UNITED STATES OF AMERICA

BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

Demand Response Compensation in Organized Wholesale Energy Markets	)))))	Docket No. RM10-17-000

PREPARED REMARKS OF SOUTHERN CALIFORNIA EDISON COMPANY
CARL SILSBEE, MANGER OF RESOURCE ECONOMICS AND POLICY
(September 13, 2010)

Southern California Edison has actively pursued a wide variety of retail demand response programs for over thirty years. Today we have about 1,700 MW of proven capacity from demand response resources, representing about 7% of our annual service area peak demand. We are in the process of transitioning our largest program, air conditioning cycling, from a purely reliability-based program to a program that will include a price-responsive trigger and will be bid into the wholesale markets managed by the California ISO.

The certainty of our demand response program capacity is assured through a combination of performance incentives, performance penalties, and hardware control. The capacity value assigned to these programs by the California Public Utilities Commission is periodically adjusted to reflect actual historical experience. We rely on our demand response programs both to maintain system reliability and to give participating customers better options to manage their electricity consumption and retail bills.

Over the last several years, the California ISO managed a stakeholder initiative to create a wholesale market process, called Proxy Demand Resource (PDR), which is the vehicle we plan to use to integrate retail price-triggered demand response programs into wholesale market operations. PDR bids are awarded and settled in a manner that is comparable to supply resources.

SCE's major interest in this proceeding is to assure that the Commission's final rule will support the progress that we have made in developing effective retail demand response programs and integrating them into wholesale markets. We are pleased that the Commission approved the California ISO's PDR tariff filing last July.

We support the proposed rule's conclusion that demand response compensation in wholesale markets should be at the Locational Marginal Price (LMP), which is consistent with how PDR is designed. While we agree with those who recommend an adjustment for retail bill savings, the so-call "-G" adjustment, we believe that this is properly the jurisdiction of state regulatory agencies.

It appears from the discussion in the Supplemental NOPR that some parties are viewing the payments made to demand response participants as an uplift or out-of-market cost that needs to be assigned to some class of market participants. This isn't the way in which the California PDR functions. Under PDR, customer reductions in electricity consumption are treated as a supply element and paid at the LMP, just like a supply resource. As a result, these load reductions do not create any uplift or out-of-market cost that needs to be allocated. Instead, the amount of a customer's load reduction is added to the recorded usage of the participating customers' load serving entity.

Let me use a simple example to illustrate how this works. The demand response provider for a 500 kW customer bids a 400 kW load reduction and has that bid accepted, so the customer reduces demand to 100 kW. The customer's load serving entity remains responsible for 500 kW of demand, and the demand response provider is treated as having sold 400 kW of supply into the market.

Under this approach, the cost of the demand response resource is paid for by those load serving entities who choose to pay full LMP in order to obtain electricity for their customers. The key point is that this occurs through the normal settlement mechanisms in the wholesale market, and treats demand response in a manner that is analogous to supply resources, without any uplift or out-of-market costs to be allocated.