

Letter to Kimberly Bose
November 2, 2009



California Independent
System Operator Corporation

November 2, 2009

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: California Independent System Operator Corporation
Docket Nos. ER09-1048-____, RM07-19-____ and AD07-7-____**

Dear Secretary Bose:

On April 28, 2009, the California Independent System Operator Corporation ("ISO") filed a compliance report in response to Order No. 719.¹ Among the mandates in Order No. 719, the Commission directed RTOs and ISOs to amend their market rules as necessary to permit an Aggregator of Retail Customers ("ARC") to bid demand response on behalf of retail customers directly into the RTO's or ISO's organized markets.²

In its compliance report, the ISO explained that the ISO's Tariff, market design, and software could not, at that time, accommodate the provision of demand response through an ARC and that the implementation of such functionality would require resolution of complex scheduling, metering, and settlement issues. The ISO stated that it expected to resolve these issues through its planned Market Initiatives. Specifically, the Proxy Demand Response product, which the ISO described in detail in its filing, has since been vetted by stakeholders and designed to accommodate participation by ARCs. The ISO expressed its belief that its efforts were consistent with the Commission's directive that the ISO file a description of the actions that it has taken or plans to take to comply with the Order, without displacing timelines for the development of other major enhancements. The ISO noted that the Commission explicitly acknowledged the planned enhancements and the planned timeline for their implementation:

¹ Wholesale Competition in Regions with Organized Electric Markets, 125 FERC ¶ 61,071 (October 17, 2008).

² *Id.* at P 154. The Commission provided an exemption if the laws or regulations of the relevant electric retail regulatory authority do not permit a retail customer to participate.

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We note that the Commission has directed the CAISO to work with interested stakeholders to develop proposals for integrating demand response resources into the MRTU markets and that the CAISO is complying with this directive and its schedule provides for the enhancements to demand response participation in the MRTU Tariff to be filed in 2009.³

In Order No. 719-A,⁴ the Commission directed RTOs and ISOs to amend their market rules regarding ARC bidding as necessary to implement certain limits on the acceptance of bids from ARCs.⁵ The Commission directed a compliance filing 90 days from the publication of Order No. 719-A in the Federal Register (October 23, 2009).⁶

Because the ISO's tariff has not yet been amended to include language regarding the acceptance of bids from ARCs, the ISO concluded that it had no compliance obligation under these provisions of Order No. 719-A. Accordingly, the ISO made no compliance filing. Upon further consideration, the ISO has concluded that it would have been preferable to have notified the Commission of the reasons that the ISO did not make a compliance filing. The purpose of this letter is to notify the Commission of those reasons and to update the Commission on the ISO's compliance with the ARC directive of Order No. 719, as modified by Order No. 719-A.

The ISO's Board of Governor's approved the Proxy Demand Resource program on September 10, 2009. The information presented to the Board is available at <http://www.caiso.com/241e/241ea8bb13ed0.html>. The ISO anticipates filing tariff language to authorize the program in early 2010, with implementation in the second quarter of 2010. The ISO believes that these actions will fully implement the Commission's goals regarding bidding by ARCs.

³ *Cal. Indep. Sys. Operator Corp.*, 126 FERC ¶ 61,148, at P 29 (2009) (footnotes omitted). See also *Cal. Indep. Sys. Operator Corp.*, 126 FERC ¶ 61,150, at P 240 (2009); *Cal. Indep. Sys. Operator Corp.*, 126 FERC ¶ 61,147, at P 101 (2009).

⁴ Wholesale Competition in Regions with Organized Electric Markets, Order on Rehearing, 128 FERC ¶ 61,059 (2009).

⁵ *Id.* at PP 51, 60. Specifically the Commission directed that the ISOs and RTOs not accept bids from ARCs aggregating the demand response of customers of utilities distributing more than 4 million MWh in the previous year where the regulatory authority prohibits the bidding of such demand by ARCs and from ARCs aggregating the demand response of customers of utilities distributing less than that 4 million MWh in the previous year unless the regulatory authority permits the bidding of such demand by ARCs.

⁶ *Id.* at P. 64.

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Respectfully submitted,

/s/

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service lists in the 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 at Folsom, California this 2nd day of November, 2009.

/s/ Jane L. Ostapovich
Jane L. Ostapovich