UNITED STATES OF AMERICA BEFORE THE FEDERAL ENERGY REGULATORY COMMISSION

California Independent System)	Docket No. ER11-3616-000
Operator Corporation)	

ANSWER TO MOTIONS TO INTERVENE AND COMMENTS, MOTION TO FILE ANSWER, AND ANSWER TO PROTESTS, OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

The California Independent System Operator Corporation ("ISO")¹ hereby files its answer to the motions to intervene and comments submitted in this proceeding in response to the ISO's submittal on May 20, 2011 of an amendment to the ISO tariff to implement the reliability demand response resource product.² The ISO also hereby submits a motion to file an answer and its answer to the protests submitted in this proceeding by CDRA and the NRG Companies.³

The ISO is also sometimes referred to as the CAISO. Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the ISO tariff, as revised by the proposed tariff changes contained in the ISO's May 20, 2011 tariff amendment in this proceeding. Except where otherwise specified, references to section numbers are references to sections of the ISO tariff as revised by the proposals in the tariff amendment.

The following entities filed motions to intervene and/or comments in this proceeding: the California Department of Water Resources State Water Project ("SWP"); City of Santa Clara, California and the M-S-R Public Power Agency; Electric Power Supply Association; Modesto Irrigation District; Northern California Power Agency; NRG Power Marketing LLC, Cabrillo Power I LLC, Cabrillo Power II LLC, El Segundo Power, LLC, Long Beach Generation LLC and NRG Solar Blythe LLC (collectively, "NRG Companies"); Pacific Gas and Electric Company ("PG&E"); Southern California Edison Company; and Wal-Mart Stores, Inc., Macy's Inc., Hilton Worldwide, Supervalu, Inc., EnerNOC, Inc., EnergyConnect, Inc., Comverge, Inc., School Project for Utility Rate Reduction, University of California, Safeway, Inc., California State University, Oakley, Inc., and Leggett & Platt (collectively, "CDRA"). In addition, the California Public Utilities Commission filed a notice of intervention.

The ISO submits this answer pursuant to Rules 212 and 213 of the Commission's Rules of Practice and Procedure, 18 C.F.R. §§ 385.212, 385.213. The ISO requests waiver of Rule 213(a)(2), 18 C.F.R. § 385.213(a)(2), to permit it to make an answer to the protests. Good cause for this waiver exists here because the answer will aid the Commission in understanding the issues in the proceeding, provide additional information to assist the Commission in the decision-making process, and help to ensure a complete and accurate record in the case. See, e.g., Xcel Energy Services, Inc., 124 FERC ¶ 61,011, at P 20 (2008); California Independent System

The ISO filed the May 20 tariff amendment in order to reduce barriers to the participation of demand response in the ISO markets by allowing a new type of wholesale demand response resource – the reliability demand response resource – to participate in the ISO market. These tariff revisions are the result of a comprehensive settlement agreement among the ISO, state investor-owned utilities, and other interested parties addressing how a large percentage of emergency-triggered demand response resources in California made available under state retail demand response programs will be integrated into the ISO wholesale market design. The tariff revisions implementing the reliability demand response resource will also satisfy the directives in the Commission's Order No. 719 that independent system operators should develop the capability to permit an aggregator of retail customers to bid demand response on behalf of retail customers directly into the ISO market to the extent permitted by applicable laws and regulations.⁴

The ISO does not object to any of the motions to intervene filed in this proceeding. Some comments and protests, however, seek modifications to the tariff revisions in the May 20 tariff amendment. For the reasons explained below, the Commission should accept the tariff amendment as filed, subject only to the tariff clarifications the ISO proposes to submit in a compliance filing as discussed near the end of this answer.

Operator Corp., 132 FERC \P 61,023, at P 16 (2010); *Equitrans, L.P.*, 134 FERC \P 61,250, at P 6 (2011).

See Wholesale Competition in Regions with Organized Electric Markets, Order No. 719, FERC Stats. & Regs. ¶ 31,281 (2008), order on reh'g, Order No. 719-A, FERC Stats. & Regs. ¶ 31,292, order on reh'g and clarification, Order No. 719-B, 129 FERC ¶ 61,252 (2009); transmittal letter for May 20, 2011 tariff amendment at 26-30.

I. Answer

A. Reliability Demand Response Resources Not Dispatched by the ISO Should Not Be Eligible to Set the Locational Marginal Price.

