

Subject: Potential Impact of Proxy Demand Response on Local Market Power Mitigation

Submitted By: Joe Marone

Company: Southern California Edison

Date Submitted: December 18, 2009

While SCE certainly supports greater integration of demand response, this integration should in no manner undermine the processes for mitigating market power. Whatever is ultimately implemented, the CAISO has a legal obligation, in order to ensure rates are just and reasonable, to mitigate market power, particularly when it occurs in local, non-competitive areas. SCE cannot support any form of demand response integration if it is allowed to undermine, or even eliminate the basic structure of our current local market power mitigation process. Thus, as discussed intra, we support Option 3 as an interim approach, and New Option B as a longer-term solution. Both of these approaches ensure that effective and appropriate local market power mitigation remains in place and for the effective participation of demand response. Both of the options simply mitigate the attempts of parties with local market power to exercise this market power. Importantly, the Options do not artificially deflate prices or move prices below what would otherwise be expected if the market was instead competitive.

The PDR stakeholder process should not be used as a path to collaterally attack LMPM. Generators and DR resources are fundamentally different. A generator's core business is the sale of energy products into the wholesale market. A generator expects that the price of those products will be high enough to produce sufficient profit to justify operating. DR resources are load entities that consume energy in order to fulfill their core business function. At some point the cost of energy may become sufficiently prohibitive to disallow for a suitable profit and the load entity may decide to sell its energy back into the market. Any argument that starts with the premise that load/DR resources want high energy prices fails to comport with basic economic principles.

One of the primary benefits of demand response is market efficiency. Load has an incentive to forgo discretionary usage or non-economic production in the face of high

energy prices and exit the market. This in turn puts downward pressure on prices. To now suggest that load entities prefer high market prices in order to divert assets away from their primary function or shut down their core business is disingenuous at best.

SCE prefers Option 1 referred to as the New Option B in DMM's October 6, 2009 whitepaper as the optimum solution. However, given the practical constraint that Option 1 cannot be implemented in a timely manner, SCE supports the interim utilization of Option 3 coincidental with the roll out of Proxy Demand Response. SCE remains optimistic that New Option B will be implemented by April 2012.