding: Advanced Microgrid Solutions; California Efficiency + Demand Management Council (the Council); California Energy Storage Alliance (CESA); California Independent System Operator (CAISO); California Large Energy Consumers Association; Comverge, Inc.; CPower, Inc.; Ecobee, Inc.; Electric MotorWerks, Inc.; Enel X North American, Inc.(Enel X)(formerly, EnerNoc, Inc.) EnergyHub; LeapFrog Power, Inc.; Nest Labs, Inc.; OhmConnect, Inc. (OhmConnect); Olivine, Inc.; Public Advocates Office of the Public Utilities Commission (Public Advocates Office); Stem, Inc.; SolarCity Corporation; Sunrun, Inc.; The Utility Reform Network; and Utility Consumer Action Network.

The Auction Mechanism is a pay-as-bid solicitation through which each of the Utilities seek monthly demand response system capacity, local capacity, and flexible capacity, which contributes to the Utilities' resource adequacy obligation. Winning bidders in the Auction Mechanism, or Sellers, are required to bid aggregated demand response directly into the CAISO energy markets. The Utilities acquire the capacity and receive resource adequacy credit for it but have no claim on revenues the winning bidders may receive from the energy market. The Commission created the Auction Mechanism as a tool to encourage new participation in the demand response market and to ensure reliability of demand response.

In response to the January 4, 2019 final report of the Energy Division's *Evaluation of Demand Response Auction Mechanism* (Evaluation report), the Commission adopted D.19-07-009, which approved a four-year continuation of the Auction Mechanism to improve performance and reliability of the associated demand response resources. That decision adopted a hybrid Two-Step

Approach that is a limited continuation of the Auction Mechanism, with initial critical improvements in Step One and future and continuous improvements in Step Two. Step One allows for a 2019 solicitation of the Auction Mechanism with deliveries to begin on June 1, 2020. The Commission adopted a set of improvements to be implemented in Step One, which focused on providing accurate Qualifying Capacity estimates, imposing a penalty structure for shortfalls in Demonstrated Capacity, revising Demonstrated Capacity invoices, establishing invoice deadlines, replacing the residential set-aside with a 10 percent set-aside limited to new market entrants, eliminating the use of the August bid price cap, eliminating reliability demand response resources from participating in the Auction Mechanism, and publishing contract summaries.

D.19-07-009 recognized the need to make further improvements in Step Two and established a schedule of working group meetings to address 10 issues. The Commission directed the working group to file a report no later than August 23, 2019 to recommend proposals resolving these 10 issues. Additionally, D.19-07-009 directed parties to file responses to questions regarding seven policy determinations for Step Two.²

On August 9, 2019, the working group filed its report entitled, "*Final Report of the Demand Response Auction Mechanism Working Group*" (Working Group Report). On August 23, 2019, parties filed comments on the Working Group Report and responses to the seven policy questions contained in Appendix C of D.19-07-009. On August 30, 2019, parties filed reply comments to the Working Group Report and the policy question responses.

² D.19-07-009 at Appendix C.

This decision solely addresses the recommendations of the Working Group Report and the seven policy questions.

Applications A.17-01-012, A.17-01-018 and A.17-01-019 are closed.

2. Issues Before the Commission

The Commission will consider: 1) party proposals, as recommended in the Working Group Report, to address the ten technical improvements to the Auction Mechanism ordered by D.19-07-009 and 2) responses to the seven policy questions regarding the Auction Mechanism, as indicated in Appendix C of D.19-07-009. The improvements and policy questions are listed in Tables 1 and 2 below but explained in detail in Section 3 below.

Table 1 Technical Improvements	
1.	Replacement for the August Bid Price
2.	Minimum Dispatch Hours
3.	Revenue Quality Meter Data Penalty and Contract Remedy
4.	Contract Reassignments
5.	Bid Fees
6.	CAISO Registrations and Meter Reprogramming for Extension
7.	Guidelines for Utility Audits and Withholding Invoice Payments
8.	Cost-Effectiveness Methods
9.	Dispute Resolution Process
10.	Refinements to Appendices A and B

Table 2 Policy Questions	
1.	Should the Commission require Auction Mechanism resources to be cost-effective? What process should be used to develop such protocols?
2.	Should the Commission require Qualitative Criteria in the Auction

Mechanism solicitation? What process should be used to develop the criteria?
3. What process should the Commission use to address CAISO markets and resource adequacy related issues?
4. Should the Commission shift the focus of the Auction Mechanism procurement from system resource adequacy to local and flexible capacity? What process should be used to make this shift?
5. What improvements should be made to streamline communications between Utilities and Providers regarding missing data, data quality concerns, and gaps in data?
6. Should the Commission condition payment of invoices on registration with the Commission
7. What process steps and schedule should the Commission use to develop and adopt further refinements to the Auction Mechanism?

Issue 8 in Table 1 and Issue 1 in Table 2 both involve cost-effectiveness and, therefore, this decision addresses the technical and policy aspects together in the technical improvements discussion in Section 3.8

3. Adopted Technical Refinements to the Auction Mechanism

In Section 3, we adopt many technical refinements to the Auction Mechanism to improve its outcomes. These refinements address many shortcomings of the Auction Mechanism indicated by the Evaluation Report. While we focus on technical refinements in this section, in the case of cost-effectiveness, we also address overlapping policy questions.

3.1. No Replacement for Average August Bid Price Cap

It is unnecessary, at this time, to adopt a replacement for the average August bid price cap (Price Cap) as there are protections in place to avoid accepting bids that are not competitive in comparison to the rest of the offers. The Commission will review this issue again during its consideration of the final evaluation of the Auction Mechanism. However, if the current protections are

considered to be insufficient prior to the final evaluation, parties may file a petition for modification requesting additional protections.

In D.19-07-009, the Commission eliminated the use of Price Cap.³ The Price Cap had been adopted by the Commission to ensure that the Auction Mechanism provides substantial growth opportunity for performance-based demand response.⁴ However, in its review of the Auction Mechanism, Energy Division found that the Price Cap had negative consequences including limiting competition and, perhaps, encouraging bidders to offer flat pricing throughout the year as opposed to pricing based on market value.⁵ The Evaluation Report recommended replacing the Price Cap with a Net Market Value cap based on an adjusted or Net Long Run Avoided Cost.

In the Working Group Report, the Joint Demand Response Parties⁶ propose that the Utilities should continue to use the current method of calculating the Net Present Value of the net benefits of bids and, then, ranking the bids in merit order.⁷ Additionally, the Joint Demand Response Parties propose that the Utilities decline bids that exceed the Long Run Avoided Cost of Capacity and have the option to eliminate any outliers – bids that are high or low in comparison with other offers. These two recommendations are current

³ D.19-07-009 at Ordering Paragraph 6.f.

⁴ D.16-09-056 at 74. The decision directed the Utilities to offer contracts to all complying bids up to the simple average August capacity bid price calculated by (1) excluding the top ten percent of August bids offered then (2) totaling all remaining August bid prices and (3) dividing by the number of bids in (2).

⁵ Evaluation Report at 95-96.

⁶ The Joint Demand Response Parties are: Comverge, Inc.; CPower, Inc.; Enel X; and EnergyHub, Inc.

⁷ Working Group Report at A-5.

practices employed by the Utilities.⁸ Public Advocates Office, however, cautions that without an alternate price cap, bids may not be competitive and may congregate around the known Long Run Avoided Cost.⁹ With the exception of the Public Advocates Office, parties agree there is no need to replace the Price Cap.

In the Working Group Report, the parties discussed whether the Utilities should be using the short-run avoided cost of capacity or the long-run avoided cost for the purposes of capacity bid evaluation. In working group discussions, Utilities conveyed that for calculating net benefits of the bids they use the short-run avoided cost of capacity as the benefit and the cost of the resource as the cost.¹⁰ In comments, the Joint Parties¹¹ contend that D.15-11-042 affirmed that the generation capacity value of demand response should be the long-run avoided cost of capacity.¹² SDG&E maintains that because the Auction Mechanism has been a pilot with contracts “usually no greater than one year,” using a long-term evaluation metric would be inappropriate and in conflict with Commission guidance.¹³

We find, as noted by the Joint Parties, that there are protections available to the Utilities to avoid accepting bids that are not competitive compared to the

⁸ D.16-09-056 at 73-74.

⁹ Working Group Report at A-5 to A-6.

¹⁰ Working Group Report at A-5.

¹¹ The Joint Parties in the August 2019 Comments are: the Council; CPower; Enel X; and LeapFrog. The Joint Parties in the Comments to the Proposed Decision are: the Council; CPower; and Enel X.

¹² Joint Parties Opening Comments at 1.

¹³ SDG&E Opening Comments at 3.

rest of the offers (*e.g.*, the ability to eliminate outliers.)¹⁴ Hence, it is unnecessary at this time to replace the average August bid price cap eliminated in D.19-07-009. The Commission will review this issue again when it considers the final evaluation of the Auction Mechanism. However, we will also continue to monitor the situation through the Auction Mechanism monitoring process adopted in D.19-07-009. If the monitoring results in concern that protections currently available are not sufficient to ensure competitive bids, a replacement recommendation can be requested through the filing of a petition for modification.

As an aside, included in the Working Group Report discussion on the Price Cap, parties point to a disagreement regarding the net benefit calculation. The Working Group Report explains that the Utilities use the short-run avoided cost of capacity as the benefit and the cost of the Auction Mechanism resource as the cost. The Joint Demand Response Parties maintain this is a discrepancy. We clarify that the use of the short-run avoided cost of capacity versus the long-run avoided cost of capacity does not impact the capacity bid evaluation and selection of the bids. Because this issue is related to the overall cost-effectiveness of the Auction Mechanism, we will consider its effect in a final determination on the cost-effectiveness framework of the Auction Mechanism.

3.2. Improving Low Scheduling Rates and the Competitiveness of Energy Market Bids

The intention of the Auction Mechanism has been and continues to be to procure resource adequacy capacity. Simultaneously, however, the purpose of the resource adequacy program is to ensure that load serving entities have

¹⁴ Working Group Report at A-5. (*See also* OhmConnect Opening Comments at 2.)

procured enough resources to convert into energy on the grid. This decision confirms that Auction Mechanism resources are resource adequacy capacity and energy products. After comparing options for improving the low scheduling rates for Auction Mechanism resources, we establish the requirement that, beginning with the 2021 Auction Mechanism,¹⁵ a resource procured through the Auction Mechanism must also deliver, in the CAISO energy markets, at least 30 megawatt hours per megawatt of average Qualifying Capacity. We describe the details of this requirement below, as well as its related penalty structure. In addition, the Commission will continue to monitor the energy market to analyze whether the dispatch requirement established in this decision is able to improve the low scheduling rates and the competitiveness of energy market bids. We authorize the Director of the Energy Division to collect and study Auction Mechanism resources' marginal energy cost, to be provided by Sellers. We discuss these items separately below.

3.2.1. Evaluation Report Findings and Party Positions

The Evaluation Report found that the Auction Mechanism resources were the least active among the resources in CAISO markets and the average prices of energy bids into the CAISO market were higher than other resources used during high load hours.¹⁶ Further, the Evaluation Report surmised that the low scheduling rates for Auction Mechanism resources, as compared to non-demand response resources, suggest that many Providers do not prioritize energy market revenues in their business models.¹⁷ For these reasons, the Evaluation Report

¹⁵ The 2021 Auction Mechanism refers to the Auction Mechanism cycle that begins with solicitations taking place in 2020 and ends with deliveries in 2021.

¹⁶ Evaluation Report at 92-93.

¹⁷ *Id.* at 93.

recommended adoption of a stronger signal to drive competition and stimulate more active participation of the Auction Mechanism resources in the energy market. Specifically, the Evaluation Report suggested setting a minimum market dispatch activity level of at least 30 hours and, in parallel or alternatively, allowing for a voluntary bid parameter in a Seller's offers to the Auction Mechanism, which indicates the minimum market dispatch activity level to be achieved by the Seller.¹⁸ D.19-07-009 directed parties to address this issue in the Working Group Report. The working group discussed both the floor for dispatch and the voluntary bid parameters. We discuss these separately.

PG&E provided two proposals in the Working Group Report. With respect to the minimum dispatch requirements, PG&E states that if the Auction Mechanism continues as a mechanism to procure resource adequacy, PG&E proposes not requiring a set number of hours or frequency of dispatch for energy purposes because requiring an energy dispatch goes beyond any other resource adequacy-only requirement. With respect to voluntary bid parameters, PG&E contends that verifying the competitiveness of an Auction Mechanism participant's voluntary energy-related bid parameter would be administratively burdensome to implement.¹⁹ Instead, PG&E recommends having a third party collect information on the marginal cost of energy for the Auction Mechanism resource and related rationale for the marginal cost.²⁰ Alternatively, if the Commission evolves the Auction Mechanism to a program and/or procures both resource adequacy and energy, PG&E proposes the Auction Mechanism

¹⁸ Evaluation Report at 93.

¹⁹ Working Group Report at A-9 to A-10.

²⁰ *Id.* at A-10 to A-11.

resources be analyzed for cost-effectiveness. PG&E concludes that bidding competitively in the markets would then be a necessity for bidders.²¹ PG&E anticipates that competitive bidding will either occur through an administratively determined energy price cap or demand response will have to be viewed not as economic demand response but as reliability demand response triggered by grid conditions.²²

Three Providers: Council, CPower and EnelX recommend that the Commission take no additional steps at this time to enforce specific dispatch frequency or energy-related bid parameters. These Providers argue that D.19-07-009 already requires a minimum dispatch requirement of all resources being dispatched in half of the months they are contracted.²³ Layering a second requirement on top of this, the Providers submit, is premature without knowing the effects of the previously adopted requirement.²⁴ Furthermore, the Providers maintain that adding a minimum energy component, either in the form of a minimum dispatch or voluntary energy-related bid parameter, is a significant change from the current resource adequacy structure. The Providers contend this would create a separate set of resource adequacy rules for Auction Mechanism resources versus other technologies.²⁵ Furthermore, the Providers contend forcing the dispatch of resources not related to a system need or arbitrarily setting an energy bid price are approaches contrary to the principles of

²¹ *Id.* at A-11.

²² *Id.* at A-11 to A-12.

²³ *Id.* at A-13-A-14.

²⁴ *Id.* at A-13.

²⁵ *Ibid.*

the energy market.²⁶ Finally, the Providers assert that a voluntary energy-related bid structure would risk complicating the Utilities' efforts to compare Auction Mechanism capacity bids during a solicitation.²⁷

With respect to minimum dispatch options, the working group discussed several aspects including: the status quo of leaving dispatch to the market; variations of a minimum dispatch hour requirement (*e.g.*, minimum hours, minimum hours at a certain price and minimum hours at a certain condition); the use of a CAISO warning or emergency as a condition for dispatch; and a contractual requirement to require Sellers to offer Proxy Demand Response resources to CAISO below a certain percent of the CAISO bid cap. Following working group discussions, the working group supports "gaining some actual bidding experience from the expected 2020 Auction Mechanism before considering additional requirements."²⁸

In comments to the Working Group Report, most parties oppose requiring minimum dispatch hours stating that the Commission should allow the changes in D.19-07-009 to take effect before adding an additional energy-related requirement.²⁹

3.2.2 Auction Mechanism Resources Are Capacity and Energy Products and Should Be Subjected to Stricter Requirements Including Minimum Dispatch Hours

We first consider the party arguments of whether the Auction Mechanism should continue to be a mechanism to procure resource adequacy or evolve into

²⁶ *Ibid.*

²⁷ *Id.* at A-14.

²⁸ Working Group Report at A-8.

²⁹ *See*, for example, CESA Opening Comments at 3-4, Public Advocates Office Opening Comments at 6, and SCE Reply Comments at 6-7.

a program that procures both resource adequacy and energy. The intention of the Auction Mechanism has been and continues to be a mechanism to procure resource adequacy capacity.³⁰ However, we agree with the CAISO, the Public Advocates Office and OhmConnect that resource adequacy capacity cannot be divorced from the expectation and obligation to reliably provide energy in the CAISO market and if Auction Mechanism resources are not being dispatched, they are neither used nor useful, nor are they meeting the environmental objectives of California or the goal for the Auction Mechanism established in D.19-07-009.³¹ This is consistent with existing Commission policy where, affirming the purpose of the resource adequacy program, the Commission stated that the program should “ensure that sufficient energy flows into California when the system is peaking, in order to maintain grid reliability.”³² Hence, we consider Auction Mechanism resources to be both resource adequacy capacity and energy products.

We also underscore that the Auction Mechanism is designed specifically to encourage third-party demand response provider participation in the CAISO market and, thus, is not a traditional procurement mechanism. Further, we deem the Auction Mechanism to be a carve-out procurement mechanism. For example, the Commission requires the Utilities to procure Auction Mechanism resources up to the allotted budget.³³ In addition, Auction Mechanism resources are solely

³⁰ D.14-12-024 at 12 and D.16-06-029 at 42.

³¹ Public Advocates Office Opening Comments at 6, CAISO Reply Comments at 2, and OhmConnect Reply Comments at 2.

³² D.19-10-021 at 8.

³³ SCE Opening Comments at 3. *See also* CESA Opening Comments at 9 and PG&E Opening Comments at 4.

demand response resources competing against one another and not against other resources that could be more cost-effective for ratepayers.³⁴ For these reasons, we find it reasonable to treat the Auction Mechanism procurement differently from other procurement mechanisms and to establish stricter requirements for Auction Mechanism resources to drive more competitive bidding in the energy market.

Most of the working group participants oppose a minimum dispatch requirement based on the argument that Auction Mechanism resources are procured solely as resource adequacy capacity products,³⁵ which we have confirmed is not the case. These parties maintain that no other non-demand response resource adequacy-only product has energy requirements established by the Commission.³⁶ These parties also contend that imposing such a requirement on Auction Mechanism resources would be inappropriate and unfair. We disagree for the reasons described below.

First, the Commission has imposed energy requirements on other resource adequacy resources. D.04-10-035 and D.05-10-042 both established the requirements for import contracts to count as resource adequacy and both include energy requirements. D.19-10-021 reiterated this energy requirement for import contracts. Other non-Auction Mechanism demand response resources subject to energy market participation include the Capacity Bidding Program, where the Commission adopted specific trigger prices, and all-source local

³⁴ SDG&E Opening Comments at 5.

³⁵ See PG&E Opening Comments at 12, SCE Reply Comments at 6, SDG&E Opening Comment at 9, OhmConnect Opening Comments at 2, CESA Opening Comments at 3, and Joint Parties Opening Comments at 2.

³⁶ Working Group Report at A-13 describing opposition by the Council.

capacity resource solicitations, where Providers disclose and lock in the marginal cost of energy market dispatch as part of their offers.

Second, it is appropriate and fair to require alternate and additional requirements of Auction Mechanism resources because, as we stated previously, these resources do not compete directly with other resource adequacy resources and, therefore, should be held to stricter requirements.

Third, without the establishment of a minimum dispatch requirement, the Commission cannot address the concerns that Auction Mechanism resources were the least active among the resources in CAISO markets and the associated energy bids were higher than other resources. If the Commission does not address these two concerns, we cannot find the Auction Mechanism successful in offering competitive wholesale market prices (one of the evaluation criteria). Furthermore, many parties recommend the Commission wait for the results of the requirements adopted in D.19-07-009. As highlighted by the Public Advocates Office in suggesting the Commission adopt a minimum dispatch requirement in 2020, the requirement will appropriately balance ratepayers in ensuring competitive resources are used and useful.³⁷ However, the Commission should not wait. The Commission must adopt the minimum dispatch requirement in time for the 2021 Auction Mechanism; otherwise, the results of implementing the requirement cannot be considered in the Auction Mechanism evaluation that is due in 2021.

