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

Submitted by	Company	Date Submitted
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General Comments

EnergyConnect appreciates the opportunity to comment on the above mentioned discussion paper.

We understand and are sensitive to DMM's concern that existing Local Market Power Mitigation (LMPM) measures not be undermined by PDR. We also agree with DMM's assessment that any attempt to solve the problem outlined in the paper by employing some form of default energy bid (DEB) is impractical, both for the reasons outlined in the paper and because it adds a layer of complexity that will discourage participation in the very locations where PDR could have the most beneficial impact.

However the DMM's paper raises another, more fundamental issue, which is the way in which mitigation tends to discourage the development of Demand Response (DR) at constrained locations on the grid. If the long-term objective of the CAISO's PDR proposal is to encourage demand resources to participate in the CAISO's markets (energy and ancillary services), then demand resources should expect to derive nearly all of the compensation they receive for the services they provide from market revenues, which in turn have to be large enough to justify the inconvenience, lost production and other disruptions that result from demand reductions. This means demand resources will submit high offer prices, both to minimize the frequency and duration of any curtailments, and to insure that the compensation they receive when they are dispatched is worth the trouble they must go do. Most of us would agree that DR is more beneficial in constrained locations than in unconstrained locations. Yet DMM's mitigation proposals seriously undermine the incentives and the rationale for customers with flexibility to act as demand resources in the locations where they are most valuable to the grid.

There do not appear to be any obvious solutions that would address the DMM's concerns about LMPM without destroying the incentives for DR in constrained locations. DMM's proposals focus on the short-term and somewhat artificial problem of LMPs that rise above the level implied by generator DEBs under what appears to be a limited set of circumstances. No proposals have been offered that address the more fundamental underlying problem, which is inadequate competition in the constrained areas. Therefore EnergyConnect suggests that before adopting any of the alternatives proposed by DMM, an effort be made to quantify PDR's impact on LMPM. The CAISO has almost 9 months of data from the New Market that DMM could examine to identify locations where LMPM has been invoked and to determine how often generator bids were mitigated at those locations. DMM should also be able to rerun the market for those periods with some reasonable assumptions regarding the volume of PDR resources and likely offer prices. This allows DMM and stakeholders to have a meaningful discussion about the practical impacts of PDR and to consider and craft appropriate solutions. Without some quantification of the likely impacts to guide us, we're simply speculating about a situation that in practice might be rare and have a *de minimus* impact, in which case the options that are available might inflict more long-term harm than they yield short-term benefit.

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