

comments of other parties on demand response issues filed with the Commission in compliance with the September 21 MRTU Order.

I. MOTION FOR LEAVE TO FILE ANSWER

The CAISO recognizes that Rule 213(d) generally requires that answers be filed within fifteen days. The CAISO requests leave of the Commission to file a week later, however, because the CAISO wanted to ensure sufficient internal review of the submitted filings as well as sufficient time to develop a response that would be most useful to the Commission and all interested parties. With this understanding, the CAISO respectfully submits the below Answer.

II. ANSWER

The CAISO is pleased with the high level of interest shown in integrating demand response programs into MRTU, as demonstrated by both the extent and quality of stakeholders' comments submitted in response to the Commission's September 21 Order. As evidenced by the CAISO's November 20 Demand Response Report in this proceeding, the CAISO is fully committed to integrating demand response as a resource into MRTU as efficiently, effectively, and expeditiously as possible, consistent with the CAISO's resource and software constraints, described more fully in the CAISO's November 20 Demand Response Report.

A number of commenters noted that a deadline of 60 days was not sufficient time to develop specific proposals for the integration of demand response into the CAISO markets.³ In this regard, the CAISO shares the concern that additional time will be needed for such proposals to be developed and vetted through stakeholder analysis

³ See, e.g., Comments of the IOUs at 4.

and discussion. With this in mind, the CAISO views the filing of demand response comments on November 20 to be a beginning, not an end, to the work that must be done to better integrate demand response into the CAISO markets. Specifically, the CAISO supports a number of procedural steps in terms of how best to integrate demand response into the CAISO markets.

A. THE CAISO IS COMMITTED TO EXPLORING WAYS TO BETTER INTEGRATE BOTH EXISTING AND FUTURE DEMAND RESPONSE INTO THE CAISO MARKETS

In the November 20 Demand Response Report, the CAISO explained that California would benefit from a collaborative process through which key stakeholders can share information, identify and resolve technical issues, and address disconnects and gaps between the CAISO's operating requirements and the demand response programs developed by the load-serving entities ("LSEs") at the direction of the California Public Utilities Commission ("CPUC"). Working together, the parties can strive to realize the full value of demand response resources in California's electricity markets and to incorporate demand response resources into the reliable operation of the electric system.⁴

CAISO was pleased to note the strong support for the CAISO taking a lead role in pursuing this collaborative initiative in both the CPUC's comments as well as those of the California Energy Commission. As noted in the November 20 Demand Response Report, CAISO sees this proposed collaborative initiative as "provid(ing) a forum for the state energy agencies, IOUs, and interested parties to resolve technical issues, provide

⁴ See IOUs' Comments at 5-6; CLECA Comments at 2.

feedback on strategic and policy directions for demand response initiatives, and further enable demand resources to compete and fully function in the wholesale market.”⁵

In the same vein, the CAISO believes it can best be of service to its stakeholders by focusing on specific product design and operations, and by coordinating with LSEs and other entities in helping to ensure that demand response programs are compatible with the CAISO’s market design. As emphasized by several of the commenters, multiple demand response programs already exist in California today. These existing demand response programs have been created and funded under the auspices of the CPUC. The CAISO recognizes the benefit of exploring how existing programs (which were not specifically designed to operate within the CAISO markets) can be integrated, where possible, into the CAISO markets. In light of the CAISO’s inability to include any increased functionality in the initial MRTU release, the most productive near term effort may well be to focus on ensuring that the CAISO has a full and complete understanding of how the existing programs operate and when they are triggered, including real-time information, so that this information can be incorporated into the CAISO’s operations. This could help ensure that Demand Response programs provide the benefits intended whether or not they can participate directly in the CAISO’s markets. In addition, the CAISO would like to increase the opportunities for future demand response products to participate directly in its markets. To support these objectives, the CAISO intends to pursue the following process

First, we will assess the inventory of all current demand response program offerings by California LSEs to determine how the programs can be recognized by the CAISO, either through participation in the CAISO’s Day-Ahead Market and/or Real-Time

⁵ See November 20 Demand Response Report at 5.

Market or through information exchange so that the CAISO can incorporate the program information into operations. The CAISO and stakeholders can then evaluate potential modifications to the programs, or possibly the tariff and/or software, in future releases of MRTU so as to better accommodate those demand response programs that remain incompatible with MRTU. This process will also allow the CAISO to work with interested parties to develop new product specifications, so that new demand response products might be created and integrated into the CAISO's Day-Ahead, Ancillary Services and Real-Time Markets.

This process is consistent with several themes reflected in the November 20 Demand Response Report. First, reasonable consensus exists that the CAISO should be responsible for developing specifications for demand response products that are designed to participate in the wholesale markets administered by the CAISO.⁶ The CAISO agrees that this is a logical role for the CAISO to serve. The CAISO further agrees with the comments of the CPUC and the IOUs that the CAISO should specify product needs, administer markets, and coordinate with LSEs and others in helping to ensure that demand response can operate in those markets.