Accordingly, for all the reasons discussed above, we find it appropriate, fair, prudent, and timely to adopt a minimum dispatch requirement and a

³⁷ Public Advocates Office Opening Comments at 3.

related penalty structure for the 2021 Auction Mechanism. We discuss the details of the requirement in Section 3.2.3 below.

With respect to the subject of voluntary bid parameters, no party supported this option nor did any party provide any specific proposal. However, PG&E recommends to instead require Auction Mechanism participants to provide reporting metrics at the resource identification level for a reasonableness review by an independent third party or the Commission. We address this recommendation in Section 3.2.4. below.

3.2.3 Minimum Dispatch Requirement and Penalty Structure

In developing a revised minimum dispatch requirement, we find replacing the proposed time requirement (*i.e.*, 30 hours) with an energy requirement (*i.e.*, 30 MWh) provides the Commission with a tool to potentially attain success in the Auction Mechanism evaluation criteria while giving Providers more flexibility. We base the minimum dispatch requirement on a combination of the 30-hour minimum dispatch proposal provided in the Evaluation Report and the OhmConnect dispatch proposal based on energy and the concept of average Qualifying Capacity. As discussed below, we allow for delivery of the required energy to occur in any of the contracted months, in order to give Providers the ability to formulate their bidding strategy in a timely fashion.

We first describe the OhmConnect proposal. While ultimately opposing the recommendation to require a minimum dispatch, OhmConnect previously suggested that instead of a 30-hour minimum dispatch requirement recommended in the Evaluation Report, the Commission should consider an

energy dispatch requirement.³⁸ OhmConnect contends that an energy dispatch requirement may be preferable to a minimum hour dispatch requirement insofar as the latter necessitates that resources be dispatched at full resource adequacy capacity (*i.e.*, Supply Plan capacity). OhmConnect explains that grid conditions that allow for economic dispatch of all Supply Plan resources at full resource adequacy capacity might not occur with sufficient frequency to meet the requirement whereas conditions that allow for partial dispatch may occur more frequently.³⁹ Below we describe the advantages and disadvantages (pros and cons) of its energy dispatch requirement proposal, as provided in the February 28, 2019 Administrative Law Judge Ruling.⁴⁰

With respect to advantages, OhmConnect maintains its proposal should increase the market scheduling rates, as desired by the Commission, while providing more flexibility than a dispatch hours requirement. OhmConnect contends that another advantage of its proposal is that meeting the requirement can be verified by reviewing the Seller's Supply Plan capacity and its CAISO dispatch history.⁴¹ Lastly, OhmConnect contends that the energy dispatch requirement would be revenue-neutral and proposes that penalties collected from the Sellers be credited to other Sellers meeting the requirements, which also may provide an additional incentive to Sellers to perform.

³⁸ February 28, 2019 Administrative Law Judge Ruling, Attachment 2 at 4. (Proposals for Working Group 1, Topic 1.2, Dispatch Hours, OhmConnect Proposal.)

³⁹ February 28, 2019 Administrative Law Judge Ruling, Attachment 2 at 4. (Proposals for Working Group 1, Topic 1.2, Dispatch Hours, OhmConnect Proposal.)

⁴⁰ February 28, 2019 Administrative Law Judge Ruling, Attachment 2 at 4. (Proposals for Working Group 1, Topic 1.2, Dispatch Hours, OhmConnect Proposal.)

⁴¹ OhmConnect notes that, while the Supply Plan capacity is visible to the Seller and the Utility, the CAISO dispatch history is only visible to the Seller.

According to OhmConnect, the Utilities contend that they would not be able to determine whether Sellers are complying with the requirement until late in the contract year. The proposal suggests the Utilities' would also require access to confidential Seller dispatch data to verify compliance, which is opposed by Sellers. Sellers contend the proposal may require uneconomic dispatch of resources and result in customer attrition.

With these alleged advantages and disadvantages in mind, we adopt a modified version of the OhmConnect proposal where an Auction Mechanism resource must deliver at least 30 MWh per MW of average Qualifying Capacity. We define the average Qualifying Capacity as the average of the three highest Qualifying Capacity months on the month ahead Supply Plans associated with an Auction Mechanism contract.) For example, if the 3-month average Qualifying Capacity of a resource is 5 MW, then 150 MWh (5 MW x 30 MWh/MW) is the minimum energy required (required energy quantity) to be delivered to the CAISO market by that resource through the Seller competitively bidding and dispatching, when scheduled, the resource into the energy market. The required energy quantity shall be delivered during any month of the contract, but during the Availability Assessment Hours, as these hours represent the hours in which CAISO has assessed as having the greatest grid needs.⁴²

In comments to the proposed decision, parties advocated for the flexibility to delivery the minimum energy requirement during any month of the contract period. CESA submits that the provision of flexible resource adequacy capacity may drive Auction Mechanism resources to be dispatched during shoulder

⁴² CAISO Presentation, Final Availability Assessment Hours Technical Study for 2019 at 3, available at (accessed October 5, 2019): <http://www.caiso.com/Documents/Presentation-2019FlexibleCapacityNeedsAssessment-FinalAvailabilityAssesmentHours.pdf>

months to provide ramping needs.⁴³ The Joint Parties, PG&E, and SCE also support allowing energy delivered beyond May through October as applicable.⁴⁴ Noting that it is not always the case that energy prices are only higher during the months of May through October, the Joint Parties assert that expanding the delivery period beyond these months could motivate Auction Mechanism Sellers to dispatch their resources when they are most needed, which also correlates with high energy prices.⁴⁵ Accordingly, we have revised the decision such that the minimum energy requirement can be delivered throughout the life of the contract. We note that SCE urges the Commission not to extend the delivery months past October due to a concern that Demonstrated Capacity for dispatches after October will likely not be invoiced until the following year.⁴⁶ We disagree. Extending the applicable delivery months through December does not add additional time to the process. Further, the Utilities are required to process December Demonstrated Capacity invoices in the following calendar year as well. Hence, we decline to grant SCE's request to limit the delivery months to no later than October.

We have also revised the decision to require the minimum energy requirement be calculated at the contract level instead of the resource level. We agree with Joint Parties and SCE that calculating the minimum energy

⁴³ CESA Opening Comments on the Proposed Decision, December 5, 2019 at 6.

⁴⁴ Joint Parties Opening Comments on the Proposed Decision, December 5, 2019 at 6; PG&E Reply Comments on the Proposed Decision, December 10, 2019 at 2; and SCE Reply Comments on the Proposed Decision, December 10, 2019 at 2.

⁴⁵ Joint Parties Opening Comments on the Proposed Decision, December 5, 2019 at 6.

⁴⁶ SCE Reply Comments on the Proposed Decision, December 10, 2019 at 4.

requirement and its associated penalties will be operationally easiest and clearest at the contract level, while remaining consistent with the policy objective.⁴⁷

The calculation of the average Qualifying Capacity is revised to be the average of three highest Qualifying Capacity months on the month ahead Supply Plans associated with an Auction Mechanism contract. While July through September historically have been the three months with the highest Qualifying Capacity, the Commission wants to ensure that we are capturing the highest and most valuable months. OhmConnect recommends that the average Qualifying Capacity be calculated by averaging the monthly Supply Plan quantity in all contract months. OhmConnect contends considering the entirety of a contract will render the requirement fair and yield a more accurate representation of the contracted obligation, while resulting in significant energy being delivered to the grid.⁴⁸ We deny the requested modification. This revision would substantially lower the resulting average Qualifying Capacity and the minimum energy requirement. As we stated, the Commission wants to ensure that we are capturing the highest and most valuable months.

If the energy delivery requirement is not met by the end of the contract term, Sellers will be assessed a penalty based on the following calculation, applicable at the aggregate level associated with an Auction Mechanism contract:

$$\$10,000/\text{MW} \times \text{Average Qualifying Capacity} \times (1 - \text{delivered energy quantity}/\text{required energy quantity}) = \text{Undelivered Energy Penalty } (\$)$$
 where the delivered energy quantity is the cumulative energy delivered by the applicable aggregate resources during the Auction Mechanism contracted months and during the Availability Assessment Hours.

⁴⁷ SCE Reply Comments on the Proposed Decision, December 10, 2019 at 4. See also PG&E Reply Comments on the Proposed Decision at 2, and Joint Parties Opening Comments on the Proposed Decision, December 5, 2019 at 6.

⁴⁸ OhmConnect Opening Comments on the Proposed Decision, December 5, 2019 at 5.

We establish a maximum penalty of \$10,000 per MW, based on the estimation of the potential energy revenues achievable in the CAISO market if a resource successfully captured 30 hours of highest prices in the year. Using CAISO public data, the total of energy prices associated with the 30 hours of highest prices equaled \$10,506 in 2017 and \$13,342 in 2018 (for a 1 MW resource delivering 30 MWh/MW of energy during those 30 hours.)⁴⁹ We round this down to \$10,000/MW (for ease of calculation) as the maximum penalty for 1 MW resource delivering zero energy into the market. If the resource delivers non-zero energy quantity during the applicable delivery period but does not deliver its required energy quantity, we pro-rate the penalty downward proportionally, as indicated by the formula above.

The guidelines described above for the minimum dispatch requirement and the associated penalty structure are summarized in Attachment 1 to this decision. For continuity with D.19-07-009, we title these guidelines, “Appendix C - Minimum Dispatch Requirements” to correlate with previously adopted guidelines for the Auction Mechanism, Appendices A and B.

We find that this revised approach should offer the Sellers/Providers additional flexibility in complying with the requirement. We also find the revisions respond to the criticisms of the Joint Parties who argue that a minimum dispatch requirement should not be allowed because it is equivalent to the load-based hard triggers the Commission rejected in D.15-11-042.⁵⁰ The revised

⁴⁹ Based on averaging day-ahead, hourly, and locational marginal prices in NP15 and SP15 for 2017 and 2018, which were obtained from the CAISO OASIS system at <http://oasis.caiso.com/mrioasis/logon.do>

⁵⁰ Joint Parties Opening Comments at 2, citing D.15-11-042 at 15.

minimum dispatch requirement is not a hard trigger but rather a flexible requirement allowing Providers the entire contract to perform.

We also respond to the CAISO concern that “requiring demand response resources to submit bids to ensure dispatch” could lead to “bids below marginal costs, which is not an efficient bidding practice.”⁵¹ We underscore that the point of the design of the minimum energy dispatch requirement is to give Providers the flexibility to competitively bid and dispatch demand response resources when market prices are above their marginal costs.

To ensure Sellers are complying with the minimum dispatch requirement, we direct Providers to submit documentation to the contracted Utility showing CAISO settlements for the delivery of the required energy quantity, along with the calculation of average Qualifying Capacity at the last Demonstrated Capacity invoice submission or when they have received sufficient Revenue Quality Meter Data data, whichever is earlier. To protect the confidentiality of market related data, Sellers may omit price and revenue data. To ensure consistency of the data, Energy Division is authorized to work with parties to develop a reporting template for this purpose. In comments to the proposed decision, PG&E requests that Energy Division monitor compliance with the required energy quantity.⁵² As stated above, the Auction Mechanism contract managers will monitor compliance with the required energy quantity, which is consistent with the directive in D.19-07-009 for monitoring compliance with Qualifying Capacity estimates.⁵³

⁵¹ CAISO Opening Comments at 2.

⁵² *Ibid.*

⁵³ D.19-07-009 at 52 and Ordering Paragraph 9.

3.2.4 The Commission Should Continue Monitoring Dispatch Requirements and Marginal Costs

We find it reasonable to continue to examine this issue in terms of underlying basic market factors. In recommending a stronger signal to drive competition, the Evaluation Report stated that a market expectation is that the resource operator is motivated to earn revenues in the energy market, which should drive down the marginal dispatch cost. However, the Evaluation Report concludes that the low scheduling rates of auction mechanism resources relative to non-demand response resources suggest that many Providers do not prioritize energy market revenues in their business models.⁵⁴ Accordingly, we find it reasonable to monitor the effects of the new Demonstrated Capacity dispatch requirements established in D.19-07-009, the minimum dispatch requirements we adopt in this decision, but also study Providers' marginal energy costs.

PG&E has proposed that the Commission require Providers to disclose the marginal cost of the Auction Mechanism resource and the rationale for the marginal cost. CESA and the CAISO support this proposal. CAISO contends that information about a resource's marginal cost and potential opportunity costs could inform cost-effectiveness decisions and ratepayer benefit analyses.⁵⁵ The Joint Parties oppose the proposal stating that this would be discriminatory to Auction Mechanism Sellers because other suppliers of resource adequacy capacity are not subject to this requirement.⁵⁶ While we recognize this data is market sensitive, we disagree that collecting this data for study purposes is discriminatory. The Auction Mechanism has not yet been adopted as a

⁵⁴ Evaluation Report at 92-93.

⁵⁵ CAISO Opening Comments at 3. (*See also* CESA Opening Comments at 4.)

⁵⁶ Joint Parties Opening Comments at 3.

permanent mechanism and the Commission must continue to study the mechanism to understand why it has not performed as expected. We find it prudent to require submittal of this information in the quarterly reports. In order to protect the market sensitivity, we authorize the Director of the Energy Division to collect this data.

3.3. Energy Division Should Continue to Study Revenue Quality Meter Data Delivery Times

More data and analysis are needed to understand the frequency, causes, and consequences of Revenue Quality Meter Data delivery times. At this time, we do not institute any penalties for delays in providing the Revenue Quality Meter Data. However, as described below, we authorize the Director of the Energy Division to continue the investigation of alleged delays in Revenue Quality Meter Data delivery times through a working group process and the Auction Mechanism evaluation contractor. .

The Evaluation Report discussed Providers' difficulties obtaining timely, complete, and correct Revenue Quality Meter data from the Utilities, with over half of the Providers interviewed indicating "delayed or incomplete Utility response to technical issues" and a Utility's lack , or incomplete provision, of customer data.⁵⁷ D.19-07-009 directed parties to use working group meetings to address this issue.

During a working group meeting, several Providers reiterated negative impacts from instances of data-related issues and delays. Providers explained that data delays can prevent CAISO settlement, the calculation or estimation of a resource's performance, and enrollment of affected customers into CAISO

⁵⁷ Evaluation Report at 118.

resources.⁵⁸ However, workshop participants disagreed that there has been evidence of data delays and some participants argued that more data is needed to support assertions of data delays.⁵⁹ Workshop participants also disagreed on whether there is sufficient language in the Auction Mechanism pro forma contract to protect Providers from penalties incurred as a result of the data delays.⁶⁰ PG&E, OhmConnect and the Energy Division offered several potential solutions including improved notification of expected delays, fees, additional or revised contract language and breach definition, a service level agreement, and a dispute resolution process.⁶¹

There is overlap between this issue and policies regarding streamlining communications between Utilities and Providers with respect to missing data, data quality concerns, and gaps in data. We address several communication solutions later in this decision under the discussion of streamlining communication in Section 4.4.

With respect to the issue of delayed Revenue Quality Meter Data, we find that there is insufficient information regarding the frequency, causes and consequences of Revenue Quality Meter Data delays to allow us to determine whether penalties are necessary. Accordingly, we authorize the Director of the Energy Division to investigate the alleged delays in Revenue Quality Meter Data delivery times using a combination of the working group process and the Auction Mechanism evaluation contractor.

⁵⁸ Working Group Report at A-17.

⁵⁹ *Id.* at A-19.

⁶⁰ *Ibid.*

⁶¹ Working Group Report at A-14 to A-19.

In comments to the proposed decision, OhmConnect, Joint Parties, and PG&E request inclusion of additional issues for this working group. Asserting that delays with receiving Revenue Quality Meter Data is not the only data issue the Commission should address, OhmConnect recommends the Commission also address delayed delivery of Initial Customer Data and Estimated Meter Data. OhmConnect claims that delays of Initial Customer Data results in delaying a customer's enrollment in the CAISO's Demand Response Registration System and slows the customer's ability to participate in demand response events.⁶² Explaining that delays in Estimated Meter Data prevent Providers from making quick assessments of performance, OhmConnect submits this can result in inaccurate baselines for upcoming demand response events.⁶³ Joint Parties agree that these two categories of data should be included.⁶⁴ We agree that, given the impact on customers, Providers, and demand response, data on these two additional categories of data should be collected. We find PG&E's requested question on the measurement of customers affected by missing or delayed to be reasonable. However, we deny the inclusion of the question on whether CAISO rules allow for statistically derived meter data. The purpose of this working group is to determine whether the claims of delayed or missing data is valid, the extent of the impact and the potential solutions to deterring the delays or omissions.

The working group should explore several questions regarding this issue, as indicated in Table 3 below, and provide responses to these questions in a

⁶² OhmConnect Opening Comments on the Proposed Decision, December 5, 2019 at 7.

⁶³ *Ibid.*

⁶⁴ Joint Parties Opening Comments on the Proposed Decision, December 5, 2019 at 10-11.

report to the Evaluation contractor, no later than a year from the issuance of this decision. This information will then be reviewed as part of the Auction Mechanism evaluation and the evaluation contractor shall provide recommendations to the Commission regarding whether penalties should be imposed.

<p style="text-align: center;">Table 3 Investigating the Issue of Delayed Revenue Quality Meter Data</p>
<p>1. How significant is the problem of missing or delayed Revenue Quality Meter Data, Initial Customer Data, and Estimated Meter Data?</p> <ul style="list-style-type: none"> a. What is the frequency of Providers or Scheduling Coordinators not receiving this data? b. What is the frequency of Providers or Scheduling Coordinators receiving Revenue Quality Meter Data beyond the T+48B CAISO deadline? c. What is the frequency of Providers receiving Initial Customer Data (with enough information to enroll a customer in the CAISO's Demand Response Registration System) beyond 90 seconds? d. What is the frequency of Providers receiving Estimated Meter Data beyond two days? e. How many customer accounts have been negatively affected by instances of this missing or delayed data? Describe the impact.
<p>2. What are the causes of missing or delayed Revenue Quality Meter Data, Initial Customer Data, and Estimated Meter Data?</p> <ul style="list-style-type: none"> a. What are the Utilities' processes for Validation, Editing, and Estimation?
<p>3. What are the consequences of missing or delayed Revenue Quality Meter Data, Initial Customer Data, and Estimated Meter Data?</p> <ul style="list-style-type: none"> a. Have Providers not received capacity payments because of missing or delayed data? b. How much revenue from the energy market has been lost by Providers because of missing or delayed data? c. What are other impacts from missing or delayed data?
<p>4. What solutions could the Commission implement to address missing or delayed Revenue Quality Meter Data, Initial Customer Data, and Estimated Meter Data?</p> <ul style="list-style-type: none"> a. Is the problem significant enough to necessitate penalties? What level of penalty should be imposed?

In comment to the proposed decision, PG&E expressed concern over a lack of definition for how the 95 percent of Revenue Quality Meter Data is defined and calculated. PG&E cautions that without additional information from Sellers, 95 percent of the Revenue Quality Meter Data cannot be verified and enforced by PG&E.⁶⁵ PG&E contends that the requirement letting Sellers provide invoices within 30 days after receiving 95 percent of the Revenue Quality Meter Data is problematic without specific information from the Sellers including the dispatch days and hours, baseline days and hours, baseline method, intervals necessary to calculate the day-of adjustment, and Customer Service Agreement Ids.⁶⁶ We acknowledge that some additional information is necessary and that further clarity is warranted.

