Pacific Gas and Electric Company

PG&E's Comments on the Local Market Power Mitigation of Proxy Demand Response

December 22, 2009

Bahaa Seireg
b1st@pge.com

Pacific Gas & Electric Company (PG&E) appreciates the opportunity to comment on the Local Market Power Mitigation (LMPM) of Proxy Demand Resource (PDR). We support the effort of the Department of Market Monitoring (DMM) to study this issue.

BACKGROUND

Any unit that has additional capacity dispatched in the AC Run has its bid price lowered to its Default Energy Bid (DEB). However, DEBs for PDRs are very difficult to objectively determine and therefore cannot be calculated. Thus the CAISO must set a PDR's DEB to its initial bid price for the hour in which it was dispatched; this may undermine the effectiveness of how LMPM is applied. The DMM has identified three possible options designed to address this problem:

Option 1: Perform AC Run with Mitigated Bids: This option is the same as the approach that was recommended by the DMM to address Virtual Bidding – namely to perform the AC run on mitigated bids rather than on market bids.

Option 2: Increase Load Forecast Used in AC Run: With this approach, the load forecast used in the AC run would be increased by some level (e.g., 10 percent) with the goal of ensuring that enough additional generation is mitigated in load pockets where PDR is located.

Option 3: Run AC Without PDR Bids: With this approach, a PDR would be allowed to clear the market if its bid price was less than the mitigated bid price of the marginal physical generating resource. However, if the PDR's bid was higher than the mitigated bid of the marginal physical generating resource available to meet demand in a load pocket, the PDR would not be dispatched and set price.

COMMENTS

PG&E supports the implementation of Option (3) as a short-term solution and the implementation, as soon as possible, of Option (1) as the longer-term solution.

PG&E supports the conclusion reached by the DMM in its December 1, 2009 White Paper that, "Option (3) represents an effective short-term option for ensuring that PDR does not undermine the ISO's current LMPM provisions."[1] Moreover, Option (3) appears relatively easy to implement in a timeframe concurrent with the PDR implementation.

PG&E also agree with the DMM that Option (1) appears to be the more elegant, longer-term solution.[2] This option is consistent with the one proposed by the DMM for Convergence Bidding. We are also aware that the CAISO is unable to implement Option (1) until after the PDR implementation. PG&E strongly encourages the CAISO to continue to pursue and implement this option for both Convergence Bidding and PDR as soon as possible.

---

[1] *Potential Impact of Proxy Demand Response on Local Market Power Mitigation*, DMM, Dec. 1, 2009, p.6. http://www.caiso.com/2477/2477a76f276b0.pdf.

[2] Ibid, p.4.