UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

California Independent System Operator Corporation	**)** **)**	**Docket No. ER11-4100-000**

ANSWER TO COMMENTS OF THE
CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

In this filing, the California Independent System Operator Corporation answers[1] comments submitted by the California Department of Water Resources State Water Project (SWP) in response to the ISO's March 14, 2012 filing to comply with the Commission's December 15, 2011 order.[2] As explained below, SWP merely duplicates its own comments that the Commission has already considered and rejected in the December 15 Order. SWP failed to seek rehearing of the December 15 Order and thus the directives in that Order are now final. Further, SWP's request that the Commission reject the ISO's allocation of demand response costs ignores the Commission's acceptance of similar demand response cost allocation methodologies used by other independent system operators.

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1 The ISO submits this answer pursuant to Rule 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213.

2 *California Independent System Operator Corp.*, 137 FERC ¶ 61,217 (2011) (December 15 Order). The December 15 Order conditionally accepted a filing submitted by the ISO in this proceeding on July 22, 2011 in compliance with the demand response requirements directed by the Commission in Order No. 745. *Demand Response Compensation in Organized Wholesale Energy Markets*, Order No. 745, FERC Stats. & Regs. ¶ 31,322 (Order No. 745), *order on reh'g*, Order No. 745-A, 137 FERC ¶ 61,215 (2011), *order denying reh'g*, Order No. 745-B, 138 FERC ¶ 61,148 (2012).

I. Answer

A. The Commission Should Ignore SWP's Rehashing of Comments that Were Rejected in the December 15 Order

SWP requests that the Commission reject demand response cost allocation tariff provisions previously accepted by the Commission and instead direct the ISO to allocate such costs to all entities that purchase from the energy market in the areas where the demand response resource reduces the market price for energy at the time when the demand response resource is committed or dispatched. Although SWP argues that only its preferred alternative cost allocation methodology satisfies the requirements of Order No. 745, the comments make it clear that this is simply another iteration of SWP's longstanding contention that a "mismatch" between retail load payments at the default load aggregation point (Default LAP) and retail demand response compensation at the nodal locational marginal price (LMP) increases the chance of improperly shifting cost burdens to others not benefiting from this retail demand response.[3]

SWP duplicates, word for word, comments that it submitted earlier in this proceeding in response to the ISO's July 22, 2011 filing.[4] The Commission noted those earlier SWP comments in the December 15 Order[5] but did not direct the ISO to address them in its compliance filing. Instead, the Commission found only that the ISO had not demonstrated that its current methodology for allocating

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[3] SWP at 2-3 (citing Order No. 745 at P 100).

[4] *Compare* SWP at 2-3 *with* comments filed by SWP in this proceeding on August 12, 2011, at 5-6.

[5] December 15 Order at P 41.

demand response costs, specifically the ISO's use of the default load adjustment, appropriately allocates costs to those that benefit from demand reductions as required by Order No. 745.[6] Also, in discussing the ISO's demand response measurement and verification process, the Commission explained that it "declines to address SWP's concerns regarding the 'mismatch' between Default LAP and LMP because this issue is beyond the scope of this compliance filing."[7]

SWP provides no reason for the Commission to consider again the exact same comments that the Commission rejected as beyond the scope of this proceeding in the December 15 Order. That rejection became final when SWP failed to file a request for rehearing of the December 15 Order.

B. The ISO's Allocation of Demand Response Costs Satisfies Order No. 745

The ISO's cost allocation satisfies the requirements of Order No. 745. Under tariff provisions previously accepted by the Commission, payments of LMPs made to demand response resources are allocated to the load that benefits from the demand response reduction, *i.e.*, to all load day-ahead and to deviations in real-time. In the March 14 compliance filing, the ISO explained that allocation of demand response costs on an area-wide basis, coupled with elimination of the default load adjustment to energy priced at or above the threshold price of the net benefits test, satisfies the requirements of Order No. 745 as explained in the December 15 Order.[8] The ISO noted that the

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[6] *Id.* at PP 43-46.

[7] *Id.* at P 54.

[8] Transmittal letter for March 14 compliance filing at 5-7.

Commission has already accepted area-wide allocation of demand response costs for ISO New England.[9]

In the ISO New England order, the Commission cited the same directives in Order No. 745 that SWP references in its comments.[10] The Commission went on to explain that ISO New England's regional allocation of demand response costs satisfies those directives.[11] The California ISO also allocates demand response costs on a regional basis. Demand response resources, like generating units, are scheduled at their nodal locations and are paid the resource-specific LMP at their locations. Most of the demand in the ISO's balancing authority, on the other hand, is scheduled at Default LAPs, one for each of the three large investor-owned utilities. For each Default LAP, the ISO calculates an average zonal LMP based on the weighted average of the nodal LMPs within that Default LAP and the associated load is then settled at the LMP for that Default LAP.[12] LMPs paid to demand response resources, as well as LMPs paid to generating units, will influence the Default LAP prices paid by demand. Accordingly, costs of demand response resources are allocated to the load that benefits from the cost-lowering effect of demand response resources, through both the system-wide energy price as well as any regional benefits from

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9 *Id.* at 7 (citing *ISO New England Inc.*, 138 FERC ¶ 61,042, at P 42 (2012)).

10 Compare *ISO New England Inc.*, 138 FERC ¶ 61,042, at PP 35-36, *with* SWP at 2-3.

11 *ISO New England Inc.*, 138 FERC ¶ 61,042, at P 42.

12 Motion of the California Independent System Operator Corporation for Extension of Time to Implement Disaggregation of Default Load Aggregation Points, Docket No. ER06-615-000, at 2 (Feb. 16, 2011). The energy price is always the same throughout the ISO. To the extent there is any difference in the LMPs, the difference is entirely due to losses and congestion.

reduced losses or less congestion that would affect the Default LAP price. Moreover, the Commission accepted the ISO's proposal to maintain Default LAP cost allocation until October 1, 2014.[13] Therefore, the ISO's cost allocation, coupled with elimination of the default load adjustment to energy priced at or above the threshold price of the net benefits test, satisfies the directives in Order No. 745.

II. Conclusion

For the reasons explained above, the ISO respectfully requests that the Commission accept the March 14 compliance filing as submitted by the ISO.

Respectfully submitted,

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[13] *California Independent System Operator Corp.*, 136 FERC ¶ 61,055, at P 15 (2011).

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above-referenced proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Washington, DC this 19th day of April, 2012.

/s/ Bradley R. Miliauskas
Bradley R. Miliauskas