First, we remind parties that, pursuant to Electric Rule 24/32, the Utilities are obligated to provide all Revenue Quality Meter Data to the Seller according to the standards adopted in the Direct Access Standards for Metering and Meter Data and CAISO requirements.⁶⁷ We also clarify that the process for ensuring that the Utility has provided 95 percent of Revenue Quality Meter Data should include the following steps, in addition to the steps previously provided in D.19-07-009: a) if the Seller has not received all the month's Revenue Quality Meter Data for a CAISO Resource ID within a reasonable time, it should notify the Utility; and b) The Seller must submit the following information to the Utility: i) The dispatch days and hours during the month for which the Seller is seeking Revenue Quality Meter Data; ii) The CAISO Resource ID for which the Seller is

⁶⁵ PG&E Opening Comments on the Proposed Decision, December 5, 2019 at 9-10.

⁶⁶ *Id.* at 9.

⁶⁷ Electric Rule 24/32 at Sections C.2.h, D.1.e, and F.2.

seeking data; and iii) the Customer Service Agreement IDs within the CAISO Resource ID for which the Seller has not received Revenue Quality Meter Data.

3.4. Transparent Auction Mechanism Contract Reassignments

To improve transparency, we require Providers seeking to reassign a contract to publicly notify all registered Providers of the available megawatts for reassignment. Because Providers have the option of subcontracting a portion of their demand response contract, we find it unnecessary to permit contract partitioning, especially given the added complications in market operations and demonstrated capacity invoicing. As described below, we adopt a set of steps for contract reassignment, which is a modification of an OhmConnect proposal. These steps should increase transparency while providing a reprieve to Sellers at risk of defaulting on their contract.

The Auction Mechanism contracts allows for a Seller to reassign its contract to another party. While reassignments are fairly common in energy portfolio, in the Auction Mechanism they have resulted in increased market concentration.⁶⁸ The Evaluation Report recommended an improved process for reassigning contracts – one that is administratively simple to implement, is transparent and fair, prevents market concentration and avoids conferring an unfair competitive advantage.⁶⁹ D.19-07-009 directed that the issue of contract reassignment and partitioning be addressed by the working group in Step Two.

In the Working Group Report, SCE presented an overview of why the Commission should not allow reassignments or partitioning, contending that both are problematic and in the case of partitioning could lead to double

⁶⁸ Evaluation Report at 113.

⁶⁹ *Id.* at 114.

counting, inaccurate assessments of customers loads, and grid reliability issues.⁷⁰ OhmConnect proposed a six-step process for contract partitioning, which requires contract characteristics to remain the same for fairness, creates two contracts (one for the retained megawatts and one for the transferred megawatts), and notifies the Buyer and all registered non-Utility Providers of the potential contract partitioning.⁷¹ According to the Working Group Report, participants generally agreed that an adopted process should minimize additional administrative work on the part of the Buyer and fairness should be maintained in terms of high-level opportunity.⁷²

We continue the use of contract reassignments but adopt the process in Table 4 below (a modified version of the OhmConnect proposal). The Evaluation Report recommended that contract reassignments be revised to decrease market concentration given that, as noted by SCE, reassignments are not unusual in the energy portfolio. This process should lead to a more open and transparent process, while remaining simple to administer.

<p style="text-align: center;">Table 4 Contract Reassignment Process</p>
1. Seller informs Energy Division and Buyer of intent to reassign Contract
2. Seller informs prospective counterparties by emailing all regulatory affairs or contract managers for all registered Providers.
3. Seller selects a willing counterparty for contract reassignment.
4. Seller provides Buyer and counterparty with modified contracts.
5. Buyer reviews counterparty documentation to include milestones and Qualifying Capacity documentation, as required by Appendix A. Buyer reviews counterparty's documentation to ensure compliance with existing

⁷⁰ Working Group Report at A-21.

⁷¹ *Id.* at A-22 to A-23.

⁷² Working Group Report at A-24.

Auction Mechanism requirements.
6. Seller, Buyer, and counterparty execute contracts. Utility seeks Energy Division approval via a Tier One Advice Letter.

With respect to the issue of contract partitioning, we find it prudent to utilize sub-contracting over partitioning. We agree that partitioning could lead to complications in market operations and demonstrated capacity invoicing, as partitioning could encourage Providers to overestimate capacity. The Working Group Report points out that Providers have the ability to sub-contract pursuant to the current pro forma contract used in the Auction Mechanism.⁷³ In the Working Group Report, a Provider stated that it would prefer partitioning over sub-contracting because partitioning “would allow her company not to have to have a sub-contracting arrangement with a Provider she prefers not to do business with.”⁷⁴ In response, SCE cautioned that partitioning would result in placing the counterparty risk to the Utilities and ratepayers, which is not appropriate.⁷⁵ Our foremost concern with this issue is ensuring transparency and avoiding market concentration. However, the Commission also has a duty to protect ratepayer funds. Accordingly, we decline to allow the use of contract partitioning in the Auction Mechanism.

3.5. Bid Fees Should Not Be Adopted

We decline to adopt bid fees given the negative consequences of such fees. In an effort to limit the disruption caused by declined shortlisted offers, we require certain milestones to be satisfied by Providers. Further, we establish a

⁷³ *Id.* at A-22.

⁷⁴ *Ibid.*

⁷⁵ *Ibid.*

policy that short-listed offers declined by Providers must be declined in order of highest price to lowest price.

The Evaluation Report explained that there were several instances of bidders being shortlisted and then withdrawing their offers late in the process or after being selected. Noting this can cause delays in completion of the solicitation, underutilization of the auction budget, and additional time and expense for the Utilities, the Evaluation Report recommended requiring bidders to pay an upfront fee to discourage bidders from declining offers after being shortlisted. D.19-07-009 directed parties to review this issue and make a recommendation on whether the Commission should require bid fees.⁷⁶

In the Working Group Report, the Council proposed that bid fees should not be required at this time for two reasons: 1) bid fees risk acting as a barrier to new entrants; and 2) declining offers may be necessary if key customers decline to participate.⁷⁷ While underscoring these reasons, the Council acknowledged that declining awards can lead to difficulties for the Utilities. Hence, the Council proposed two prerequisite milestones in lieu of bid fees, contending the milestones could enforce a greater degree of commitment.⁷⁸ The two milestones are: a) completion and submittal of a CAISO Provider Agreement and b) registration as a Provider with the Commission.⁷⁹ The Council concedes these milestones will not eliminate the practice of declining shortlisted offers but may reduce the rate of incidence and discourage bidders who may not be ready to commit. The Council also recommended adding an additional seven days to the

⁷⁶ D.19-07-009 at Ordering Paragraph 13.

⁷⁷ Working Group Report at A-25.

⁷⁸ *Ibid.*

⁷⁹ *Ibid.*

Request for Offer schedule to allow a window for bidders to accept or decline offers, which may decrease disruptions for the Utilities.⁸⁰

In comments to the Working Group Report, neither SCE nor PG&E support bid fees stating that the administrative burden of imposing such fees outweigh the benefits.⁸¹ PG&E recommends adopting its current policy of requiring winning bidders to decline offers in order of the highest cost to the lowest cost, for those submitting multiple bids.⁸² Joint Demand Response Parties also oppose bid fees, instead supporting the implementation of the Council's proposed milestones.⁸³ Only SDG&E supports the utilization of a bid fee, suggesting a \$10,000 fee.⁸⁴

The record supports implementation of milestones as opposed to bid fees. Most parties agree that bid fees would lead to more administrative burden. Furthermore, we are concerned that the bid fees could be a barrier to new entrants. We find milestones to be a less administratively burdensome method of reducing the number of bidders declining shortlisted offers. We also agree with PG&E that meeting these milestones requires a bidder to have a stronger understanding of the requirements for participation in the Auction Mechanism. We specify the milestones in section 4.5 below, along with other milestones adopted. In addition, we agree that bidders should be required to decline offers in order from highest net market value per unit to lowest net market value per

⁸⁰ *Ibid.*

⁸¹ SCE Reply Comments at 8-9 and PG&E Opening Comments at 16-17.

⁸² Parties expressed concern that bidders' have submitted multiple offers at various price points and have, in the past declined the lowest cost offers. PG&E's policy prevents this from happening.

⁸³ Joint Demand Response Parties Opening Comments at 8.

⁸⁴ SDG&E Opening Comments at 1-2.

unit, per product offered and inclusive of the other offer selection criteria, as ranked by the utility in its shortlist notification to the Bidder. We find this to be a reasonable policy, which should lead to more cost-effective resources. We adopt this as a policy for all three Utilities.

3.6. Funds for Meter Reprogramming

The record in this proceeding indicates that each of the Utilities have already been provided sufficient funds for CAISO registrations for the four-year continuation of the Auction Mechanism. We anticipate that PG&E and SCE have sufficient funding for meter reprogramming. However, we authorize additional funding capped at \$600,00 to support meter reprogramming for SDG&E. As discussed below, this funding shall only be used if SDG&E depletes previously authorized funding for meter reprogramming. Additionally, we provide a safety net in terms of an Advice Letter submittal, if either PG&E or SCE exceed funding for CAISO registrations or meter reprogramming.

D.19-07-009 directed parties to explore this issue in working group discussions to ensure that there is adequate funding for CAISO registrations and meter reprogramming for the four-year continuation of the Auction Mechanism.⁸⁵ The Working Group Report indicates that PG&E has requested cost recovery to accommodate up to 200,000 CAISO registrations and associated meter reprogramming, which should accommodate the four-year continuation of the Auction Mechanism.⁸⁶ PG&E has since received approval of the cost recovery in Resolution E-4983. In the Working Group Report, SCE states that it has requested approval for additional funds for the cap of 100,000 CAISO

⁸⁵ Working Group Report at A-27-A28.

⁸⁶ Working Group Report at A-27-A28.

registrations and 180,000 meter reprograms in its Click-Through application and does not plan to seek additional funds. However, SCE states that it may need additional funds if the proposal in the Click-Through application is not approved.⁸⁷ SDG&E confirms that it will be able to support up to 60,000 CAISO registrations under the already approved funding.⁸⁸ SDG&E states that it was authorized a budget of \$606,900 to support the residential customer meter reprogramming. SDG&E asserts that it will utilize the Rule 32 Schedule E-DRP to provide meter reprogramming service to customers if its budget is exhausted.⁸⁹

While we anticipate sufficient funding for CAISO registrations and residential meter reprogramming, we find it equitable to continue to fund any additional residential meter reprogramming needed during the four-year continuation of the Auction Mechanism. We find SDG&E's proposal to charge Auction Mechanism Seller's customers for residential reprogramming, once current funding is exhausted, to be unfair and not competitively neutral as the Utilities do not charge aggregators in the Capacity Bidding Program for meter reprogramming.⁹⁰ We also agree with the Joint Parties that charging customers for reprogramming could discourage participation.⁹¹ Hence, we authorize an additional \$600,000 to support meter reprogramming for SDG&E.⁹²

⁸⁷ *Id.* at A-29.

⁸⁸ *Id.* at A-30.

⁸⁹ *Ibid.*

⁹⁰ See Joint Parties Opening Comments at 8.

⁹¹ See Joint Parties Opening Comments at 8.

⁹² SDG&E estimates it would need \$600,000 to reprogram meters up to 60,000 verifications of CAISO registrations. (See Working Group Report at A-30.)

Furthermore, if PG&E's projections are exceeded or SCE's Click-Through application proposal is denied, the utility should submit a Tier Three Advice Letter to provide information on any available approved demand response funds that could be shifted to fund meter reprogramming and/or CAISO registrations for the duration of the four-year Auction Mechanism extension and update their tariffs for meter reprogramming with current costs, by meter or customer type. This safety net will ensure funding for CAISO registrations and equitable meter reprogramming for the four-year limited Auction Mechanism continuation.

3.7. Clarification of Demonstrated Capacity Audit Guidelines and Monitoring of Audit Activity for Demonstrated Capacity and Qualifying Capacity

We revise the Demonstrated Capacity audit guidelines to ensure a level playing field by requiring advance notice regarding supplemental documentation and establishing clear timelines. To ensure that the guidelines for both estimating Qualifying Capacity and invoicing Demonstrated Capacity are reducing the instances and shortening the length of Provider audits, the Commission adopts three requirements for the Utilities. Further, to ensure that Provider data confidentiality is protected, we clarify that audits must be performed by utility staff on the Auction Mechanism side of the firewall. We discuss each of these revisions and clarifications in detail below.

The Evaluation Report indicated three ambiguities in the 2018 Auction Mechanism RFO pro forma contract (Section 1.6(g)) where the Utility is provided "significant discretion that could potentially lead to an uneven playing field:"

- 1) absence of clear guidelines on what conditions can trigger an audit ("Buyer's reasonable satisfaction");
- 2) scope of "records and data necessary to conduct an

audit;” and 3) absence of a timeline for triggering or completing an audit.⁹³

D.19-07-009 directed the working group to address guidelines for utility audits and withholding payments.⁹⁴

In the Working Group Report, SCE and the Joint Demand Response Parties present proposals to refine the guidelines. SCE states that the Appendix B guidelines adopted in D.19-07-009 will help streamline and standardize the Auction Mechanism review process and diminish the need for external audits of Demonstrated Capacity invoices.⁹⁵ SCE considers Appendix A to be a baseline for what data the Utility “would need to be reasonably satisfied with respect to Qualifying Capacity” but proposes supplemental data in addition to Appendix B to be satisfied with Demonstrated Capacity data.⁹⁶ Calling for an explicit set of controls to ensure consistent protections, the Joint Demand Response Parties state that they do not believe a change in the pro forma contract is necessary but that the scope of the audit should be limited to the substantiation of invoice submittals and only if the Utility has not received data through the Appendix A and B and Demonstrated Capacity requirements.⁹⁷ The Joint Parties also highlight that when a Utility initiates an audit, there should be some advance notice and communication about the supplemental information needed.⁹⁸

In the Working Group Report and the comments, the Joint Demand Response Parties and the Joint Parties express concern regarding the protection

⁹³ Evaluation Report at 156.

⁹⁴ D.19-07-009 at Ordering Paragraph 13.

⁹⁵ Working Group Report at A-31.

⁹⁶ *Ibid.*

⁹⁷ Working Group Report at A-32. (See also Joint Parties Opening Comments at 9.)

⁹⁸ Joint Parties Opening Comments at 9.

of their market sensitive data. They request the Commission to ensure that the data requested in Appendices A and B will be protected from public disclosure in the manner provided by the Commission.⁹⁹ Further, both the Joint Demand Response Parties and the Joint Parties request the Commission ensure that this data is only provided to the Utilities' Auction Mechanism employees and not shared with employees of other parts of the utility.¹⁰⁰

We first address clarifications to the existing audit guidelines. We modify the audit timeline to further clarify and standardize the steps the Utilities and Sellers must follow for resolving a disputed Demonstrated Capacity invoice. We agree with the Joint Parties that the three Utilities should have identical informal dispute resolution language regarding Demonstrated Capacity, as this aligns with the demand response principle of transparency.¹⁰¹ In order to ensure fairness, the Utilities should provide advance notice and communication regarding any additionally needed information. Accordingly, we clarify the guidelines in Step 2 (Request for Additional Documentation) and require that if the Utility cannot resolve, or disputes, an invoice, it must provide a notice to the Seller for supplemental information to establish that the Demonstrated Capacity is as stated to the buyer's reasonable satisfaction. The notice shall be provided on or before the later of the 20th day of the month or ten days after receiving the Demonstrated Capacity invoice from the Seller. This schedule aligns the timelines of the invoice and payment process with the Notice to the Seller for Additional Documentation so that payments of undisputed Demonstrated

⁹⁹ Working Group Report at A-32. See also, Joint Parties Opening Comments at 9.

¹⁰⁰ Working Group Report at A-32.

¹⁰¹ Joint Parties Opening Comments at 11.

Capacity invoice amounts and requests for additional documentation to resolve the disputed invoice amounts take place during the same time frame. This should also simplify the audit process without eliminating any milestones. The Utility shall pay a disputed invoice within 15 days or initiate an audit. In Step 3 (Audit of Seller's Records), we clarify that the Utility must make a reasonable effort to conclude an audit within 60 days of access to the Seller's records. If resolution does not occur, parties should initiate the Dispute Resolution process.

With respect to the audits themselves, we agree with parties that the additional data collected through the Appendix A and B requirements should reduce the need for audits. To ensure this, we authorize the Director of the Energy Division to monitor the Utility audits of Providers to determine if the Demonstrated Capacity and Qualifying Capacity guidelines, as clarified and/or revised in this decision, and the communication protocols adopted in Section 4.4 of this decision, reduce the instances and timeline for the audits. To facilitate this monitoring, we adopt the following requirements: 1) Seven days after initiating a Provider audit, a Utility shall provide a notice to Energy Division, which includes a description of the circumstances triggering the audit; 2) Seven days after completing an audit, a Utility shall provide a notice to Energy Division of the audit closure; and 3) 30 days after completing an audit, Utilities shall provide a report to Energy Division, which includes the resolution and findings of the audit and a summary of data requested and received.

On a related matter, we address the concern by the Joint Demand Response Parties and Joint Parties regarding the confidentiality of data in Appendices A and B and related audits. We direct that audits shall be conducted by Utility staff on the Auction Mechanism side of the firewall. As highlighted in the Evaluation Report, D.16-09-056 emphasized customer choice and competitive

neutrality and encouraged the use of fair competition between the Utilities and third-party providers.¹⁰² Hence, we reiterate that Auction Mechanism-related data cannot be shared with Utility demand response program staff, as this could provide an unfair advantage to a utility demand response program. We also address the protection of confidential data in Section 3.10 below.

3.8. Auction Mechanism Resources Should Be Cost-Effective

A permanent Auction Mechanism will be subject to a cost-effectiveness requirement, as previously established by the goal of the Auction Mechanism. However, we find it prudent to consider ways to measure the cost-effectiveness of the Auction Mechanism while we are still in the pilot phase. As described below, the use of least-cost best-fit evaluation guidelines should provide a level competitive playing field, at this time. However, we authorize the Director of the Energy Division to work with parties to continue to explore and develop tools to measure the cost-effectiveness of the Auction Mechanism resources to test in the 2022 Auction Mechanism.

D.19-07-009 directed the Auction Mechanism working group and individual parties to explore the necessity and implementation of measuring cost-effectiveness of Auction Mechanism resources. We address both the technical and policy aspects of this issue in this section. The Working Group Report noted that the Commission had not required Auction Mechanism resources to comply with the demand response cost-effectiveness protocols because the Auction Mechanism is a pilot.¹⁰³ However, in Resolution E-4728, the Commission required the Utilities to evaluate the costs and benefits of the

¹⁰² Evaluation Report at 114 citing D.16-09-056 at 55-56.

¹⁰³ Working Group Report at A-33 citing D.15-11-042 at 48.

Auction Mechanism by filing a benchmark capacity calculation using the current cost-effectiveness protocols.¹⁰⁴

We first address the issue of whether the Commission should require the Auction Mechanism resources to be cost-effective. There are two opposing arguments. The Joint Parties, CESA, and OhmConnect contend that because the Auction Mechanism is a competitive process for selecting the lowest cost bids, a separate cost-effectiveness requirement is not necessary and would only set a new arbitrary bid price cap.¹⁰⁵ In response, the Public Advocates Office underscores that the current requirement for the Utilities to procure Auction Mechanism resources based on using a full budget insulates bidders from competition because the Utilities must select offers with a negative net market value.¹⁰⁶ The Utilities and the Public Advocates Office maintain that the goals of demand response and the Auction Mechanism require that demand response resources be cost-effective.¹⁰⁷

Pursuant to D.16-09-056 and D.19-07-009, the Commission has determined that Auction Mechanism resources are required to be cost-effective.¹⁰⁸ But the Commission has not adopted the Auction Mechanism as a permanent mechanism at this point.¹⁰⁹ Hence, we consider the four-year limited continuation of the mechanism to be in the pilot phase still and exempted from

¹⁰⁴ *Id.* at A-33.