In the May 20 tariff amendment, the ISO proposed to modify Section 34.19.2.3 of the ISO tariff to state that a reliability demand response resource that is dispatched in real-time by an entity other than the ISO (*e.g.*, an investor-owned utility) in order to mitigate a local transmission or distribution system emergency will not be eligible to set the locational marginal price. The NRG Companies argue that Section 34.19.2.3 should be further revised to allow reliability demand response resources that are not dispatched by the ISO (but that operate in response to the directive of some other entity) to set the locational marginal price. The NRG Companies also claim that allowing reliability demand response resources not dispatched by the ISO to set the locational marginal price will further the goal of minimizing exceptional dispatches of such resources.

The Commission should accept Section 34.19.2.3 as proposed by the ISO and should reject the NRG Companies' proposed revision. The reasons why resources that are not dispatched by the ISO should not set the locational marginal price were discussed in the stakeholder process for the reliability demand response resource. In that stakeholder process, the ISO noted that investor owned utilities in California have long employed emergency-triggered

⁵ NRG Companies at 5-9.

⁶ *Id.* at 9-10.

retail demand response programs to address local transmission and distribution issues within their systems. The ISO explained that it determined that attempting to integrate investor owned utilities' use of their retail demand response programs into the ISO's wholesale demand response program would only add unnecessary complexity and cost. The NRG companies propose a mechanism by which they believe the ISO could attempt to account for such dispatches. In doing so, the NRG companies admit the devil is in the details and that those details remain unresolved. In addition to introducing added complexity, the NRG companies fail to account for potential unintended consequences. Such unintended consequences could arise out of the ISO making after-the-fact adjustments that could do more harm than good. This may result in more instances of the ISO, in close coordination with the utility, issuing exceptional dispatches to a reliability demand response resource in order to permit a utility to address a local system concern. Issuing an exceptional dispatch in that situation would add costs that would have to be incurred by ISO market participants in the form of uplift and would not have the intended effect of reflecting the value of the emergency-triggered demand response in the locational marginal price.8

The ISO also explained in the May 20 tariff amendment that the ISO will endeavor to dispatch reliability demand response resources through its market applications. Therefore, the ISO expects to issue exceptional dispatches for

Id. at 7-9.

[&]quot;Reliability demand response product, ISO response to stakeholder comments on the reliability demand response resource product straw proposal," at 2-3 (Sept. 1, 2010). This document is cited in Attachment D to the May 20, 2011 tariff amendment and available on the ISO's website at http://www.caiso.com/2804/2804e0bb55fb0.pdf.

reliability demand response resources as seldom as possible. The NRG Companies' proposal to allow reliability demand response resources that operate in response to the directive of an entity other than the ISO to set the locational marginal price would undermine those goals by increasing the use of exceptional dispatch, and would increase complexity and cost for the reasons the ISO explained in the stakeholder process.

The NRG Companies argue that prohibiting reliability demand response resources from setting the locational marginal price when dispatched by an entity other than the ISO invites the abuse of buyer-side market power. There is no basis for this concern. Under their long-standing emergency-triggered retail demand response programs, investor-owned utilities in California already have the ability to dispatch reliability demand response resources to address local transmission and distribution issues within their systems and it is the ISO's understanding that the transmission function of the investor owned utilities have established triggers in their processes for when such dispatches are appropriate. The ISO is unaware of any potential for the exercise of buyer-side market power in connection with the existing dispatch of reliability demand response resources under those utility demand response programs.

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See Transmittal letter for May 20, 2011 tariff amendment at 20 n.49. The ISO went on to explain that when system conditions do require the use of exceptional dispatch, reliability demand response resources should be and will be subject to exceptional dispatch on an equal basis with other types of resources. *Id.*

NRG Companies at 10-12.

The NRG Companies also mischaracterize their concern about buyer-side market power as being shared by the ISO in the May 20 filing. 11 In fact, the discussion in the May 20 filing that the NRG Companies cite has nothing to do with whether reliability demand response resources not dispatched by the ISO should set the locational marginal price. Instead, the discussion in the tariff amendment has to do with the ISO's proposal to establish a requirement in new Sections 30.6.2.1.2.1 and 30.6.2.1.2.2 of the ISO tariff that a bid submitted by a reliability demand response resource for real-time dispatch must be at least 95 percent of the applicable maximum bid price and can be no greater than 100 percent of the applicable maximum bid price set forth in Section 39.6.1.1 of the ISO tariff. The ISO explained that it proposed to establish this bid price threshold to reflect the high value of emergency-triggered, use-limited resources and to minimize the opportunity for a load serving entity that is also a demand response provider to bid reliability demand response resources at less than their marginal value in an attempt to influence prices during periods of stressed system conditions. 12 The ISO provided this discussion in an entirely different context than the NRG Companies' comments.

