San Diego Gas and Electric Company's Informal Comments on:
DRAM Evaluation Interim Report
August 15, 2018

Introduction

San Diego Gas & Electric (SDG&E) appreciates the opportunity to informally comment on the Demand Response Auction Mechanism (DRAM) Evaluation Interim Report issued July 24, 2018, which presented the Energy Division's (ED's or Commission staff) findings on the DRAM evaluation effort related to criteria 1,2,3, and 5 (as adopted by the California Public Utilities Commission (CPUC or Commission) in D.16-09-056). SDG&E looks forward to working with the Commission staff on the ongoing evaluation of DRAM. With this in mind, SDG&E's initial comments on the interim report are as follows:

Comments on Criteria 3: Were Auction Bid Prices Competitive?

SDG&E provides the following comments to identify several additional areas that should be considered in justifying competitive Request for Offers (RFO) prices, which were not found in the report. First, without a definitive grid need, filled by an unbiased and open RFO competition, it is hard to say whether prices were reasonable at all. For example, in the 2017 DRAM RFO, the Commission ordered SDG&E to fill contracts even though we had no need for them at the time. SDG&E urges the Commission to take a holistic view to procuring resources as legislated by AB350 and as implemented in the Integrated Resource Plan (IRP), to minimize cost to our ratepayers while also having clean, safe and reliable power. In addition, program carve outs are not in the best interest of ratepayers who bear the costs of these contracts when other resources may be most cost effective. That is not to say that SDG&E is not supportive of

third party Demand Response (DR). Rather, SDG&E believes that DR resources are an important part of SDG&E's generation mix, but that DR is best procured in competitive open all-source solicitations.

SDG&E further points out that the metric of cost-effectiveness for DR resources has already been vetted through several proceedings (D.10-12-024, D15-11-042, D.16-09-056). For example, OP 14 of D.16-09-056 states:

> Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company (jointly, the Utilities) shall ensure their applications for 2018-2022 demand response portfolios utilize the Commission-adopted 2015 demand response protocol for calculating the cost-effectiveness of each program and use the Renewable Electricity Capacity Planning methodology as the interim methodology for the A Factor.

SDG&E finds that the Commission is applying a double standard to DR programs by using the long-term Resource Adequacy (RA) value from the avoided cost calculator as a cost-effectiveness benchmark for DR resources procured through the DRAM, versus other DR resources procured through other Commission approved programs such as Capacity Bidding Program (CBP), Base Interruptible Program (BIP), AC Saver, etc. The long-run RA value with no adjustments is higher than the effective final value used to judge investor-owned utility (IOU) programs. In addition, while IOU programs have to go out and get customers just like DRAM resources, IOU programs are also subject to numerous requirements such as minimum calls, oversight by the Office of Ratepayer Advocates (ORA) and ED, least-cost dispatch requirements to bid into the CAISO market, oversight through ERRA proceedings, and customer notification requirements that are set in advance in program design. By agreeing to this report, the Commission would be overturning years of precedent from the proceedings listed above, without a strong record developed to support it, by directing the procurement of potentially inferior DR

resources for higher prices. The Commission must act to either change the metric for DR resources procured through DRAM or change the metric by which it judges IOU programs.

Lastly, SDG&E requests that the Commission staff split out the report findings by IOU territory. Given the information provided, it seems reasonable that the DRAM may work in certain territories but not in others. SDG&E firmly supports a vibrant third-party DR market but having a dedicated carve out Auction Mechanism may not be a good approach for SDG&E's service territory. DR resources should be procured through all-source and preferred resource solicitations to meet grid needs. This is a viable alternative as evidenced by SDG&E's 2016 preferred resources RFO and procurement of DR resources in that RFO.

Comments on Criteria 5: Did DRPs aggregate the contracted capacity in a timely manner?

SDG&E emphasizes the importance of evaluating DRAM performance separately for each IOU. The aggregation of customers to satisfy the contracted capacity largely depends on the unique characteristics of the customers within each IOU's service territory. On an aggregated level, the performance of DRPs in this criterion does not meet SDG&E's expectation. In 2016, only one monthly invoice from one DRP opted to satisfy the demonstrated capacity by selecting the dispatch result, all other invoices chose the bidding option to demonstrate the availability of the capacity. In 2017, 100% of the invoices opted for the bidding option. SDG&E has no visibility into the timely aggregation of the resource capacity other than the availability of the capacity on paper.

Specifically, during the first DRAM pilot year in 2016, a majority of the DRPs were not delivering any capacity for the contracts. At the aggregated level, the ratio between the supply

plan and the contracted capacity was under 80%. The ratio between the demonstrated verses the contract capacity was 61.5%, which barely passed the low end of the acceptable level.

In 2017, the second year of DRAM pilot, DRPs were better able to match the demonstrated capacity with the planned capacity. The ratio between the demonstrated capacity and the contracted capacity stayed under 70% on an aggregated level. Some of the DRPs continued to struggle to deliver the contracted capacity. The transfer of the contract ownership for two newer DRPs to the more experienced DRP did help yield an improved ratio of the demonstrated capacity, as well as a high concentration of SDG&E's DRAM capacity in fewer DRPs.

SDG&E urges the Commission staff to evaluate the success of DRAM for SDG&E's territory separately from other IOUs.

Conclusion

SDG&E thanks the Commission staff for its attention to this topic and the opportunity to comment on the DRAM Evaluation Interim Report.