¹⁰⁵ Joint Parties Opening Comments at 9, CESA Opening Comments at 10, and OhmConnect Opening Comments at 3.

¹⁰⁶ Public Advocates Office Reply Comments at 4.

¹⁰⁷ Public Advocates Office Opening Comments at 3; SDG&E Opening Comments at 4; and SCE Opening Comments at 2.

¹⁰⁸ D.16-09-056 at Ordering Paragraph 7 and D.19-07-009 at Ordering Paragraph 5.

¹⁰⁹ D.19-07-009 at 27.

the cost-effectiveness requirement during this continuation. However, as discussed further below, we find there are complexities in measuring the cost-effectiveness of Auction Mechanism resources. Accordingly, we find it prudent to begin to consider how to measure cost-effectiveness during the pilot phase so that, if the Commission adopts the Auction Mechanism on a permanent basis, we will have an appropriate measurement tool ready to implement.

We now consider whether the Auction Mechanism by itself should be used to measure the cost-effectiveness of Auction Mechanism resources. We agree that a procurement mechanism should result in the market determining what constitutes a competitive price. But a competitively priced resource may not be a cost-effective resource. In Section 3.2 above, we stated that the Auction Mechanism is designed specifically to encourage third-party demand response provider participation in the CAISO market and, thus, is not a traditional procurement mechanism. Because we do not consider the Auction Mechanism to be a traditional procurement mechanism, we cannot rely on it alone to measure the cost-effectiveness of the resources.

We turn to other proposals for measuring the cost-effectiveness of Auction Mechanism resources. Similar to the previous discussion on dispatch requirements, the Utilities recommended proposals based on whether the Commission considers the Auction Mechanism a procurement mechanism or a program. We previously determined that the Auction Mechanism is a procurement mechanism. Hence, we will only discuss proposals for measuring the cost-effectiveness of the Auction Mechanism as a procurement mechanism.

In the Working Group Report, PG&E and SCE jointly provided three recommendations for measuring the cost-effectiveness of Auction Mechanism resources, if the Auction Mechanism is considered a procurement mechanism:

1) continue to calculate bids using the least-cost best-fit evaluation method but develop and assign a multiplier to the short-run resource adequacy value to represent the ratepayer benefits of procuring Auction Mechanism resources relative to other resources; 2) align the Auction Mechanism with the Resource Adequacy and Integrated Resource Planning proceedings to procure the amount of Auction Mechanism resources that provides the best value to ratepayers while achieving environmental goals, and benchmark the costs and values of resources consistently with other distributed energy resources; or 3) use the least-cost best-fit evaluation guidelines and include data on cost-effectiveness factors (factors A, B, C, D, E, F, and G)¹¹⁰ associated with the parameters under which the Auction Mechanism resources will operate.¹¹¹ No other party provided a proposal.

As discussed below, we adopt the proposal to use the least-cost best-fit evaluation guidelines currently used by the Utilities and authorize the Director of the Energy Division to continue to work with the parties to explore other

¹¹⁰ The current demand response cost-effectiveness protocols use the following adjustment factors: A – availability factor: the A Factor is intended to represent the portion of capacity value that can be captured by the demand response program based on the daily and monthly availability of the program, and the frequency and duration of calls permitted), B – notification time factor: the B Factor is an adjustment based on notification times and determines how often the additional information available for shorter notification times would have resulted in different decisions about event calls, C – trigger factor: the C Factor adjusts for triggers or conditions that permit the load serving entity to dispatch a demand response program; D – avoided transmission and distribution costs factor: the D Factor adjusts for transmission and distribution avoided costs; E – energy factor: the E Factor adjusts for energy to reflect the correlation between electricity prices and the times when demand response events are expected to occur; F – flexibility factor: the F Factor adjusts for flexibility and its created to provide additional value for flexible resources, and G – optional geographic factor: the G Factor addresses the ability to be called in a constrained area.
D.15-11-042 at Section 3.2.2.

¹¹¹ Working Group Report at A-34 to A-36.

methods to measure cost-effectiveness. While we agree that the Auction Mechanism should be aligned with Integrated Resource Planning, as proposed by PG&E and SCE, neither the Auction Mechanism (still in the pilot phase) nor the Integrated Resource Planning process (still in its early stages) is at a point where alignment is appropriate. In comments to the proposed decision, PG&E contends that the Commission has ordered alignment of the Auction Mechanism with Integrated Resource Planning proceeding through a requirement to use the Auction Mechanism contracts.¹¹² We reiterate that alignment will occur when both the Auction Mechanism and the Integrated Resource Planning proceeding are ready to be aligned.

Most parties oppose the use of the factors A, B, C, D, E, F, and G, despite currently being used in measuring demand response program cost-effectiveness and having been well documented over the past two demand response budget applications. Parties argue that the proposal to use the factors is neither sufficiently detailed nor persuasive enough to support a cost-effectiveness requirement at this time.¹¹³ In comments to the proposed decision, Joint Parties and CESA assert that Auction Mechanism participants are unable to submit the necessary data for the factors without knowing avoided cost information, which the Utilities have not disclosed publicly.¹¹⁴ Furthermore, the Joint Parties and

¹¹² PG&E Opening Comments on the Proposed Decision, December 5, 2019 at 2.

¹¹³ Joint Parties Opening Comments at 9.

¹¹⁴ Joint Parties Opening Comments on the Proposed Decision, December 5, 2019 at 2 and CESA Opening Comments on the Proposed Decision, December 5, 2019 at 6-7.

PG&E state they are unclear how the factors will be applied.¹¹⁵ PG&E cautions that using the factors could lead to valuation distortions.¹¹⁶

The use of the factors is not a suitable measurement of cost-effectiveness for the Auction Mechanism due to inaccessible data and uncertainty regarding valuation distortion. Accordingly, we retain the sole use of the least-cost best fit model for evaluating bids, at this time. However, it is prudent that we continue to explore methods to measure the cost-effectiveness of the Auction Mechanism resources. If the Commission adopts the Auction Mechanism as a permanent mechanism, we should have a cost-effectiveness measurement tool ready to implement. Hence, we add this to the technical improvements the Energy Division-led refinement process should explore and develop for testing in the 2022 Auction Mechanism.

3.9. Refining the Qualifying Capacity Dispute Resolution Process

To ensure all Sellers and Utilities have a consistent informal dispute resolution process, we require that all future Auction mechanism pro forma contracts incorporate the negotiation section as proposed in the August 12, 2019 Auction Mechanism Joint Utility Request for Offer Advice Letter and subsequently approved by the Commission effective September 11, 2019.¹¹⁷ Because of short timelines in the negotiation section, we adopt two options for disputes regarding Qualifying Capacity estimates: 1) the Utility and the Seller agree on a de-rate of Qualifying Capacity on the month-ahead Supply Plan or

¹¹⁵ Joint Parties Opening Comments on the Proposed Decision, December 5, 2019 at 2 and PG&E Opening Comments on the Proposed Decision, December 5, 2019 at 3.

¹¹⁶ PG&E Opening Comments on the Proposed Decision, December 5, 2019 at 3.

¹¹⁷ The Joint Utility Advice Letter consists of PG&E Advice Letter 5615-E-A, SDG&E Advice Letter 3418-E-A, and SCE Advice Letter 4054-E-A.

2) if there is not agreement, the Qualifying Capacity estimate stands but the Seller must perform a test or dispatch. To ensure the Commission is kept apprised of these situations, a Utility shall notify the Energy Division within seven days after it de-rates a Seller's Qualifying Capacity estimate and when an informal dispute resolution process is triggered by a Qualifying Capacity de-rate. We explain these determinations in detail below.

The Evaluation Report recommended clarifying the informal dispute resolution process, because "it is not clear how the process for informal dispute resolution is supposed to work and what timeline applies to it."¹¹⁸ D.19-07-009 directed the Auction Mechanism working group to address the process to resolve disputes, including disagreements regarding Qualifying Capacity estimates.¹¹⁹

The Working Group Report describes the party recommendations and related discussions. Suggesting that the Auction Mechanism requirements adopted in Appendix A of D.19-07-009 should reduce disputes, SCE maintains the existing dispute resolution process guidelines are appropriate.¹²⁰ As described below, OhmConnect provides multiple proposals to address disputes at differing points of interaction.

OhmConnect proposes a plan resolving disputes about Qualifying Capacity on the month-ahead Supply Plan. The plan is two-prong with an independent monitor reviewing the Qualifying Capacity data ahead of the delivery month. During the delivery month, OhmConnect proposes that if the

¹¹⁸ Evaluation Report at 116.

¹¹⁹ D.19-07-009 at 54.

¹²⁰ Working Group Report at A-40.

Providers Supply Plan is subject to a de-rate, the Provider may elect to demonstrate capacity via a test or a dispatch. If the Demonstrated Capacity is above the de-rate, the Provider would be paid for the capacity demonstrated, up to the capacity the Provider established on its original Supply Plan.

OhmConnect also proposes the same plan for resolving disputes regarding the Qualifying Capacity on the Year-ahead Supply Plan and bids into the Auction Mechanism request for offer. However, parties agreed that the proposal would not be appropriate at these two stages.¹²¹

For disputes about Demonstrated Capacity presented on an invoice, OhmConnect recommends that all three Utilities' Auction Mechanism contracts clearly outline the informal dispute resolution process in a consistent manner. OhmConnect suggests the Commission adopt the language from PG&E and SDG&E's contracts for all three Utilities' Auction Mechanism contracts.¹²² This is supported by the Joint Parties.¹²³

We agree that an informal dispute resolution process should be formalized in the pro forma contract and consistent across all three Utilities, as this is consistent with the demand response principles of fairness and transparency. Accordingly, we adopt the language in the negotiation section of the Auction Mechanism pro forma contract recently approved in the August 12, 2019 Auction Mechanism Joint Utility Request for Offer Advice Letter and subsequently approved by the Commission effective September 11, 2019 and require its use in all future Auction Mechanism pro forma contracts. This language outlines the

¹²¹ *Id.* at A-43.

¹²² *Id.* at A-43 to A-44.

¹²³ Joint Parties Opening Comments at 10-11.

informal dispute resolution steps and timelines for both the Utilities and Sellers. Unfortunately, as explained below, the timelines in this process will not allow it to be used for resolving disputes about Qualifying Capacity estimates.

With respect to disputes regarding Qualifying Capacity estimates, we find the current process does not allow for any recourse by the Seller. While we agree that the Utilities should have the right to de-rate Qualifying Capacity and withhold payments if deficiencies are found, the Commission should ensure the de-rate process is fair to both Utilities and Sellers. Because the Commission previously rejected the use of an independent monitor, we cannot adopt the OhmConnect proposal. Furthermore, we also find that OhmConnect's proposal to permit a second opportunity for demonstrating capacity payments could result in double payments and lost value if the Qualifying Capacity deficiency was replaced with some other resource adequacy capacity, *i.e.*, one payment for the replacement resource adequacy ahead of the delivery month and a second payment after the delivery month for the demonstrated capacity above the de-rated value.¹²⁴

Previously in this proceeding, PG&E contended that the Utilities should have the right to de-rate Supply Plan Qualifying Capacity not supported by adequate data.¹²⁵ PG&E recommended that if a Seller does not agree to the de-rate, it should be required to perform a two-hour test of the resource for that delivery month to demonstrate it was capable of delivering the identified

¹²⁴ See SCE Reply Comments at 9-10, PG&E Opening comments at 19-20, PG&E Reply Comments at 11, and Public Advocates Office Opening Comments at 2-3.

¹²⁵ Opening Comments of PG&E on Proposed Decision Addressing Auction Mechanism, Baselines and Auto Demand Response for Battery Storage, June 20, 2019 at 3-4.

Qualifying Capacity.¹²⁶ We adopt a hybrid of this PG&E recommendation and the OhmConnect proposal whereby, in the event that a Utility asserts that Seller's Qualifying Capacity should be de-rated by the Utility, the Seller and Utility may proceed one of two ways: 1) reach an agreement on de-rating the Qualifying Capacity for the month disputed by the Utility or 2) accept the estimated Qualifying Capacity as reported by the Seller for the disputed month, but the Seller shall perform a test or market dispatch in each and every month in which a monthly Supply Plan Qualifying Capacity dispute arises to demonstrate its capability of delivering the Qualifying Capacity. The performance results are then subjected to the payment structure approved in D.19-07-009. We find this hybrid approach addresses the double-procurement and timing concerns of the OhmConnect proposal discussed above and ensures the fair treatment of Sellers.

To ensure the Commission is kept apprised of these situations, we require the Utility to provide the Energy Division the following notifications. A Utility shall notify the Energy Division within seven days after the Utility de-rates a Seller's Qualifying Capacity estimate and include a description of the circumstances triggering the de-rate. In the event of an informal dispute resolution process triggered by a Qualifying Capacity estimate, a Utility shall provide a report to the Energy Division within 30 days after the closure of the dispute; the report shall provide details on the final resolution of the dispute.

In comments to the proposed decision, PG&E conveyed the concern that the Commission has not provided the Utilities with sufficient visibility and remedies for Qualifying Capacity underperformance. PG&E asserts there should be penalties for certain capacity shortfalls and the Utilities should be provided

¹²⁶ *Ibid.*

with adequate and efficient remedies for unreasonable capacity. In D.19-07-009, the Commission adopted a penalty structure for a shortfall in Demonstrated Capacity for a delivery month in comparison to the Qualifying Capacity in the monthly resource adequacy plan for that month. In that decision, we noted that “our previous adoption of an improved method for estimating Qualifying Capacity should improve the accuracy of Qualifying Capacity” and thus, we sought to focus only a penalty structure for Demonstrated Capacity shortfalls.¹²⁷ However, we acknowledge the concern of PG&E that the Utilities are “taking on the risk and cost of having to replace, on short notice, any [Auction Mechanism] capacity shortfalls that may be used to meet [resource adequacy] obligations and has already been allocated to other [load serving entity].”¹²⁸

We continue to decline to adopt a penalty structure for Qualifying Capacity shortfalls, at this time. However, we authorize the Utilities to reject bids they do not deem as plausible or move the bid downward in ranking based on the qualitative viability score assigned to the bid. In order to ensure fairness, the Utilities shall consult with the Energy Division and seek approval for instances when bids are being rejected under this provision. The adoption of this project viability criteria should balance the risk and cost of having to replace Qualifying Capacity shortfalls with ensuring fairness.

In preparation for the 2022 Auction Mechanism, the Energy Division is authorized to work with parties and other stakeholders to develop options for a penalty structure for Demonstrated Capacity as part of the Auction Mechanism refinement process discussed in Section 4.6 below. This will also allow the

¹²⁷ D.19-07-009 at 59.

¹²⁸ PG&E Opening Comments on the Proposed Decision at 4.

Commission to consider the effects of the revisions to the Qualifying Capacity estimation method.

3.10. Refinements to Appendices A and B

For the duration of the four-year continuation of the Auction Mechanism, we adopt principles for Appendices A and B adopted in D.19-07-009 as well as Appendix C adopted in this decision and their refinement processes: 1) Seller's proprietary data submitted by the requirements in Appendices A, B, and C are protected from public disclosure or other unauthorized disclosure; 2) data submitted will be used to inform the evaluation of the Auction Mechanism and, therefore, waivers for good performance will not be considered during the four-year continuation; 3) data submitted in the solicitation phase and year-ahead resource adequacy compliance filings are anticipated to be less detailed than the month-ahead Supply Plan ; and 4) refinements to the Appendices will be of a technical nature only; policy considerations will be addressed in the evaluation of the Auction Mechanism. With respect to actual refinements to Appendices A and B, we find insufficient evidence to make any technical refinements at this point. We note that D.19-09-041, effective September 23, 2019, corrected several errors in D.19-07-009 and addressed several party concerns expressed in the Working Group Report and the related comments. These matters are discussed in detail below.

In D.19-07-009, the Commission ordered Providers to submit estimates of a resource's Qualifying Capacity at submission of a capacity bid, the year-ahead resource adequacy plan, and the monthly Supply Plan. D.19-07-009 established guidelines for these estimates in Appendix A. Similarly, the Commission ordered Providers to establish Demonstrated Capacity on monthly invoices by following guidelines in Appendix B of the decision. The decision also authorized

the Energy Division to facilitate a series of working group meetings to address several issues, including refinements to Appendix A and B.

PG&E and the Joint Demand Response Parties presented recommendations for refinements to Appendices A and B. The Working Group Report did not present any discussion regarding the support for or opposition to these recommendations. Only PG&E expresses support for the PG&E refinements in comments to the Working Group Report and did not provide additional justification for these refinements.¹²⁹ We find the PG&E refinement recommendations lack sufficient record to adopt at this time. Similarly, only the Joint Parties express support for the Joint Demand Response refinement recommendations and did not provide additional justification for these refinements.¹³⁰ Accordingly, we decline to adopt the PG&E and Joint Demand Response Parties' recommended refinements to Appendices A and B.

On a related matter, in the Working Group Report, the Joint Demand Response Parties recommended that any future refinement to Appendix A should take five items into consideration:

- 1) Consideration and protection must be given to limit the amount of propriety and market sensitive data to support bids at the solicitation phase and year-ahead filings, if required, or month-ahead supply plans. This data should be protected from public disclosure or other unauthorized disclosure with remedies available if an unauthorized disclosure occurs.
- 2) Data supporting supply plans should only be requested from parties who are failing to meet their supply plan commitments. Further, the adoption of penalties and

¹²⁹ PG&E Opening Comments at 20.

¹³⁰ Joint Parties Opening Comments at 11-13.

default criteria may discourage Sellers from being overly optimistic. Alternatively, data collection can be waived with a track record of good performance, to be defined, if requested by the Seller and cannot be unreasonably withheld by the Utility.

- 3) Recognize that the level of detail supporting bids and year-ahead filings will be substantially less than the detail that can be provided in the month-ahead supply plans.
- 4) Continuously high levels of data submission increase the administration and costs for Sellers, as well as the Utilities, without any identifiable improvement to the performance of the Auction Mechanism.
- 5) The Joint Demand Response Parties do not support the use of one baseline method throughout all stages of the contract; instead, the use of the same baseline method at the time of the month-ahead supply plan and the calculation of Demonstrated Capacity makes sense.

While these are not specific refinements to Appendix A, we find these considerations, as modified below, to be appropriate to adopt as principles for refining all three of the Appendices.

We first address the issue of protecting proprietary and market sensitive data. In Section 3.7 above, we stated that D.16-09-056 emphasized customer choice and competitive neutrality and encouraged the use of fair competition between the Utilities and third-party providers. We also confirmed that Auction Mechanism-related data cannot be shared with Utility demand response program staff, as this could provide an unfair advantage to a utility demand response program. We further direct that all data collected through Appendices A, B and C have the protections granted to proprietary and market sensitive data. As such we adopt the principle that data submitted by the requirements in Appendices A, B, and C are protected from public disclosure or other unauthorized disclosure. Similar to Section 3.7 above, the data submitted

through Appendices A, B, and C cannot be shared with Utility demand response program staff.

