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 (Filed January 17, 2017)
Application of Southern California Edison Company (U338E) for Approval of its 2018-2022 Demand Response Programs.	Application 17-01-018 (Filed January 17, 2017)
Application of San Diego Gas & Electric Company (U902E) Requesting Approval and Funding for 2018-2022 Demand Response Portfolio in compliance with Decision 16-09-056	Application 17-01-019 (Filed January 17, 2017)

Informal Comments of Olivine, Inc. On Energy Division's
Evaluation of Demand Response Auction Mechanism Interim Report

Olivine appreciates and supports the efforts the Energy Division is making to thoroughly evaluate the Demand Response Auction Mechanism and the opportunity to provide comments at this juncture.

Having a unique position and perspective, representing a number of Sellers as both a Scheduling Coordinator and wholesale market DRP, Olivine hopes to be able to offer more thorough comments on the final report once the evaluation is completed. However we do want to offer our input on a few critical areas where we have specific insights.

General Comments

Olivine understands the need to protect customers' personal confidential data, and we take our responsibilities to protect customer data seriously, complying with the letter and spirit of both our commercial agreements and regulations. Significant portions of the Interim Report are redacted, and the basis for the redactions is not clear. While protecting customers' personal data, the Final Report should make public as much aggregated, anonymized information as possible, with as few redactions as possible. We would also propose that the Interim Report include a summary of the Independent Evaluator reports from the DRAM pilot auctions, and consider attaching the actual reports as an appendix.

Screen-Scraping

With regard to screen-scraping, stated in the Interim Report (page 47):

> Two other companies commented that the IOU practice of allowing screen scraping to continue, despite threatening legal action, significantly influenced their engagement with DRAM. One company that declined to bid in DRAM III said: "knowing that there were other players circumventing the rules irked us, so we didn't want to participate." Another claimed that his company desisted from screen scraping when asked to do so by the IOUs, which led to a 70−80% decrease in their DRAM customer enrollment rates. At the same time, the respondent noted, "other DRPs continued to scrape and didn't face legal action." Subsequent IOU touting of screen-scraping companies as "DRAM success stories" further alienated the company, which eventually concluded that it was "too risky" to participate in DRAM III given these and other ongoing challenges. In interviews, two of the four new companies terminating or reassigning contracts in 2017 cited concerns over continuing screen scraping or IOU integration challenges as their rationale.

Olivine's experience is consistent with the references in the Interim Report regarding both screen-scraping and the impact it had on other DRPs. Inconsistent messages and treatment of market actors created an uneven playing field and had a significant impact on both DRAM Sellers and potential DRAM participants as well as Olivine. DRPs that were unwilling to perform screen-scraping in order to follow the intentions of data privacy requirements under Rule 24 and Rule 32 had contracts reassigned to the screen scraping party. Olivine's business was in turn impacted and like many of the providers interviewed, after significant investment of time and effort, Olivine consciously removed ourselves from much DRAM involvement as a result.

RAAIM

Page 33 of the Interim Report incorrectly states:

> During this phase, DRAM pilot participants were not subject to penalties for failure to deliver, as generally required by Resource Adequacy contracts. In addition, for related reasons, CAISO's Resource Adequacy Availability Incentive Mechanism (RAAIM) was not applied to DRP bids into the wholesale market during the DRAM pilot. That is, CAISO waived RAAIM penalties in the pilot phase due to delays in improvements of its systems required to accommodate DR products.

RAAIM went into effect for all RA resources with a maximum "generation capacity" of 1 MW or greater, including DRAM resources, starting in April 2017 and many DRAM resources were eligible for RAAIM. CAISO never considered DRAM to be a pilot program, and all DRAM resources were subject to all applicable CAISO penalties and settlements from the beginning. DRAM resources under contract for 2018 were able to get an exemption from RAAIM from April through October 2018 in order to continue bidding 1 PM to 6 PM instead of the new summer assessment hours of 4 PM to 9 PM. Eligible resources with over 98.5% bid-in availability during assessment hours have been paid for RAAIM availability, while resources with below 94.5% bid-in availability have been penalized.

The Interim Report further states with regard to RAAIM "Going forward, consistent imposition of Resource Adequacy penalties on DRPs failing to meet contract obligations could help in

reducing under-performance, assuming IOU and CAISO systems are functioning properly." (page 80)

We do not agree with this assertion. On the contrary, RAAIM penalties encourage bidding full supply plan quantities even if they are not available. Olivine believes that it may not be fully appreciated this situation, especially for DR resources that have little chance of getting dispatched and incurring energy costs as long as they are submitting high energy bid prices. DR capacity availability is often both time and temperature dependent, even within the most narrow System RA Assessment Hour period. RAAIM is better suited for generators that are subject to potential bid mitigation and are expected to have higher availability. In addition, with the existing RAAIM eligibility requirement of 1 MW, smaller resources are not impacted by this mechanism and splitting up resources below 1 MW is an action taken by many providers to subvert it.