The CAISO believes that, because of the approaching MRTU implementation date, it would be prudent to continue to rely on the MRTU stakeholder process to resolve immediate and technical issues related to incorporating demand response into the initial release of MRTU. Toward this end, the CAISO is considering hosting at least one additional CAISO-sponsored stakeholder forum to further flesh out critical demand response integration issues relevant to MRTU's initial release. In parallel, the CAISO

⁶ See e.g., CEC Comments at 5; IOUs' Comments at 3; CLEA Comments at 2.

intends to pursue collaboratively activities focused on the integration of the LSEs' demand response programs into the CAISO's markets.

The CAISO understands that the integration of demand response programs into MRTU is a very important matter, and thus believes it is essential that the goal of efficiency and timely implementation be balanced with that of effectiveness and consistency with the CAISO's capabilities as it relates to the initial and future releases of MRTU. With this in mind, the CAISO supports the IOUs' suggestion that a June 2007 joint status report be filed with the Commission. This joint status report would detail the progress made toward the collaborative efforts outlined above and would provide an actionable work plan for the foreseeable future, as well as would document the results of all CAISO-sponsored stakeholder activities regarding demand response to date.

The CAISO recognizes that the Commission and interested parties may be concerned that a June 2007 status report could result in a deceleration of the demand response efforts involving the CAISO and other interested parties which the Commission kick-started with the September 21 Order. The CAISO assures the Commission that it intends to devote resources to demand response issues in the coming months. During the first part of 2007, much of these efforts will focus on the treatment of demand response under MRTU Release 1. For example, the CAISO is working with SWP to better document how Participating Load will be modeled and facilitated under MRTU Release 1. Should any additional developments concerning the treatment of demand response under MRTU Release 1 arise earlier than June, however, the CAISO is prepared to file an update with the Commission earlier in 2007.

Lastly, the CAISO notes that various commenting parties request that the Commission direct the CAISO to take certain steps related to the integration of demand response into the CAISO's markets. As demonstrated by this Answer and the CAISO's November 20 Demand Response Report, the CAISO already has committed to taking the steps necessary to better integrate demand response into the CAISO's markets. In addition, the CAISO is already subject to a Commission directive to "work with market participants to present additional opportunities for demand response resources to participate in the CAISO market."⁷ As such, any further directives are not needed and would be premature given the need for further consideration of the best way to integrate demand response into the CAISO's markets.

B. THE COMMISSION SHOULD DISREGARD COMMENTS THAT GO BEYOND THE DEMAND RESPONSE EFFORTS INITIATED BY THE COMMISSION

A couple of commenters raise issues that go far beyond the Commission's directive for interested parties, with the support of the CAISO, to develop proposals for how demand response can be better integrated in the CAISO's markets. Instead of abiding by this directive, these commenters are proposing fundamental changes to the existing rates, terms and conditions of the CAISO Tariff or to elements of the MRTU Tariff approved in the September 21 Order. These comments should be considered to be beyond the scope of the demand response efforts initiated by the Commission. The current demand response efforts should be limited to ensuring compatibility of existing demand response programs with the CAISO market design and the development of demand response products that can participate directly in CAISO markets.

⁷ September 21 Order at P 689.

For example, SWP argues that the Commission should direct the CAISO to modify its existing Transmission Access Charges, Grid Management Charges, reliability and services charges and other charges to become “time-sensitive rates.”⁸ As an initial matter, the CAISO notes that many of SWP’s arguments concerning the design of these rates have been considered and rejected in other proceedings.⁹ Enhancing demand response is not the sole rate design objective underlying the existing design of these charges. Rates should be based on cost causation principles. The CAISO believes that the drivers of transmission infrastructure are complex, and not based solely on the need to meet peak demand.

SWP has alternative forums in which to raise its arguments concerning CAISO rate design, such as the efforts to consider potential modifications to the Grid Management Charge. In addition, of course, SWP always has the option of filing a complaint under Section 206 of the Federal Power Act if it believes it can demonstrate that current rate designs are unjust and unreasonable.

MWD supports SWP’s arguments, and suggests that a move to a time-sensitive transmission rate is justified by the Commission’s approval of the Load Aggregation Point (“LAP”) element of the MRTU design.¹⁰ Nothing in the September 21 Order, however, suggests that the existing transmission rate design would be affected by the approval of the LAP element of the rate design. Moreover, the appropriate place to raise these arguments would have been in a request for rehearing of the September 21 Order.

⁸ See SWP Comments at 22-24.

⁹ See *California Independent System Operator Corp.*, 111 FERC ¶ 61,337, at PP 66-67, 72-73, 81 (2005); *California Independent System Operator Corp.*, 106 FERC ¶ 63,026, at PP 292-316, *aff’d in relevant part*, 109 FERC ¶ 61,301 (2004).

¹⁰ MWD Comments at 2-3.

III. CONCLUSION

The CAISO respectfully requests that the Commission accept the foregoing Motion for Leave to File Answer and Answer as part of its consideration of all parties' responses and permit the CAISO to proceed with further efforts to explore the integration of demand response into the CAISO's markets consistent with the November 20 Demand Response Report and the foregoing Answer.

Respectfully submitted,

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Certificate of Service

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 12th day of December, 2006 at Folsom in the State of California.

/s/ Charity Wilson

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