We now turn to the recommendation that supporting data for Qualifying Capacity estimates should only be requested from parties who are failing to meeting their Supply Plan commitment. The Joint Parties contend that the data requirements in Appendix A penalize Sellers who consistently deliver the capacity they are contracted to provide.¹³¹ As such, the Joint Parties recommend the Commission establish a minimum level of performance above which performing Sellers may be exempted from the requirements.¹³² Arguing that the benefits from providing the data are unclear, the Joint Parties maintain review of the data by a third party or the Utilities “is not guaranteed to result in a higher quality assessment of the load reduction capability compared to what the Sellers can provide.”¹³³ PG&E responds that, in the absence of a dispatch or test, it is difficult to validate the Supply Plan quantity is available.¹³⁴

We reiterate that our objective here is to improve the accuracy of Qualifying Capacity and ground estimates of demand response capacity by referencing historical performance data as every stage.¹³⁵ The benefit of this data is not only to provide assurances of accuracy but also to continue to refine the Auction Mechanism. Furthermore, this data can be used in the final evaluation of the Auction Mechanism. As such, we establish a second principle that data submitted through Appendices A, B, and C will be used to inform the evaluation

¹³¹ Joint Parties Opening Comments at 11.

¹³² Joint Parties Opening Comments at 11-12.

¹³³ Joint Parties Opening Comments at 12.

¹³⁴ PG&E Opening Comments at 20.

¹³⁵ D.19-07-009 at 51.

of the Auction Mechanism during its pilot phase and, therefore, waivers of these requirements for good performance will not be considered during the four-year continuation of the Auction Mechanism. The evaluation report due in 2021 should address and recommend whether to consider a waiver program with thresholds defining “good performance.” If the Commission determines the Auction Mechanism should be permanent and the data should continue to be submitted, the Commission can also determine at that time whether a waiver program is appropriate.

We now address the recommendation regarding the quality of the data submitted. The Joint Demand Response Parties maintain in the Working Group Report that data submitted in the bid submission phase and year-ahead filings will be less detailed than the month-ahead data.¹³⁶ Pointing to the high amount of volatility experienced year-over-year in the Auction Mechanism, the Joint Demand Response Parties argue that it is unlikely a Seller would have all of its capacity commitment fully contracted at the point of receiving a future award.¹³⁷ Hence, the Joint Demand Response Parties contend a Seller would not have the detailed information requested in Appendix A to substantiate its auction bid or its year-ahead filing.¹³⁸

In D.19-07-009, the Commission required Providers to submit estimates of a resources’ capacity by referencing historical performance data and where historical performance data is not available the Provider should reference suitable publicly available performance data that best represents the anticipated

¹³⁶ Working Group Report at A-47

¹³⁷ *Ibid.*

¹³⁸ *Ibid.*

performance of the new resource.¹³⁹ However, we agree with the Joint Parties that the “bid submittal represents the best estimate of a Seller.”¹⁴⁰ Accordingly, we adopt the principle that data submitted in the bid submission and year-ahead filing are anticipated to be less detailed than the month-ahead supply plan data.

The Joint Demand Response Parties recommend we adopt the following policy: Continuously high levels of data submission increase the administration and costs for Sellers, as well as the Utilities, without any identifiable improvement to the performance of the Auction Mechanism. As we previously stated, the benefit of this data is not only to provide assurances of accuracy but also to continue to refine the Auction Mechanism. Furthermore, we will not know the performance improvements until we collect and analyze data in the evaluation. Hence, we disagree with this statement and decline to adopt it as a principle.

The Joint Demand Response Parties state that they do not support the use of one baseline method throughout all stages of the contract; instead, the use of the same baseline method at the time of the month-ahead supply plan and the calculation of Demonstrated Capacity makes sense. The Commission agrees and issued D.19-09-041, which corrected several errors in D.19-07-009 including item C of Appendix A. Item C now states that “the baseline utilized for estimation of Qualifying Capacity must be consistent between the monthly Supply Plan, the energy settlement at the CAISO, and the invoicing of Demonstrated Capacity.”

¹³⁹ D.19-07-009 at 52.

¹⁴⁰ Working Group Report at A-47.

Last, we add additional guidance for refining Appendices A and B, as well as Appendix C adopted in this decision. In D.19-07-009, the Commission adopted the use of an informal process led by Energy Division to complete Step Two refinements.¹⁴¹ We discuss this more in Section 4.6 below. The Commission specifically stated that the purpose of these *technical and contract* refinements is to attain and maintain success of the six criteria, especially those related to performance and reliability, and strive to reach the goal of the Auction Mechanism.¹⁴² The Commission also underscored that all policy questions would be addressed by the end of 2019. To provide additional guidance to the parties and to the Energy Division, we clarify that refinements to the Appendices will be of a technical nature only; any policy considerations will be addressed in a decision following the evaluation of the Auction Mechanism.

As noted above, D.19-09-041 corrected several errors in Appendices A and B from D.19-07-009. To limit confusion and ensure stakeholders are apprised of the most current guidelines, we attach the corrected Appendices A and B to this decision, as Attachment 2.

4. Adopted Policies for the Auction Mechanism

In Section 4, we adopt several policies for the Auction Mechanism in order to improve its reliability and performance. These policies affect the Auction Mechanism solicitation, invoicing, and refinement processes, as well as the interactions between the Auction Mechanism players.

¹⁴¹ D.19-07-009 at 74.

¹⁴² *Id.* at 72-73.

4.1. Adoption of Qualitative Criteria

We adopt five qualitative criteria and require the Utilities to apply these criteria to all offers in the Auction Mechanism solicitations beginning with the solicitation for the 2021 Auction Mechanism. By requiring application by the Utilities of a specific set of qualitative criteria, we ensure bidders are treated consistently and fairly across all three Utilities. As recommended in the Evaluation Report and supported by a majority of parties, the criteria promote positive past performance and bidder viability but should not penalize a bidder for alleged or suspected violations. We discuss the specifics below.

The Evaluation Report recommended that the Utilities include qualitative criteria in the Auction Mechanism solicitations to promote past performance, bidder viability, and market diversity. D.19-07-009 directed parties to comment on whether the Commission should allow or require qualitative criteria in the Auction Mechanism solicitation and what process the Commission should use to develop the criteria? No party opposes the adoption of qualitative criteria for use in the Auction Mechanism solicitation. However, parties differ on how the criteria should be applied.

SCE supports the use of qualitative criteria, noting that it can be used to highlight non-financial objectives of the solicitation, such as project viability. SDG&E, also in support of the use of qualitative criteria, contends such use provides insight into differentiating factors and allows for past performance to be evaluated.¹⁴³ SCE requests the Commission provide Utilities the “latitude to develop criteria and impacts while the solicitation is in flight, consulting with the

¹⁴³ SDG&E Opening Comments at 8.

[Procurement Review Group].”¹⁴⁴ SCE explains that that there are numerous reasons to wait to develop the criteria including it is sometimes not possible to determine ahead of time the criteria that will be important at the time of selection.¹⁴⁵ SCE and PG&E contend qualitative criteria should be used in the Auction Mechanism in the same manner as they are in other Utility procurement practices.¹⁴⁶ Further, SCE highlights that the Evaluation Report recommends finalizing the qualitative criteria in a stakeholder process review for fairness and consistency with other Utility procurement practices.¹⁴⁷

The Joint Parties and CESA support the use of balanced qualitative criteria that reward good behavior and punish bad behavior.¹⁴⁸ Furthermore the Joint Parties request that the qualitative criteria be developed in a transparent manner so that bidders know how their bids will be evaluated.¹⁴⁹ OhmConnect agrees that qualitative criteria and any future changes should be vetted in an open process.¹⁵⁰

Requiring the Utilities to use a specific set of qualitative criteria and related adjustment scores that is applied to all offers will ensure fair and consistent treatment of bidders. SCE and PG&E request the Commission to duplicate other procurement practices and allow the Utilities the flexibility to develop qualitative criteria while the solicitation is in flight and in consultation with the Procurement

¹⁴⁴ SCE Opening Comments at 7.

¹⁴⁵ SCE Opening Comments at 8.

¹⁴⁶ *Id.* at 7-8 and PG&E Reply Comments at 10.

¹⁴⁷ *Ibid.*

¹⁴⁸ Joint Parties Opening Comments at 14-15 and OhmConnect Opening Comments at 10.

¹⁴⁹ Joint Parties Reply Comments at 3-4.

¹⁵⁰ OhmConnect Opening Comments at 5.

Review Group. We have previously determined that the Auction Mechanism is designed specifically to encourage third-party demand response provider participation in the CAISO market and, thus, is not a traditional procurement mechanism. Hence, not all traditional procurement practices will be applicable to the Auction Mechanism. Furthermore, in D.16-09-056, the Commission adopted the principle that demand response processes should be transparent, this principle should apply to the demand response Auction Mechanism as well.¹⁵¹ Providing bidders with the qualitative criteria and a related adjustment score prior to submission of bids is in line with this principle.

In order to begin to evaluate the use of qualitative criteria and have sufficient time to refine the criteria, we should establish an initial set of criteria. The Evaluation Report recommends removing criteria that penalizes bidders for suspected violations without a transparent review process.¹⁵² Previously, SCE argued that the Utilities should be allowed to consider as part of its qualitative criteria the fact that there has been a non-public state or federal investigation into suspected law or rule violations.¹⁵³ An investigation of a violation does not equate to a violation. Hence, use of such qualitative criteria does not align with the demand response principle of fairness and transparency. We decline to adopt this type of criteria. Furthermore, we decline to adopt criteria that cannot be verified at the time of bidding, such as the automated dispatch criteria. Instead, we begin with a set of 5 criteria to address the Evaluation Report

¹⁵¹ D.16-09-056 at Ordering Paragraph 8.

¹⁵² Evaluation Report at 97.

¹⁵³ Southern California Edison Company Response to Administrative Law Judge's Ruling Directing Responses To Questions Resulting From The February 11-12, 2019 Demand Response Auction Mechanism Workshop And Comments On Proposals To Improve The Mechanism, March 29, 2019 at 31.

concerns regarding past performance, bidder viability, and market diversity. As such, we adopt the criteria and cost adjustment scores as indicated in Table 5 below to be used beginning with the 2021 Auction Mechanism.

Table 5 Adopted Qualitative Criteria and Cost Adjustments			
Criteria Description	Yes	No	Cost Adjustment Score
Is the bidder a certified small business?	1	0	-1 %
Has the bidder declined an Auction Mechanism contract when extended a shortlist offer?	1	0	3 %
Has the bidder willfully terminated or defaulted on an Auction Mechanism contract, since 2019?			10 %
Has the bidder delivered Demonstrated Capacity invoices to the Utility totaling less than 75 percent of the total contracted capacity for all contracted months since January 1, 2019?	1	0	5 %
Has the bidder delivered Demonstrated Capacity invoices totaling more than 95% of its total Contracted Capacity in all of its contract months in its most recent Auction Mechanism contract?	1	0	-5 %

If the response to a criterion question in Table 5 above is positive, then the cost adjustment score applies to the bid. The rewarding criteria is represented by negative numbers, indicating that subjected bids will get a downward adjustment on their cost, which will give them a higher value in the bid

evaluation. In contrast, the punitive criteria will result in an upward adjustment to the bid price, placing the bid further down the Net Market value bid stack.

In response to comments to the proposed decision, we have refined the criteria and the associated percentages. PG&E and CESA recommend omitting criteria related to automatic dispatch. PG&E cautions that the automated dispatch criterion cannot be verified at the time of bidding; the 10 percent benefit at the time of bidding is significant without this verification.¹⁵⁴ CESA highlights that there are resources that perform like automated resources without automated controls making the criterion an unfair advantage.¹⁵⁵ We find that this criterion could result in unintended outcomes and thus conclude we should omit. PG&E requests to separate the criterion of “not signing the contract” from the criterion of “willful termination or default” as these result in varying degrees of risk.¹⁵⁶ We agree and have revised the correlating adjustment factor to reflect the risk factor. PG&E recommends the Contracted Capacity be compared to Demonstrated Capacity rather than Qualifying Capacity based upon the latest Auction Mechanism.¹⁵⁷ We have made this modification as it is based on recent experience. PG&E proposes that the offer costs be increased in the valuation process if bidders have a history of Demonstrated Capacity below 75 percent of Contracted Capacity.¹⁵⁸ As this gets to the heart of performance and, therefore, reliability, we find it reasonable to adopt the modification.

¹⁵⁴ PG&E Opening Comments on the Proposed Decision, December 5, 2019 at 7 and PG&E Reply Comments on the Proposed Decision, December 10, 2019 at 5.

¹⁵⁵ CESA Opening Comments on the Proposed Decision, December 5, 2019 at 7.

¹⁵⁶ PG&E Opening Comments on the Proposed Decision, December 5, 2019 at 7.

¹⁵⁷ *Ibid.*

¹⁵⁸ *Ibid.*

Future modifications of the qualitative criteria will be addressed in the staff-led refinement process. Revisions to the criteria should maintain a balance between criteria that rewards a bidder and criteria that is punitive. Furthermore, as the purpose of the Auction Mechanism refinement process is to improve performance and reliability of the resources, any revisions to the criteria should focus on improved reliability and performance, as well as bidder viability and market diversity.

4.2. Coordination with CAISO and Resource Adequacy

As we have stated previously, resource adequacy issues should be addressed in the resource adequacy proceeding. As described below, we recognize that there have been examples where the Commission has determined demand response specific resource adequacy issues in a demand response proceeding. However, we find that these are exceptions rather than the rule. In order to provide better coordination between the two proceedings, it is best that the resource adequacy issues be addressed in the resource adequacy proceeding. We continue to ensure that the staff leading the resource adequacy team and the staff leading the demand response team meet on a consistent basis to improve these coordination efforts. With respect to improved coordination with the CAISO, we find the current efforts are sufficient.

The Evaluation Report pointed to Provider difficulties interacting with CAISO markets and systems when participating in the Auction Mechanism. As noted in the Evaluation Report, “these issues include confusion around CAISO’s compensation adjustments in the settlement process, data problems, settlement errors, system integration challenges and real time market bidding.”¹⁵⁹

¹⁵⁹ Evaluation Report at 121.

Surmising the resolution of these difficulties may be important to the success and growth of the Auction Mechanism, the Evaluation Report recommended a collaborative process be created between CAISO and stakeholders to address and resolve these difficulties.¹⁶⁰ D.19-07-009 directed parties to comment on processes the Commission should use to address CAISO markets and resource adequacy related issues.¹⁶¹

OhmConnect recognizes that several procedural and informal venues already exist to address both CAISO market and resource adequacy issues.¹⁶² However, most Providers would prefer that all demand response related issues be addressed by the Commission in a demand response proceeding so that the issues get the attention deserved.¹⁶³ Referencing a recent experience in the resource adequacy proceeding, both OhmConnect and the Joint Parties recommend that if a demand response related issue does not get addressed in the resource adequacy proceeding, the Commission should address it in the demand response proceeding.¹⁶⁴ However, as anticipated by PG&E, this decision closes A.17-01-012 et al.¹⁶⁵

We recognize the frustration by parties. However, to ensure the most appropriate use of Commission resources, we find that resource adequacy issues should be addressed in the resource adequacy proceeding. To improve

¹⁶⁰ Evaluation Report at 121.

¹⁶¹ D.19-07-009 at Ordering Paragraph 14.

¹⁶² OhmConnect Opening Comments at 6.

¹⁶³ See OhmConnect Opening Comments at 6, Joint Parties Opening Comments at 15, and Joint Parties Reply Comments at 4-5.

¹⁶⁴ *Ibid.*

¹⁶⁵ See PG&E Reply Comments at 11.

coordination, the lead members of the demand response team and the resource adequacy team will continue to meet on a regular basis to share, discuss and make recommendations regarding demand response related resource adequacy issues.

With respect to the CAISO market issues, we agree with OhmConnect that there are various stakeholder venues to address the market issues. We also suspect that the difficulties may be related to the learning curve for participating in the CAISO market. We remind parties that one purpose of the Auction Mechanism pilot is to provide market experience to Providers. We anticipate that the four-year extension of the Auction Mechanism in addition to the past experiences should provide sufficient experience and decrease the difficulties experienced over the past few years. We find the additional time and resources to develop and implement another avenue would outweigh the benefits that should occur naturally with time. Accordingly, we decline to develop an additional stakeholder process to address CAISO processes.

Instead, we reinstate the use of the Supply Side Working Group, which was originally established in D.17-10-017 to discuss and develop proposals to address CAISO integration barriers and activities and related resource adequacy matters.¹⁶⁶ The Supply Side Working Group submitted its final report on June 30, 2019. Given the concerns discussed above, we find the continued use of this working group will provide an informal venue to discuss and address resource adequacy issues related to the Auction Mechanism. Resource adequacy issues will continue to be addressed in the appropriate resource adequacy proceeding. Thus, any proposals developed by the working group should be filed pursuant

¹⁶⁶ D.17-10-017 at Ordering Paragraph 11.

to direction from the related resource adequacy proceeding. The Energy Division is authorized to develop a schedule for the Supply Side Working Group to commence upon the establishment of the next resource adequacy proceeding.

4.3. Allowing Procurement of System Resource Adequacy and Local and Flexible Capacity

This decision approves the procurement of system resource adequacy, and local and flexible capacity beginning with the 2021 Auction Mechanism. We agree with the majority of parties that all three types of resource adequacy provide current and future value. As described below, procurement from the Auction Mechanism should not limit products or arbitrarily force it in one direction.

The Evaluation Report recommended shifting Auction Mechanism procurement from system resource adequacy to local and flexible resource adequacy capacity based on the recent Integrated Resource Planning modeling results.¹⁶⁷ D.19-07-009 directed parties to comment on whether the Commission should make this shift.¹⁶⁸

A majority of parties responding to this issue recommend that future Auction Mechanism solicitations continue to allow procurement of all three forms of resource adequacy: system and local and flexible capacity. SCE and PG&E support the procurement of all three as it allows them to procure the optimal mix of resources to best meet their customers' needs.¹⁶⁹ Further, PG&E contends that procuring different resource adequacy products based on actual value, market cost, seller capabilities, and needs is preferable to "an artificial

¹⁶⁷ Evaluation Report at 121.

¹⁶⁸ D.19-07-009 at Ordering Paragraph 14.

¹⁶⁹ PG&E Opening Comments at 7 and SCE Opening Comments at 9-10.

prioritization.”¹⁷⁰ SCE underscores that not all Auction Mechanism resources will qualify for local or flexible resource adequacy, so the option of procuring system resource adequacy should not be eliminated.¹⁷¹ Also in support of maintaining all three forms of resource adequacy, the Joint Parties, OhmConnect, and CESA agree that all three products have current and future value.¹⁷²

We find that there is consensus amongst the parties that the Commission should permit the procurement of system, local, and flexible resource adequacy beginning with the 2021 Auction Mechanism. We agree that allowing procurement of local and flexible resource adequacy, in addition to system resource adequacy will provide improved flexibility to Providers and the Utilities alike. We also find that allowing procurement of local and flexible resource adequacy in addition to system resource adequacy should provide improved reliability of the grid. Accordingly, beginning with the 2021 Auction Mechanism, we, once again, permit the procurement of system, local, and flexible resource adequacy.

4.4. Protocols for Provider-Utility Communication

We adopt seven protocols for communications between a Provider and a Utility to be implemented by parties no later than 60 days after the approval by the Commission Energy Division of the standardized communications template. These protocols should streamline and improve communications. Based on a proposal from the Joint Parties, we modify the proposal to consider comments

¹⁷⁰ PG&E Opening Comments at 7.

¹⁷¹ SCE at 9-10.

¹⁷² Joint Parties Opening Comments at 15, OhmConnect Opening Comments at 6-7, and CESA Opening Comments at 11.

from other parties. As discussed below, all parties generally support the protocols, which should lead to improved efficiencies.