Additionally, although the CAISO has been working diligently to address integration of demand response and system issues, the system have not always functioned properly. On more than one occasion Olivine, due to a system error, as the Scheduling Coordinator, was required to pay RAAIM penalties until the error was resolved in due time within the settlement process. Market rules require payments regardless of error and these payments can and have also triggered increases in required credit and collateral from the Scheduling Coordinator who is the market participant of record.

LSEs

On Page 46 the Interim Report states:

> "Allowing one resource to comprise customers from more than one LSE would eliminate the need for a new CAISO resource ID for the customer and for re-registering locations (and needing to wait 10 business days for approval) in the event of an LSE change."

This is not entirely correct. There would not be need for a new resource ID, but there should still be necessary re-registration of locations under the new LSE with the appropriate review process. The LSE review is still necessary, as supported by the CAISO's intention to continue with the LSE validation process even after the one-LSE requirement is eliminated. There would however not be the significant gaps in market participation (3 months) as a result of the timing associated LSE Supply Plan submittals.

Scheduling Coordinators

On page 48 the Interim Report states:

> According to several sellers, the complexity of CAISO systems necessitated that they hire a scheduling coordinator (SC) rather than invest the time and resources to gain this expertise themselves. One commented that small third-party DRPs participating in DRAM could not justify or internalize these costs− unlike the IOUs that also serve as SC for their own and contracted generation assets. Several smaller DRPs elaborated that SC costs represented a significant expense for them. As a result, they said, participation in

> DRAM would not become profitable for their companies unless they were able to scale their DRAM capacity significantly. Similarly, interviewees from two DRPs stated that they were running at a loss from their DRAM participation.

When the original approach of providing a single SC to support all DRAM resources during the pilot period shifted to required DRPs to become or contract with a Scheduling Coordinator the cost of SC services, much of which is not volume dependent, and the associated risks were not fully acknowledged. Initial resource bids were quite small and experience with market complexities was limited. Additionally market requirements were being developed over time further increasing SC risks and therefore costs.

Statements from sellers on SC costs as a barrier are a little befuddling considering that the DRAM proposals allowed bidders to specify SC costs and be compensated for them.

SC Costs typically vary depending upon number of resources and volume of activity. Bids into DRAM were made prior to Sellers having acquired the customers to build the resource to fulfill the contracts. Without that knowledge or even the range of their commitment due to the number of different bids that could be provided it is extremely difficult for a Seller to adequately incorporate SC costs across possible outcomes. Additionally, with the SC costs being considered in the total bid price Sellers were motivated to minimize the costs.

The initial years of the DRAM there was a great deal of complexity and financial risk associated with RA supply. New CAISO systems, RAAIM issues and the mis-settlement of a significant number of DR events increased this challenge. New and unclear rules coupled with lack of experience or financial responsibility (the SC holds the financial risk as the market participant) created a significant strain.

The Interim Report also states:

> Additional factors identified (through interviews) as contributing to performance issues, particularly for some DRPs new to DR, include: delay in release of Self Generation Incentive Program (SGIP) incentives (affecting one storage company's customer acquisition activities), delays caused by slow IOU approval of storage interconnections, and difficulties encountered in executing contracts with scheduling coordinators. (page 73)

Olivine can attest to having difficulties in finalizing contracts with some DRPs. The reasons were diverse and ranged from lack of understanding of the role, concerns over lack of control or risky behaviors to both direct and indirect impacts from the items cited above. Olivine believes that the DRAM structure, especially during this initial formative period has not adequately provided for all of the parties that participate in enable the DRAM appropriately.

Bidding Behavior

The Interim Report states,

> Not surprisingly, DRP interviewees had much to say about the changes needed to diversify DRAM third-party provider participation and improve sellers' performance. Pivotal among these was the recommendation that California consider an auction design for the DRAM similar to that of the PJM market. The PJM market selects bids up to the point where demand and supply curves cross and pays all bids at or below this level the same "market clearing price." Several interviewees suggested that the DRAM auction's "price-as-bid" design led the most sophisticated, experienced, or well-capitalized bidders to bid below their costs of DR delivery− driving out competition and allowing a select few companies to dominate the marketplace, as was discussed above. Without knowledge of the market-clearing price, the interviewees said, their companies were effectively guessing how to price their bids to win DRAM contracts. During interviews, more than one DR company indicated that it had priced its DRAM bids at a level reflecting its known DR delivery costs, but had failed to win a contract. (page 49)

The Interim Report appears to be taking the statements about bidding behavior at face value when in fact the CPUC has the ability to fact check much of this. Olivine believes that the CPUC should examine auction bidding behavior of both established, new and departed participants carefully to assess below cost bidding and provide transparency of these results. This can be done without identifying the parties. Although assessing bidding behavior is complicated and there are intended and unintended consequences since the CPUC does have the ability to do an assessment of impacts of structural attributes at play.

Olivine appreciates this opportunity to offer informal comments.

/s/

Elizabeth Reid
Chief Executive Officer
olivine
2120 University Ave.
Berkeley, CA 94704
Tel.: (510) 332-2558
breid@olivineinc.com

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