The Evaluation Report revealed Provider concerns regarding difficulties obtaining timely, complete and correct Revenue Quality Meter Data from the Utilities.¹⁷³ In delving further into this concern, the Evaluation Report stated that over half of the Providers interviewed indicated that delayed or incomplete Utility response to technical issues created challenges.¹⁷⁴ D.19-07-009 directed parties to propose improvements to streamline communications between Providers and Utilities regarding the issues of missing data, data quality, and gaps in data.¹⁷⁵ In workshops, parties discussed the impact of data delays. This issue overlaps with the technical issue of Revenue Quality Meter Data delays discussed in Section 3.3, but here we focus solely on proposals to improve communication.

In the Working Group Report, PG&E maintains that timely and specific issue-reporting and communication between Providers and Utilities is crucial. PG&E suggests that the Auction Mechanism pro forma contract include language requiring a Provider to notify the Utility within a reasonable period of time when data is missing. PG&E contends early notification to the Utility provides an opportunity to investigate the issue in a timely manner and troubleshoot where necessary. PG&E recommends that Providers should also be required to perform certain basic and independent troubleshooting steps to facilitate resolution.¹⁷⁶

¹⁷³ Working Group Report at A-17 citing the Evaluation Report at 118.

¹⁷⁴ *Id.* at A-17 citing Evaluation Report at 31.

¹⁷⁵ D.19-07-009 at Ordering Paragraph 14.

¹⁷⁶ Working Group Report at A-16.

In response to this question, the Joint Parties recommend standardizing communication requirements to ensure that data delivery issues are resolved quickly. First, the Joint Parties recommend that each Utility be required to designate a consistent data point of contract and an engineer point of contract for a Provider. Once a Provider has initiated a data issue, the Joint Parties recommend the following seven steps: 1) Utility confirmation they are aware of the issue; 2) Utility confirmation they have initiated a process to resolve the issue; 3) Utility provides initial estimated time of delivery of the data; 4) Utility provides updates when estimated time of delivery is changed; 5) Utility confirmation of successful data delivery; 6) Status updates every three days; and 7) Utility response to inquiries no later than 48 hours after receipt of inquiry.¹⁷⁷ The Joint Parties recommend that Utilities be required to host a standing monthly call on Rule 24/32 issues.¹⁷⁸ The Joint Parties also recommend that Providers should be required to notify the Utilities within a specified timeframe after receiving incomplete or flawed data.¹⁷⁹

We agree that a simple but standardized set of protocols required by the applicable players should improve communication between Providers and Utilities. While our goal is to improve communications and streamline the time to resolve the data issues, we do not wish to be unnecessarily prescriptive. Hence, we adopt the following Auction Mechanism communication protocols, which are a combination of proposals from various parties:

- Each Utility and Provider shall designate a point of contact for all data delivery inquiries and notify the Energy

¹⁷⁷ Joint Parties Opening Comments at 16.

¹⁷⁸ *Ibid.*

¹⁷⁹ *Ibid.*

Division, Utilities, and Providers of any changes to this point of contact. This was generally agreed to by most parties.¹⁸⁰

- Each Utility shall facilitate a monthly call for Providers to report data issues.¹⁸¹
- All Providers shall perform troubleshooting prior to notifying a Utility of any data issues including:
 - a) verifying the Application Programming Interface data request was correctly formatted; b) verifying the Provider's customer lists are updated including removing customers whose service accounts have been closed; and c) verifying that missing data is not a result of a planned or unplanned outage where the Utility has notified the Provider. We find it reasonable to expect Providers to perform this upfront work, which should lead to more efficient use of ratepayer funds.¹⁸²
- Providers shall notify the Utility of data errors using a standardized data template.¹⁸³ Again, this should provide efficiencies for the Utilities in determining the root causes of issues and resolving the issues and for Providers in reporting the issues. Within 60 days of the issuance of this decision, Utilities shall provide a draft template to the Energy Division. Energy Division is authorized to finalize a template with input from Utilities and parties.
- The Utility shall confirm receipt of inquiry within two business days and provide an estimated time of resolution of the inquiry. Several parties find this reasonable.¹⁸⁴

¹⁸⁰ See OhmConnect Opening Comments at 7; Joint Parties Opening Comments at 16; PG&E Reply Comments at 7; and SCE Reply Comments at 5.

¹⁸¹ PG&E Opening Comments at 7; PG&E Reply Comments at 7; Ohmconnect Opening comments at 7; Joint Parties Opening Comments at 16; and SCE Reply Comments at 5-6.

¹⁸² See PG&E Opening Comments at 15.

¹⁸³ See PG&E Opening Comments at 8; Ohmconnect Reply Comments at 5 and SCE Reply Comments at 6.

¹⁸⁴ See Joint Parties Opening Comments at 16-17 and PG&E Reply Comments at 8.

- The Utility shall update the Provider on a regular basis and when the estimated time of resolution could change.¹⁸⁵
- Utility shall confirm resolution of the inquiry and data delivery.¹⁸⁶

These protocols shall be implemented by parties no later than 60 days after the Commission Energy Division approves the standardized communications template described above..

4.5. Adoption of Milestones for Invoice Payments

We adopt a set of milestones that Providers must demonstrate they have met or risk being in violation of the Auction Mechanism pro forma contract. Meeting the milestones shall be demonstrated by submission of a standardized milestone reporting template, which will be developed by the Utilities and approved by Energy Division. We modify the milestone proposal from the Joint Parties, in response to comments from other parties.¹⁸⁷ As discussed below, all parties generally support the adoption of milestones, which should lead to improved performance.

The Evaluation Report stated that between the contract signing and year-ahead resource adequacy showing, the Commission does not currently require Providers to demonstrate performance in customer enrollment and capacity aggregation. The Evaluation Report surmised that the lack of performance requirements culminates in the Utilities having no assurance of Provider performance capability during the delivery period.¹⁸⁸ Agreeing with

¹⁸⁵ *Id.*

¹⁸⁶ *Id.*

¹⁸⁷ February 28, 2019 Administrative Law Judge Ruling, Attachment 8 at 1-3.

¹⁸⁸ Evaluation Report at 102.

PG&E and SCE that Providers should be required to demonstrate performance, the Evaluation Report recommended that Providers should demonstrate achievement of milestones by a specific date, including completion of Utility Provider registration (if applicable), Commission registration, and enablement of data sharing processes.¹⁸⁹ The Evaluation Report further recommended that in order to receive payment of invoices, Providers must meet Commission registration requirements.¹⁹⁰

In D.19-07-009, parties were directed to comment on whether the Commission should condition payment of invoices on registration. SCE notes that simply being registered does not entitle the Provider to payment through the invoicing process. SCE maintains that invoicing and payments should be based on the performance of the Seller's resources and points to the performance obligations in the pro forma contract.¹⁹¹ Others point out that registration is already a requirement but only for Providers who serve bundled service customers.¹⁹² PG&E asserts that conditioning payment on registration comes too late in the process and is duplicative of existing processes.¹⁹³

OhmConnect reminds parties that, during February 2019 working group meetings, several parties endorsed a proposal to adopt operational milestones to ensure that Utilities are contracting with viable counterparties; the proposal

¹⁸⁹ Evaluation Report at 102.

¹⁹⁰ Evaluation Report at 117.

¹⁹¹ SCE Opening Comments at 16.

¹⁹² Public Advocates Office Opening comments at 7, SDG&E Opening Comments at 12, PG&E Opening Comments at 9 and Joint Parties Opening comments at 17.

¹⁹³ PG&E Opening Comments at 9.

included registration as a milestone.¹⁹⁴ We reviewed the milestone proposal and find that, with modification, the milestones should ensure Provider performance capability during the delivery period.¹⁹⁵ We find that conditioning payment of invoices on Commission registration is not an effective enforcement mechanism since Providers could complete milestones outside of the approved timeline and still qualify to receive invoice payments.

Accordingly, we adopt the milestones in Table 6 below. A Provider's failure to meet milestones shall be considered a violation of the Auction Mechanism contract. Within 30 days of the issuance of this decision, the Utilities shall develop, and submit to the Commission's Energy Division for approval, a standard reporting template to be used by all Providers. Beginning with the 2021 Auction Mechanism, Providers are required to report on meeting these milestones, as indicated in Table 6.

Table 6	
Provider Milestones and Due Dates	
Category/ Submission Date	Milestone
CAISO Registration (45 days prior to first Supply Plan Submission)	
	Seller registers as a CAISO Demand Response Provider
	Seller has become or has contracted with a Scheduling Coordinator or CAISO Demand Response Provider and has identified the name of the Scheduling Coordinator
	Seller or Scheduling Coordinator has completed other CAISO requirements
	Seller or Scheduling Coordinator has received net qualifying capacity approval from the CAISO
	Seller has reviewed the CAISO's Demand Response User

¹⁹⁴ OhmConnect Opening Comments at 7.

¹⁹⁵ February 28, 2019 Ruling, Attachment 8 at 1-3.

	Guide
Utility Data Systems Integration (45 days prior to first Supply Plan Submission)	
	Provider has completed Utility Onboarding Process for Rule 24/32
	Provider has completed Registration with Utility data sharing platform and completed all connectivity requirements
	Provider has obtained a Click-Through authorization and/or submitted a Customer Information Service Request Demand Response Provider form for processing
	Provider has utilized online channels to obtain the full Rule 24/32 data set for a customer authorization
Commission Registration (45 days prior to first Supply Plan Submission)	
	Provider has signed the Utility-Provider Service Agreement
	Provider has signed a notarized Commission registration form
	Provider has paid the \$100 fee
	Providers serving residential customers: Provider has received approval for the customer letter and posted the bond
	Provider has obtained a Commission registration certificate or Registration has been published on Commission Website
Resource Adequacy Milestones (Due Date Pursuant to Appendix A)	
	Seller has had phone call with Buyer to discuss resource creation and progress on meeting Qualifying Capacity requirements
	Seller has submitted Qualifying Capacity in a timely manner

4.6. Auction Mechanism Refinement Process

For the duration of the four-year continuation of the Auction Mechanism, we authorize the Director of the Energy Division to schedule and facilitate workshops to refine the technical aspects of the Auction Mechanism, as described in this decision, including refinements to Appendices A, B and C, the

Auction Mechanism pro forma contract, and other technical aspects of the Auction Mechanism design. In order to align with an annual Auction Mechanism solicitation, we authorize the Director of the Energy Division to establish the workshop schedule such that the Utilities will be able to file a Tier 2 Advice Letter on the refinements no later than January 31, 2020, and September 15, 2020 and 2021.¹⁹⁶ The Utilities shall use the January 31, 2020 advice letter to implement the improvements in this decision. The refinements from the staff led process in 2020 will be approved through the September 15, 2020 advice letter. We intend that a resolution on the technical refinements, if necessary, should be adopted by the Commission in time for each Auction Mechanism solicitation.

D.19-07-009 adopted a two-prong approach to improving the Auction Mechanism with Step 2 beginning with working groups leading to this decision and evolving into an informal refinement process led by the Commission's Energy Division. D.19-07-009 asked parties to comment on the process steps and schedule to be used to develop refinements to the Auction Mechanism.

Parties generally support an annual, iterative process. OhmConnect recommends an annual schedule that begins in November with a Scoping Memo from the Administrative Law Judge and ends the following June with the Commission approving an Advice Letter submitted by the Utilities.¹⁹⁷ Similarly, the Joint Parties offer an annual schedule that also begins with an Administrative Law Judge Ruling in October and ends with a decision issued the following

¹⁹⁶ The solicitation for the 2021 Auction Mechanism shall take place in April 2020 and the solicitation for the 2022 and 2023 Auction Mechanism shall take place in February 2021 and February 2022, respectively.

¹⁹⁷ OhmConnect Opening Comments at 8.

April.¹⁹⁸ Both of these proposals include workshops in the schedule, which are also supported by nearly every party, except SDG&E.¹⁹⁹ SDG&E prefers a formal process with an evidence based record.²⁰⁰ SCE and PG&E also support workshops but recommend a process that ends with a Commission resolution, not a decision.²⁰¹

The Commission has previously determined that refinements to the Auction Mechanism would be carried out through an informal process led by the Commission's Energy Division.²⁰² An informal process should include party input through at least one workshop, to inform an advice letter submitted by the Utilities. Accordingly, we authorize the Energy Division to develop an annual schedule and require that the staff-led refinement process includes at least one workshop leading to a Tier 2 Advice Letter submittal by the Utilities no later than January 31, 2020, September 15, 2020, and September 15, 2021. The schedule for the Auction Mechanism through 2023 is presented in Table 7 below.

Table 7			
2021 – 2023 Auction Mechanism Schedule			
	2021 Auction Mechanism	2022 Auction Mechanism	2023 Auction Mechanism
Utilities submit Tier Two Advice Letters with Contract Improvements	January 31, 2020	September 15, 2020	September 15, 2021

¹⁹⁸ Joint Parties Opening Comments at 18.

¹⁹⁹ Public Advocates Office Opening Comments at 7 and CESA Opening Comments at 12.

²⁰⁰ SDG&E Opening Comments at 12.

²⁰¹ PG&E at 10 and SCE at 16.

²⁰² D.19-07-009 at Ordering Paragraph 1.

and Request for Offer Guidelines			
Utilities Launch Request for Offers	April 1, 2020	February 2021	February 2022
Utilities Submit Tier One Advice Letters with Executed Contracts	June 1, 2020	May 2021	May 2022

We emphasize that the refinements shall be limited to technical changes to the Auction Mechanism design, the contract, or the Appendices A, B, and C, except where we have provided additional guidance to the Energy Division. Unless otherwise stated in this decision, all policy determinations will be addressed through a decision that considers the Auction Mechanism evaluation recommendations.

5. Procedural Matters

This decision affirms all rulings made by the Administrative Law Judge and assigned Commissioner. All motions not ruled on are deemed denied.

6. Comments on Proposed Decision

The proposed decision of Administrative Law Judge Kelly A. Hymes in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed by CESA, the Joint Parties; OhmConnect; PG&E; Public Advocates Office; SDG&E; and SCE on December 5, 2019, and reply comments were filed on December 10, 2019 by the Joint Parties; OhmConnect; PG&E; Public Advocates Office; SDG&E; and SCE. Revisions and corrections have been made throughout this decision in response to the comments. We address certain comments here.

We begin with requested changes regarding the Minimum Dispatch Hours. The Joint Parties contend that adopting a minimum energy requirement conflicts with the statement that resource adequacy issues will be addressed in the resource proceeding.²⁰³ The minimum energy requirement is not a resource adequacy requirement; it is a requirement of the Auction Mechanism because a successful Auction Mechanism shall ensure resources are reliable when dispatched.²⁰⁴ PG&E requests the Commission to clarify that the Utilities are not procuring energy from Auction Mechanism participants and that the required energy quantity is a compliance requirement for Auction Mechanism contracts.²⁰⁵ While it is true that PG&E does not have energy dispatch rights for Auction Mechanism resources, we note that PG&E benefits from the load reduction that results from Auction Mechanism dispatches.

We turn to the issue of penalties for failure to deliver Revenue Quality Meter Data in a timely manner. The Joint Parties recommend the Commission approve a penalty structure arguing that the Energy Division and its consultant found there was a sufficient amount of evidence to support making the recommendation to develop a remedy for failure to deliver timely Revenue Quality Meter Data.²⁰⁶ Contending that another working group process would not be helpful, the Joint Parties suggest that the submission of evidence instead of a working group should suffice. In addition to data collection, the working group will also define a penalty structure if one is determined to be necessary.

²⁰³ Joint Parties Opening Comments on the Proposed Decision, December 5, 2019 at 4.

²⁰⁴ D.16-09-056 at Ordering Paragraph No. 10.

²⁰⁵ PG&E Opening Comments on the Proposed Decision, December 5, 2019 at 4.

²⁰⁶ Joint Parties Opening Comments on the Proposed Decision, December 5, 2019 at 8.

As previously determined, the final evaluation of the Auction Mechanism will include a discussion and ultimate determination on this issue.

With respect to the issue of Demonstrated Capacity invoicing, SCE contends the proposed decision errs in not including a provision in the Auction Mechanism pro forma for “recourse for the Buyer if a Seller refuses to timely comply with request for data to support invoices for Demonstrated Capacity.”²⁰⁷ We disagree. Steps 2 and 3 of Section 1.6(g) of the Auction Mechanism pro forma provides that the Seller shall timely comply with requests for data to resolve disputed Demonstrated Capacity invoices. The result of not complying with these sections is the Seller will not receive payment, which is sufficient recourse.

Last, we address requested changes regarding the Qualifying Capacity dispute resolution process. The Public Advocates Office offers a revision to the language to clarify that in instances of disagreement where the Seller’s Qualifying Capacity is demonstrated using a test or dispatch, that the applicable delivery month be defined at “each and every month the Buyer and Seller have not agreed to a de-rated value for Qualifying Capacity.”²⁰⁸ PG&E and SCE support this proposal and no party presented opposition.²⁰⁹ We find that the additional clarification could prevent future confusion and disputes with respect to the requirements for demonstrating disputed Qualifying Capacity. Accordingly, we make this revision.

²⁰⁷ SCE Opening Comments on the Proposed Decision, December 5, 2019 at 7-8.

²⁰⁸ Public Advocates Office Opening Comments on the Proposed Decision, December 5, 2019 at 2-3.

²⁰⁹ PG&E Reply Comments on the Proposed Decision, December 10, 2019 at 4 and SCE Reply Comments on the Proposed Decision at 3.

7. Assignment of Proceeding

Martha Guzman Aceves is the assigned Commissioner and Kelly A. Hymes is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. There are several protections available to the Utilities to avoid accepting bids that are not competitive compared to the rest of the offers.
2. It is unnecessary at this time to adopt a replacement for the average August bid price cap eliminated in D.19-07-009.
3. The long-term avoided cost of generation is used to establish outliers in the Demand Response Auction Mechanism.
4. The use of the short-term avoided cost of capacity versus the long-run avoided cost of capacity does not impact the capacity bid evaluation and selection of the bids.
5. The intention of the Auction Mechanism has been and continues to be a mechanism to procure resource adequacy capacity.
6. Resource adequacy capacity cannot be divorced from the expectation and obligation to reliably provide energy in the CAISO market.
7. If Auction Mechanism resources are not being dispatched, they are neither used nor useful, nor are they meeting the environmental objectives of California or the goal of the Auction Mechanism established in D.19-07-009.
8. Auction Mechanism resources are both resource adequacy capacity and energy products.
9. The Auction Mechanism is designed specifically to encourage third-party demand response provider participation in the CAISO market.
10. The Auction Mechanism is not a traditional procurement mechanism.
11. The Auction Mechanism is a carve-out procurement mechanism.

12. The Commission has imposed energy requirements on other resource adequacy resources.

13. Auction Mechanism resources do not compete directly with other resource adequacy resources and should be held to stricter requirements.

14. Without the establishment of a minimum dispatch requirement, the Commission cannot address the concerns in the Evaluation Report that the Auction Mechanism resources were the least active among the resources in the CAISO market and the associated energy bids were higher than other resources.

15. If the Commission does not address the concerns in the Evaluation Report that the Auction Mechanism resources were the least active among the resources in the CAISO market and the associated energy bids were higher than other resources, the Commission cannot find the Auction Mechanism successful in offering competitive wholesale market prices.

16. The Commission must adopt the minimum dispatch requirement in time for the 2021 Auction Mechanism, otherwise, the results of implementing the requirement cannot be considered in the Auction Mechanism evaluation.

17. It is appropriate, fair, prudent, and timely to adopt and implement a minimum dispatch requirement and a related penalty structure for the 2021 Auction Mechanism.

18. No party supports voluntary energy-related bid parameters.

19. No party presented a proposal for voluntary energy-related bid parameters.

20. The record does not support the adoption of voluntary energy-related bid parameters.

21. Replacing the time requirement with an energy requirement in a minimum dispatch requirement provides the Commission with a tool to potentially attain success in the Auction Mechanism while giving Providers more flexibility.

22. The Availability Assessment Hours represents the hours in which the CAISO has assessed the greatest grid needs occur.

23. Extending the delivery months through December does not add additional time to the process.

24. Calculating the minimum energy requirement and its associated penalties will be operationally easiest and most clear at the contract level, while remaining consistent with the policy objective.

25. While July through September historically have been the three months with the highest Qualifying Capacity, expanding to December should ensure that we capture the highest and most valuable months.

26. Calculating the average Qualifying Capacity by averaging the monthly Supply Plan quantity in all contract months would substantially lower the resulting Qualifying Capacity and the minimum energy requirement.

27. The revised minimum dispatch requirement is not a hard trigger but rather a flexible requirement allowing Providers to perform over the course of five months.

28. The point of the minimum dispatch requirement is to give Providers the flexibility to competitively bid and dispatch demand response resources when market prices are above their marginal costs.

29. Providers' energy marginal cost data is market sensitive.

30. Because the Commission must continue to study the mechanism to understand why it has not performed as expected, we do not find requiring the collection of marginal energy cost data to be discriminatory.

31. It is prudent to require submittal of marginal energy cost data.
32. There is insufficient information regarding the frequency, causes, and consequences of Revenue Quality Meter Data delays to determine whether penalties are necessary.
33. Given the impact on customers, Providers, and demand response, additional information on Initial Customer Data and Estimated Meter Data is needed.
34. The purpose of the Revenue Quality Meter Data working group is to determine whether the claims of delayed or missing data is valid, the extent of the impact, and the possible solutions to deterring the delays and omissions.
35. Some additional information is necessary for clarifying the Revenue Quality Meter Data process.
36. The Utilities are already obligated to provide all Revenue Quality Meter Data to the Seller.
37. Further clarity is warranted regarding the process for ensuring the Utility has provided 95 percent of Revenue Quality Meter Data
38. Providers have the option of subcontracting a portion of their Auction Mechanism contract.
39. Reassignments are fairly common in energy portfolios.
40. Reassignments in the Auction Mechanism have resulted in increased market concentration.
41. The Evaluation Report recommended that the contract reassignment process be revised to decrease market concentration.
42. The proposed contract reassignment process should lead to a more open and transparent process while remaining simple to administer.
43. Partitioning could encourage Providers to overestimate capacity.

44. Partitioning could lead to complications in market operations and Demonstrated Capacity invoicing.

45. Providers have the ability to sub-contract pursuant to the current Auction Mechanism pro forma contract.

46. Partitioning could result in placing the counterparty risk to the Utilities and ratepayers.

47. Our foremost concern with reassignments and partitioning is ensuring transparency and avoiding market concentration but we must also protect ratepayer funds.

48. The Evaluation Report indicated instances of bidders being shortlisted and then withdrawing their offers later in the process after being selected, which can cause delays in completion of the solicitation, underutilization of the Auction Mechanism budget, and additional time and expense for the Utilities and, therefore, ratepayers.

49. Bid fees would lead to more administrative burden.

50. Bid fees could be a barrier for new entrants.

51. Milestones are a less administratively burdensome method of reducing the number of bidders declining offers after being shortlisted.

52. Meeting the milestones requires a bidder to have a stronger understanding of the requirements of participating in the Auction Mechanism.

53. Conditioning payment of invoices on Commission registration is not an effective enforcement mechanism.

54. It is a good policy to require bidders to decline offers in order from highest price to lowest price.

55. Requiring bidders to decline offers in order from highest to lowest price should lead to more cost-effective resources.

56. The Commission anticipates sufficient funding for CAISO registrations and meter reprogramming.

57. It is equitable to continue to fund any additional residential meter reprogramming needed during the four-year continuation of the Auction Mechanism.

58. SDG&E's proposal to charge Auction Mechanism Seller's customers for residential reprogramming during the Auction Mechanism pilot, once current funding is exhausted is unfair and not competitively neutral as the Utilities do not charge aggregators in the Capacity Bidding Program for meter reprogramming.

59. Charging customers for reprogramming could discourage Auction Mechanism participation.

60. Allowing the Utilities to submit Advice Letters for registration of additional meter reprogramming funding is a safety net to ensure funding for CAISO registrations and equitable meter reprogramming for the four-year limited Auction Mechanism continuation.

61. Requiring the three Utilities to have identical informal dispute resolution language regarding Demonstrated Capacity aligns with the demand response principle of transparency.

62. Requiring the Utilities to provide advance notice and communication regarding any supplemental information should ensure fairness.

63. Aligning the timelines of the invoice and payment process with the Notice to the Seller for Additional Documentation should simplify the audit process without eliminating any milestones.

64. Additional data collected through the Appendix A and B requirements should reduce the need for audits.

65. In D.16-09-056 and D.19-07-009, the Commission determined that Auction Mechanism resources are required to be cost-effective.

66. The Commission has not adopted the Auction Mechanism as a permanent mechanism at this time.

67. The four-year limited continuation of the Auction Mechanism is in the pilot phase and exempted from the cost-effectiveness requirement during the continuation.

68. There are complexities in measuring the cost-effectiveness of Auction Mechanism resources.

69. It is prudent to collect data to measure cost-effectiveness during the pilot phase of the Auction Mechanism.

70. A competitive procurement mechanism should result in the market determining what constitutes a competitive price.

71. A competitively priced resource may not be a cost-effective resource.

72. Because we do not consider the Auction Mechanism to be a traditional procurement mechanism, we cannot rely on it alone to measure the cost-effectiveness of the resources.

73. The Auction Mechanism should be aligned with Integrated Resource Planning.

74. Neither the Auction Mechanism nor the Integrated Resource Planning are at a point where alignment is appropriate.

75. The cost-effectiveness protocols factors A, B, C, D, E, F, and G are currently used in measuring demand response cost-effectiveness and have been well-documented over the past two demand response budget applications.

76. The cost-effectiveness protocols factors A, B, C, D, E, F, and G are not a suitable measurement of cost-effectiveness due to inaccessible data and uncertainty regarding valuation distortion.

It is prudent to explore methods to measure the cost-effectiveness of the Auction Mechanism resources.

77. It is reasonable for the Energy Division to explore and develop for testing alternative tools to measure the cost-effectiveness of the Auction Mechanism resources.

78. Consistent with the demand response principles of fairness and transparency, an informal dispute resolution process should be formalized in a consistent manner across all Utilities in the Auction Mechanism pro forma contract.

79. The timelines in the negotiation section of the recently adopted Auction Mechanism pro forma contract will not allow it to be used for resolving disputes about Qualifying Capacity estimates.

80. The current process to resolve disputes regarding Qualifying Capacity does not allow for any recourse by the Seller.

81. The Commission previously rejected the use of the independent monitor and thus we cannot adopt the OhmConnect proposal that uses the independent monitor.

82. OhmConnect's proposal to permit a second opportunity for demonstrating capacity could result in double payments and lost value if the Qualifying Capacity reduction is replaced with some other resource adequacy capacity.

83. The hybrid approach of combining the OhmConnect and PG&E proposals addresses the double-procurement and timing concerns of the OhmConnect proposal and ensures the fair treatment of Sellers.

84. The adoption of the Project Viability criteria should balance the risk and cost of having to replace Qualifying Capacity shortfalls and ensure fairness.

85. PG&E and the Joint Demand Response Parties presented recommendations for refinements to Appendices A and B of D.19-07-009.

86. Only PG&E expresses support for its refinements in comments to the Working Group Report and did not present additional justification for the refinements.

87. Only the Joint Parties express support for the Joint Demand Response Parties' refinement recommendations and did not present additional justification for the refinements.

88. The record is insufficient to adopt the recommended refinements to Appendices A and B in this decision.

89. D.16-09-056 emphasized customer choice and competitive neutrality and encouraged the use of fair competition between the Utilities and third-party providers.

90. The objective of Appendices A, B, and C is to improve the accuracy of Qualifying Capacity and ground estimates of demand response capacity by referencing historical performance data at every stage.

91. The benefit of the data collected through Appendices A, B, and C is not only to provide assurances of accuracy but also to continue to refine the Auction Mechanism.

92. The data collected through Appendices A, B, and C can be used to inform the final evaluation of the Auction Mechanism.

93. In D.19-07-009, the Commission required Providers to submit estimates of a resources' capacity by referencing historical performance data and where performance data is not available the Provider should reference suitable publicly

available performance data that best represents the anticipated performance of the new resource.

94. The Qualifying Capacity supporting data provided at bid submittal represents the best estimate of a Seller.

95. The Commission will not know the performance improvements related to the data collected pursuant to Appendices A, B, and C until it begins to collect and analyze the data in the Auction Mechanism evaluation.

96. The Commission issued D.19-09-041, which corrected several errors in D.19-07-009, including those in item C of Appendix A.

97. With respect to the process for refining Appendices A, B, and C, the Commission specifically stated that the purpose of these technical and contract refinements is to attain and maintain success of the six Auction Mechanism criteria, especially those related to performance and reliability, and strive for the goal of the Auction Mechanism.

98. With respect to the process for refining Appendices A, B, and C, the Commission underscored that all policy questions would be addressed by the end of 2019.

99. The requested policy considerations proposed by the Joint Demand Response Parties, as modified, are appropriate to adopt as principles for refining Appendices A and B, as well as Appendix C.

100. Requiring the Utilities to use a specific set of qualitative criteria and related adjustment scores that is applied consistently to all offers will ensure fair and consistent treatment of bidders.

101. Not all traditional procurement practices will be applicable to the Auction Mechanism.

102. In D.16-09-056, the Commission adopted the principle that demand response processes should be transparent; this principle applies to the Auction Mechanism.

103. Providing bidders with the qualitative criteria and a related adjustment score prior to submission of bids is in line with the principle of transparency.

104. In order to evaluate the use of qualitative criteria and have time to refine the criteria, it is necessary to adopt a preliminary set of criteria now.

105. Using the qualitative criteria regarding the use of technology enabling automated dispatch could result in unintended outcomes.

106. Qualitative criteria should have adjustment factors that reflect the risk factor.

107. Increasing the offer costs in the valuation, when bidders have a history of Demonstrated Capacity below 75 percent, gets to the heart of performance and reliability.

108. Because the purpose of the Auction Mechanism refinement process is to improve the performance and reliability of resources, revisions to the qualitative criteria should focus on improved reliability and performance, as well as bidder viability and market diversity.

109. Allowing the consideration of a suspected violation as part of the qualitative criteria conflicts with the demand response principles of fairness and transparency.

110. To ensure the most appropriate use of Commission resources, resource adequacy issues should be addressed in the resource adequacy proceeding.

111. Ensuring that members of the Commission's demand response and resource adequacy teams meet regularly should improve coordination.

112. There are various stakeholder venues to address CAISO market issues.

113. Provider difficulties interacting with CAISO markets and systems may be related to the learning curve for participating in the CAISO market.

114. One purpose of the Auction Mechanism pilot is to provide market experience to Providers.

115. The four-year continuation of the Auction Mechanism in addition to the past experiences should decrease the CAISO market difficulties experienced by Providers.

116. Additional time and resources to develop another avenue for stakeholders to address CAISO difficulties would outweigh the benefits that should occur naturally with time.

117. The continued use of the Supply Side Working Group will provide an informal venue to discuss and address resource adequacy issues related to the Auction Mechanism.

118. It is consensus amongst the parties that the Commission should permit the procurement of local and flexible resource adequacy in addition to system resource adequacy beginning with the 2021 Auction Mechanism.

119. Allowing the procurement of local and flexible resource adequacy products in addition to system resource adequacy will provide additional flexibility to Providers and the Utilities.

120. Allowing the procurement of local and flexible resource adequacy products in addition to system resource adequacy will provide improved reliability of the grid.

121. A simple but standardized set of communication protocols required by the applicable Auction Mechanism players should improve communication between Providers and Utilities.

122. The objective of a standardized set of communication protocols is to improve communications and streamline the time to resolve data issues, but not be unnecessarily prescriptive.

123. During the February 2019 working group meetings, several parties endorsed a proposal to adopt operational milestones to ensure that Utilities are contracting with viable counterparties.

124. With modifications, the milestones should ensure Provider performance capability during the delivery period.

125. Parties generally support an annual and iterative process for the technical refinement of the Auction Mechanism.

126. The Commission previously determined that refinements to the Auction Mechanism would be carried out through an informal process led by the Commission's Energy Division.

127. An informal Commission process does not include an evidentiary hearing or a Commission decision but may include a workshop and a Commission resolution.

Conclusions of Law

1. The Commission should continue the use of the short run avoided cost of capacity to calculate the benefits of a resource in the Demand Response Auction Mechanism.

2. The Commission should treat the Auction Mechanism differently from other procurement mechanisms and establish stricter requirements for it.

3. The Commission should not wait for the results of the requirements adopted in D.19-07-009 to implement minimum dispatch requirements.

4. The Commission should adopt a minimum dispatch requirement in this decision.

5. The Commission should adopt a revised minimum dispatch requirement based on energy instead of time.

6. The Commission should not adopt voluntary auction energy bid parameters.

7. The Commission should continue to investigate the alleged delays in Revenue Quality Meter Data delivery times.

8. The Commission should clarify the process for ensuring that the Utility has provided 95 percent of Revenue Quality Meter Data.

9. The Commission should continue the use of contract reassignments with improvements but should not permit contract partitioning.

10. The Commission should not adopt bid fees.

11. The Commission should require bidders to meet milestones.

12. The Commission should require bidders to decline offers in order from highest to lowest price.

13. The Commission should ensure funding for CAISO registrations and equitable meter reprogramming for the four-year limited Auction Mechanism continuation.

14. The Commission should require the Utilities to have identical informal dispute resolution language regarding Demonstrated Capacity.

15. The Commission should require the Utilities to provide advance notice and communication regarding supplemental information.

16. The Commission should have an appropriate cost-effectiveness measurement tool ready to implement, if the Commission adopts the Auction Mechanism on a permanent basis.

17. The Commission should authorize the Director of the Energy Division to work with stakeholders to explore and develop tools to measure the cost-

effectiveness of the Auction Mechanism for testing in the 2022 Auction Mechanism, as part of the Energy Division-led refinement process.

18. The Utilities should have the right to de-rate the Qualifying Capacity and withhold payments if deficiencies are found.

19. The de-rate process should be fair to both Utilities (Buyers) and Providers (Sellers).

20. The Commission should adopt an informal dispute process to be used in the Auction Mechanism pro forma contract consistently across all three Utilities.

21. The Commission should allow the Utilities to implement project viability criteria whereby they can reject bids they do not deem as plausible or move the bid downward in ranking based on the qualitative viability score assigned the Utility to the bid.

22. The Commission should not adopt the recommended revisions to Appendices A and B at this time.

23. Auction Mechanism related data cannot be shared with Utility demand response program staff.

24. All data collected through Appendices A, B, and C should have the same protections granted to proprietary and market sensitive data.

25. To provide additional guidance to the parties and the Energy Division, the Commission should adopt principles for Appendices A, B, and C and their refinement process.

26. The Commission should not adopt qualitative criteria that penalize bidders for alleged or suspected violations.

27. The Commission should adopt a preliminary set of qualitative criteria and related cost adjustments in this decision.

28. The Commission should permit the procurement of system, local, and flexible resource adequacy beginning with the 2021 Auction Mechanism.

29. The Commission should adopt a simple and standardized set of communication protocols for use by all participants in the Auction Mechanism.

30. The Commission should adopt milestones for Auction Mechanism Providers to meet.

31. The Commission should require the staff led refinement process to include at least one workshop that leads to a Tier 2 advice letter submittal by the Utilities no later than January 15, 2020, September 15, 2020, and September 15, 2021.

O R D E R

IT IS ORDERED that:

1. The Evaluation of the Demand Response Auction Mechanism (Auction Mechanism) shall include a review of the Auction Mechanism monitoring results to determine whether protections currently available are sufficient to ensure competitive bids, in the absence of the August bid price cap, and recommend a mechanism, if necessary, for Commission approval.

2. Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall continue the use of the short run avoided cost of capacity to calculate the benefits of a resource in the Demand Response Auction Mechanism.

3. Beginning with the 2021 Demand Response Auction Mechanism, Demand Response Auction Mechanism Sellers shall deliver 30 megawatt hours for each megawatt of the average of the three highest qualifying capacity months on the month-ahead Supply Plans associated with a Demand Response Auction Mechanism contract, as set forth in Attachment 1 entitled, "Appendix C - Minimum Energy Dispatch Requirements." The required energy quantity shall

be delivered during the contracted months and during the Availability Assessment Hours. If the energy delivery requirement is not met, Sellers will be assessed a penalty based upon the following calculation:

$$\text{\$10,000/MW} \times \text{Average Qualifying Capacity} \times (1 - \text{delivered energy quantity/required energy quantity}) = \text{Undelivered Energy Penalty \$}$$

Providers shall submit documentation to the contracted Buyer showing California Independent System Operator settlements for the delivery of the required energy quantity, along with the calculation of average Qualifying Capacity at the time of their last Demonstrated Capacity Invoice submission or when they have received sufficient Revenue Quality Meter Data, whichever is earlier. Sellers may omit price and revenue data.

4. The Director of the Energy Division is authorized to work with stakeholders to develop a reporting template for the purposes of submission of documentation verifying Seller compliance with Ordering Paragraph 3 of this decision. The reporting template shall be ready for use in the 2021 Demand Response Auction Mechanism.

5. Beginning with the 2021 Demand Response Auction Mechanism, Demand Response Auction Mechanism Sellers shall submit, in their quarterly reports to Energy Division, all Demand Response Auction Mechanism resources' marginal energy cost data along with the bid data required by Decision 19-07-009. This information shall be provided to the Director of the Energy Division for analysis.

6. The Director of the Energy Division is authorized to review and analyze the marginal cost data collected pursuant to Ordering Paragraph 5 above. This information shall be included for purposes of the Demand Response Auction Mechanism evaluation and shared with the consultant performing the evaluation.

7. The Director of the Energy Division is authorized to investigate the alleged delays in Revenue Quality Meter Data delivery times through the use of the working group process and the Demand Response Auction Mechanism evaluation contractor. The working group shall explore the questions indicated in Table 3 of this decision and develop a report. No later than one year from the issuance of this decision, the working group shall provide the report to the evaluation contractor. The report shall be included as part of the Demand Response Auction Mechanism evaluation; the evaluation contractor shall provide recommendations to the Commission regarding whether penalties should be imposed.

8. The process for ensuring that a utility has provided 95 percent of Revenue Quality Meter Data is revised to include the following two initial steps, in addition to the steps previously provided in Ordering Paragraph No 12 of Decision 19-07-009: a) if the Seller has not received all the month's Revenue Quality Meter Data for a California Independent System Operator (CAISO) Resource Identification (ID) within a reasonable time, it should notify the utility; and b) The Seller must submit the following information to the utility: i) The dispatch days and hours during the month for which the Seller is seeking Revenue Quality Meter Data; ii) The CAISO Resource ID for which the Seller is seeking data; and iii) the Customer Service Agreement IDs within the CAISO Resource ID for which the Seller has not received Revenue Quality Meter Data.

9. The following steps shall be used by Sellers and Buyers in the Demand Response Auction Mechanism for contract reassignments: a. Seller informs Energy Division and Buyer of Contract Reassignment; b. Seller informs prospective counterparties by emailing all regulatory affairs or contract managers for all registered Providers; c. Seller selects a willing counterparty for contract reassignment; d. Seller provides Buyer and counterparty with modified contracts; e. Buyer reviews counterparty documentation to include milestones and Qualifying Capacity documentation, as required by Appendix A. Buyer reviews counterparty's documentation to ensure compliance with existing Auction Mechanism requirements; and f. Seller, Buyer, and counterparty execute contracts. Utility seeks Energy Division approval via a Tier 1 Advice Letter.

10. During the solicitation phase of the Demand Response Auction Mechanism, Bidders are required to decline offers in order from highest net market value per unit to lowest net market value per unit, per product offered and inclusive of the other offer selection criteria, as ranked by the utility in its shortlist notification to the Bidder.

11. San Diego Gas & Electric Company is authorized an additional \$600,000 to support meter reprogramming for the four-year limited continuation of the Demand Response Auction Mechanism.

12. Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE) are each authorized to submit a Tier 3 Advice Letter to provide information on any available approved demand response funds that could be shifted to fund meter reprogramming and/or California Independent System Operator registrations, if projections are exceeded or SCE's Click-Through application proposal is denied. PG&E, SCE and San Diego Gas & Electric

Company are directed to update their meter reprogramming tariffs with current costs, by meter or customer type, in this Advice Letter.

13. Steps 2 and 3 of Section 1.6(g) of the Demand Response Auction Mechanism pro forma contract are revised as follows (with new language in bold):

Step 2: Request for additional documentation for disputed Demonstrated Capacity invoice.

- **If the IOU cannot resolve, or disputes, an invoice, it must issue a “Notice to Seller” requesting the DRAM Seller to provide additional documentation that establishes to “buyer’s reasonable satisfaction” that the Demonstrated Capacity of each PDR product type is as stated in the DRAM Seller’s invoice. IOU must provide the “Notice to Seller” on or before the later of the 20th day of the month, or 10 days after receiving the invoice.**

- **After receiving the additional documentation, the IOU must resolve and pay a disputed invoice within 15 days. If the invoice still cannot be resolved the IOU may initiate an audit or pay the invoice.**

Step 3: Audit of Demand Response Auction Mechanism Seller’s Record.

If the requested additional documentation is not provided by the DRAM Seller within 10 days, or if the additional documentation is reasonably unsatisfactory to the IOU for resolving a disputed invoice, the IOU may issue an “Audit Notice” and require an audit of the DRAM Seller or Scheduling Coordinator’s records related to the invoice.

The DRAM Seller shall allow the IOU or its designated auditor to have access, or cause its Scheduling Coordinator to allow access, to the “records & data necessary to conduct an audit” within 5 days of the DRAM Seller receiving the “Audit Notice”

IOU must make a reasonable effort to conclude its audit within 60 days of receiving all data in the form or format requested by the IOU and that IOU deems necessary to complete or resolve the disputed invoice. If the audit does not result in the resolution of the disputed invoice, the parties may initiate the Dispute Resolution process as described in the current Pro Forma (informal dispute resolution, mediation, arbitration).

14. Within 30 days from the issuance of this decision, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall implement the following Demand Response Auction Mechanism Provider audit notification steps: a) Seven days after initiating a Demand Response Provider audit, a utility shall provide a notice to the Commission's Energy Division to include a description of the circumstances triggering the audit; b) Seven days after completing an audit, a utility shall provide a notice to the Commission's Energy Division of the audit closure; and c) 30 days after completing an audit, a utility shall provide a report to the Commission's Energy Division to include the findings and outcome of the audit and a summary of data requested and received.

15. Beginning with the 2021 Demand Response Auction Mechanism (Auction Mechanism), Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company (the Utilities) shall perform evaluations of Auction Mechanism bids using the least-cost best-fit evaluation guidelines in addition to other guidance provided by this decision to evaluate the bids.

16. The Director of the Commission's Energy Division is authorized to work with stakeholders of Applications 17-01-012, 17-018 and 17-01-019 to explore and develop alternate tools to measure the cost-effectiveness of the Demand

Response Auction Mechanism (Auction Mechanism) resources, as part of the Auction Mechanism refinement process approved in Decision 19-07-009. An initial measurement tool shall be ready for testing in the 2022 Auction Mechanism.

17. Beginning with the 2021 Demand Response Auction Mechanism, the informal dispute resolution process for Demonstrated Capacity in the Demand Response Auction Mechanism pro forma contract shall be revised consistent with the pro forma contract approved in the August 12, 2019 Demand Response Auction Mechanism Joint Utility Request for Offer consisting of Pacific Gas and Electric Company Advice Letter 5615-E-A, San Diego Gas & Electric Company Advice Letter 3418-E-A, and Southern California Edison Company Advice Letter 4054-E-A, effective September 11, 2019.

18. Beginning with the 2021 Demand Response Auction Mechanism, the informal dispute resolution process for Qualifying Capacity in the Demand Response Auction Mechanism pro forma contract is revised as follows: In the event that a Seller's Qualifying Capacity is de-rated by a utility, the Seller and Buyer may proceed in one of two ways: a) the Seller and Buyer may reach an agreement on de-rating the Qualifying Capacity for the month disputed by the Buyer or 2) the Buyer accepts the estimated Qualifying Capacity as reported by the Seller for the disputed month, but the Seller shall perform a test or market dispatch in each and every month in which a Supply Plan Qualifying Capacity dispute arises to demonstrate its capability of delivering the Qualifying Capacity.

19. Within 30 days from the issuance of this decision, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall implement the following notification steps for the Demand Response Auction Mechanism informal dispute resolution process: 1) a Utility

shall notify the Energy Division within seven days after it de-rates a Seller's Qualifying Capacity estimate and include a description of the circumstances of the dispute triggering the de-rate; and 2) a Utility shall notify the Energy Division within 30 days of the closure of an informal dispute and include the details on the final resolution.

20. Beginning with the 2021 Demand Response Auction Mechanism, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company (the Utilities) are authorized to implement project viability criteria whereby they may reject bids they do not deem as plausible or move the bid downward in ranking based on the qualitative viability score assigned to the bid. The Utilities shall consult with the Commission's Energy Division and seek approval for instances when bids are being rejected under the criteria.

21. The Director of the Commission's Energy Division is authorized to work with stakeholders of Applications 17-01-012, 17-018 and 17-01-019 to explore and develop options for a penalty structure for Demonstrated Capacity in the Demand Response Auction Mechanism (Auction Mechanism), as part of the Auction Mechanism refinement process approved in Decision 19-07-009.

22. The Commission's Energy Division and stakeholders for Applications (A.) 17-01-012, A.17-01-018 and A.17-01-019 shall adhere to the following principles for Appendices A, B, and C and their refinement process:

- a) data submitted by the requirements in Appendices A, B, and C are protected from public disclosure or other unauthorized disclosure; b) data submitted will be used to inform the evaluation of the Demand Response Auction Mechanism (Auction Mechanism) and, therefore, waivers for good performance will not be considered during the four-year continuation of the Auction Mechanism; c) data

submitted in the bid and year-ahead Supply Plan are anticipated to be less detailed than the month-ahead data; and d) refinements to the Appendices will be of a technical nature only; policy considerations will be addressed in the evaluation of the Auction Mechanism.

23. Beginning with the 2021 Demand Response Auction Mechanism, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company shall use the qualitative criteria and cost adjustments as provided in Table 5 of this decision.

24. The Supply Side Working Group is re-established to provide an informal venue for stakeholders to discuss and address resource adequacy issues related to the Demand Response Auction Mechanism (Auction Mechanism). The Director of the Energy Division is authorized to develop a schedule for the Supply Side Working Group to commence upon the establishment of the next resource adequacy proceeding. The Supply Side Working Group is encouraged to file any Auction Mechanism resource adequacy proposals developed by the group, pursuant to the direction of the Administrative Law Judge assigned to the resource adequacy proceeding.

25. Beginning with the 2021 Demand Response Auction Mechanism (Auction Mechanism), Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company are permitted to procure system, local, and flexible resource adequacy through the Auction Mechanism.

26. Beginning with the 2021 Demand Response Auction Mechanism (Auction Mechanism), Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company (Utilities) and demand response providers (Providers) shall abide by the following communication protocols:

- Each Utility and Provider shall designate a point of contact for all data delivery inquiries and notify the Commission's Energy Division, Utilities, and Providers of any changes to this point of contact.
- Each Utility shall facilitate a monthly call for Providers to report data issues.
- All Providers shall perform troubleshooting prior to notifying a Utility of any data issues including: a) verifying the Application Programming Interface data request was correctly formatted; b) verifying the Provider's customer lists are updated including removing customers whose service accounts have been closed; and c) verifying that missing data is not a result of a planned or unplanned outage where the Utility has notified the Provider.
- Providers shall notify the Utility of data error using a standardized data template. Again, this should provide efficiencies for the Utilities in determining the root causes of issues and resolving the issues and for Providers in reporting the issues.
- The Utility shall confirm receipt of inquiry within two business days and provide an estimated time of resolution of the inquiry.
- The Utility shall update the Provider on a regular basis and when the estimated time of resolution could change.
- The Utility shall confirm resolution of the inquiry and data delivery.

27. Within 60 days of the issuance of this decision, Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company (the Utilities) shall provide to the Commission's Energy Division, a draft template for the standardized data template required by Ordering Paragraph 22. The Commission's Energy Division is authorized to finalize a template with input from Utilities and stakeholders. The standardized data template should be available for use in the 2021 Demand Response Auction

Mechanism. No later than 60 Days after the approval of the standardized data template, the Utilities and Demand Response Providers shall complete the implementation of the communications protocols listed in Ordering Paragraph 22.

28. Beginning with the 2021 Demand Response Auction Mechanism, demand response providers (Providers) shall be required to meet the milestones demonstrated by submission of a standard milestone reporting template by the associated due dates as indicated in Table 6 of this decision. The Director of the Commission's Energy Division is authorized to develop a standard reporting template for use by Demand Response Auction Mechanism (Auction Mechanism) demand response providers (Providers). The template should be available for use by Providers in the 2021 Auction Mechanism.

29. The Director of the Commission's Energy Division is authorized to develop an annual schedule for the refinement of the Demand Response Auction Mechanism (Auction Mechanism Refinement Process) beginning in 2020. The Auction Mechanism Refinement Process shall include at least one workshop leading to a Tier 2 advice letter submittal by Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company no later than January 31, 2020 and September 15, 2020 and September 15, 2021. The refinements shall be limited to technical changes to the following: the Auction Mechanism design, the pro forma contract, or Appendices A, B, and C, except where we have provided additional guidance to the Energy Division.

30. All rulings made by the Administrative Law Judge and assigned Commissioner are affirmed. All motions not ruled on are hereby denied.

31. Application (A.) 17-01-012, A.17-01-018, and A.17-01-019 are closed.

This order is effective today.

Dated December 19, 2019, at San Francisco, California.

MARYBEL BATJER

President

LIANE M. RANDOLPH

MARTHA GUZMAN ACEVES

CLIFFORD RECHTSCHAFFEN

GENEVIEVE SHIROMA

Commissioners

ATTACHMENT 1

APPENDIX C

Minimum Energy Dispatch Requirements

1. Demand Response Auction Mechanism (Auction Mechanism) resources must deliver at least 30 megawatt hour (MWh) per megawatt (MW) of average Qualifying Capacity. We define this as the Required Energy Quantity for the Auction Mechanism resources. The average Qualifying Capacity is the average of three highest Qualifying Capacity months on the month ahead Supply Plans associated with an Auction Mechanism contract.
2. The required energy quantity shall be delivered during the contracted months and during the Availability Assessment Hours.
3. Sellers shall submit documentation to the contracted Utility showing California Independent System Operator (CAISO) settlements for the delivery of the required energy quantity, along with the calculation of average Qualifying Capacity, at the time of their last Demonstrated Capacity Invoice submission or when they have received sufficient Revenue Quality Meter Data, whichever is earlier. To protect the confidentiality of market related data, Sellers may omit price and revenue data.
4. If the required energy quantity is not delivered by the end of the contract term, Sellers will be assessed a penalty based on the following calculation applicable at the aggregate level associated with an Auction Mechanism contract:

$$\text{Undelivered Energy Penalty (\$)} = \$10,000/\text{MW} \times \text{Average Qualifying Capacity} \times (1 - \text{delivered energy quantity}/\text{required energy quantity}),$$

where the delivered energy quantity is the cumulative energy delivered by the applicable aggregate resources associated with an Auction Mechanism contract during the contracted months and during the Availability Assessment Hours.

(END OF ATTACHMENT 1)

ATTACHMENT 2

APPENDIX A

Implementation Guidelines for Qualifying Capacity

- A. Sellers should provide the following details to the Utility for demand response resources being offered, with the auction capacity bid submission no later than 10 business days before the year-ahead filings and monthly Supply Plans are due for the Seller:
1. Customer class (or percent of mix): Residential, Non-residential
 2. Nature of load being aggregated: such as, whole house, Air Conditioning load, storage, building load, pumps, Electric Vehicles, or other (describe)
 3. Dispatch method: automated via cloud control, or other (describe)
 4. Projected number of Service Accounts including a breakdown of the active and registered number of Service Accounts within the total projected service account numbers.
 5. Projected aggregated load (if storage based, projected aggregated capacity)
 6. Projected percentage of load impact or reduction (if storage based, projected percentage of capacity delivered)
 7. Supporting historical performance data for A.6 (from a prior test or market dispatch for a demand response resource with similar characteristics as A.1, A.2, and A.3). Where historical data is not available, the Provider should reference suitable publicly available performance data that best represents the anticipated performance of the resource. Along with the supporting performance data, the following details for the resource associated with the supporting performance data should be provided to establish similar characteristics:
 - a. Customer class (or percentage mix): Residential, Non-residential
 - b. Nature of load being aggregated: such as, whole house, Air Conditioning load, storage, building load, pumps, Electric Vehicles, or other (describe)
 - c. Dispatch method: automated via cloud control, or other (describe)
 - d. Number of Service Accounts
 - e. Aggregated load (if storage based, aggregated capacity)

- f. Percentage of load impact or reduction delivered (if storage based, percentage of capacity delivered.)
- 8. Estimated Qualifying Capacity = A.5 × A.6
- B. Qualifying Capacity estimates should be provided for the resource adequacy measurement hours and are expected to align with the CAISO Availability Assessment Hours.
- C. The same baseline must be used for estimation of Qualifying Capacity for the monthly supply plan, the energy settlement at CAISO and invoicing of the Demonstrated Capacity for the applicable month.
- D. To the extent the projected percentage load impact for capacity delivered in A.6 deviates from the supporting data in A.7, the Provider should provide supplemental information to explain the reasonableness of the resulting “Estimated Qualifying Capacity” provided in A.8.
- E. To the extent the contract/ resource consists of heterogeneous combination of load types (in terms of A.1 through A.3 characteristics), the Provider could subdivide the contract/resource and provide the above information for each component and apply a weighted average to estimate Qualifying Capacity in A.8.
- F. For auction bid submissions and the year-ahead resource adequacy filing, it is sufficient to provide the above information for the month with the highest megawatts. For monthly resource adequacy Supply Plan submissions, the above information should correspond to the actual delivery month.
- G. At the auction bid submissions and the year-ahead resource adequacy filing, it is sufficient to provide the above information at the contract level. For monthly resource adequacy Supply Plan submissions, the above information must be provided at the resource level.

(END OF ATTACHMENT 2)

ATTACHMENT 3

APPENDIX B

Implementation Guidelines for Demonstrated Capacity Invoicing

1. Demonstrated Capacity invoice for an Auction Mechanism resource for at least 50 percent of the contracted months (rounded downward in case of a contract involving an odd number of months) during the contract term must be based on a capacity test or market dispatch. Consistent with current practice,
 - a. the dispatch must be during resource adequacy measurement hours, which are expected to align with the CAISO Availability Assessment Hours,
 - b. one of the dispatch months must be August,
 - c. the number of consecutive months allowed with no dispatches is limited to 5 months (in a 12-month contract), and
 - d. the dispatch months are permitted to be different for different resources (specifically, different resource IDs)
2. There is no change in required duration of test (2 hours) or market (a full hour) dispatch, except the August dispatch must involve a full resource dispatch for at least two consecutive hours, with the invoiced capacity reflecting the average performance over the two hours. (A combination of a market dispatch and a test could be used to satisfy the two consecutive hour requirement if the CAISO market dispatch does not cover the two consecutive hours.)
3. The current order of Demonstrated Capacity on invoices is maintained as follows: 1) If there is a full market one-hour dispatch of a resource in a month, the results must be used for demonstrated capacity; 2) If there is a two-hour test of a resources in a month, the results must be used for demonstrated capacity; and 3) Only if there is no dispatch or test of a resource in a month can the bidding detail for a resource under the Must- Offer-Obligation be used to demonstrate capacity.
4. Customer location movement between resources within a month is prohibited, except under the following circumstances:

- a. Newly enrolled customers can be added to a resource.
 - b. A customer who exits the Auction Mechanism may be dropped from a resource.
 - c. If the above changes make a resource trigger the 10 MW telemetry requirement, or have it drop below the minimum Proxy Demand Response size of 100 kw resources, resources may be split or combined mid-month to continue to meet CAISO market requirements.
 - d. A customer changes its load serving entity, in the event the CAISO has not removed the single load serving entity per resource requirement by 2020.
5. Seller must avoid any potential double counting of customer performance associated with service account movement permitted by the exemptions when invoicing Demonstrated Capacity.
6. The baseline method used for energy settlement at the CAISO must be the same as the baseline method used to invoice Demonstrated Capacity.
7. The baseline method used to invoice Demonstrated Capacity must be the same as the baseline method used for estimating the Qualifying Capacity on the supply plan applicable to the invoiced month.
8. Failure to invoice Demonstrated Capacity if the Utility has provided the 95 percent Revenue Quality Meter Data for a showing month will be treated as the Provider having submitted a dispatch-based invoice with Demonstrated Capacity that is less than 50 percent of the Qualifying Capacity applicable to the showing month.
9. Utility may (but is not required to) put a Seller's contract in default when, for two sequential months with dispatch-based invoices (after excluding any intervening months with invoices based on Must Offer Obligation), the Seller has invoiced aggregated Demonstrated Capacity that is less than 50 percent than the aggregated Qualifying Capacity applicable to the showing month.
10. Where multiple resource IDs within an Auction Mechanism contract are dispatched concurrently in a particular delivery month, the aggregate performance of the concurrently dispatched resource IDs may be utilized for the purpose of Demonstrated Capacity invoicing and compared with the sum

of Qualifying Capacity on the monthly Supply Plan of those resource IDs. For Local resource adequacy, we clarify that the aggregation of concurrently dispatched resource IDs is only allowed for resources within the same SubLAP.

11. The following payment structure is adopted for the 2019 Auction Mechanism solicitations and may be revised in the future, including the addition of stricter penalties:

Price De-Ration and Payment Forfeiture for Demonstrated Capacity Shortfalls		
Band	Range of Demonstrated Capacity (% of QC)	Payment
Tolerance	>90% to 100%	Capacity Price (\$/kW)*QC (kW)
Pro-rated	>70% to 90%	Capacity Price (\$/kW)*DC (kW)
De-rated	50% to 70%	Capacity Price (\$/kW)*DC (kW)*75%
Forfeiture	<50%	\$0
QC: Resource's Qualifying Capacity on the monthly supply plan for the invoiced month DC: Resource's Demonstrated Capacity for the invoiced month Capacity Price: Resource's contract purchase price for capacity for the invoiced month		

(END OF ATTACHMENT 3)