B. The ISO's Continued Use of the Default Load Adjustment Mechanism Should Be Addressed in a Separate Proceeding in Response to the ISO's Pending Order No. 745 Compliance Filing

The May 20 tariff amendment included limited proposed modifications to the existing Commission-approved "default load adjustment" mechanism set forth

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¹¹ Id. at 10-11 (citing transmittal letter for May 20, 2011 tariff amendment at 18).

Transmittal letter for May 20, 2011 tariff amendment at 17-18.

in Section 11.5.2.4 of the ISO tariff.¹³ The purpose of those modifications is solely to extend the applicability of the default load adjustment from proxy demand resources alone to both proxy demand resources and reliability demand response resources. CDRA argues that the Commission should reject the tariff amendment in its entirety because the Commission's issuance in March 2011 of Order No. 745, regarding demand response compensation in wholesale energy markets, purportedly required the ISO to eliminate the default load adjustment.¹⁴

The Commission should deny CDRA's request to reject the tariff amendment. Despite CDRA's categorical assertion that Order No. 745 mandated the elimination of the default load adjustment, CDRA fails to cite any directive in Order No. 745 that expressly supports that assertion. Indeed, CDRA concedes that the default load adjustment does not violate the requirement in Order No. 745 that a wholesale demand response resource must be paid the full locational marginal price if the resource meets a net benefits test.¹⁵

There is no directive in Order No. 745 that expressly requires the elimination of the default load adjustment. Order No. 745 never addresses the default load adjustment directly. Although the ISO believes that the correct

The Commission, in the order it issued last year in Docket No. ER10-745 approving the ISO's tariff amendment to implement proxy demand resources, accepted the default load adjustment. *California Independent System Operator Corp.*, 132 FERC ¶ 61,045, at PP 25-26, 32 (2010).

CDRA at 2-4 (citing *Demand Response Compensation in Organized Wholesale Energy Markets*, Order No. 745, FERC Stats. & Regs. ¶ 31,322, 134 FERC ¶ 61,187 (Mar. 15, 2011)).

CDRA at 3 ("Order 745 requires payment of the full LMP [locational marginal price] to DR [demand response] resources if the resource meets a net benefits test. *The CAISO's PDR [proxy demand resource] program in effect prior to Order 745 does pay the full LMP*, but it also increases the charges paid by the load-serving entities in each PDR transaction to reflect *the LMP payment to the DR resource*, which is referred to as the 'default load adjustment.'" (emphasis added) (citation omitted)).

reading of Order No. 745 is that it permits the continued use of the default load adjustment, the ISO gathers that some entities are interpreting portions of Order No. 745 to suggest that the default load adjustment should be eliminated. To resolve this ambiguity, the ISO timely sought clarification and rehearing in the alternative of Order No. 745, explaining in that ISO filing why the default load adjustment should be retained. The ISO's request for clarification and rehearing in the alternative is currently pending before the Commission. Until the Commission provides further guidance in an order on that ISO filing, there can be no basis for eliminating the default load adjustment.

If the Commission does not issue an order granting the ISO's request for clarification that Order No. 745 does not require any change to the default load adjustment by July 22, 2011 (*i.e.*, the due date of the ISO's filing to comply with Order No. 745), the ISO intends to proceed based on its understanding that Order No. 745 does not require any change to the default load adjustment.¹⁷ In that event, it would be timely for CDRA to submit comments on the default load adjustment issue in response to the ISO's filing to comply with Order No. 745. However, it is premature and thus procedurally inappropriate for CDRA to make arguments regarding the consistency of the default load adjustment with Order No. 745 in the instant proceeding before the ISO's filing to comply with Order No. 745 is due.

Transmittal letter for May 20, 2011 tariff amendment at 8, 24-25.

¹⁷ *Id.* at 8.

C. The Commission Should Authorize the ISO to Apply Its Previously Approved Tariff Provisions Regarding Pricing and Payment to Reliability Demand Response Resources

SWP submits comments regarding the proposal in the May 20 tariff amendment to charge reliability demand response resources for energy consumption at the default load aggregation point level and to compensate those same resources at a more granular nodal level. SWP claims that this difference in prices may invite gaming, result in undue discrimination against loads in areas with low locational marginal prices, and create undue barriers to demand response.¹⁸

The Commission should find that SWP's arguments are without merit and attempt to raise issues that the Commission has previously resolved. The ISO simply proposes to apply to reliability demand response resources the same pricing and payment requirements that the Commission approved last year for proxy demand resources. A review of SWP's comments in the proceeding in which the Commission accepted the ISO's tariff amendment to implement proxy demand resources (Docket No. ER10-765) indicates that SWP raised similar issues regarding pricing and payment for proxy demand resources as it now raises with regard to reliability demand response resources. 20

The Commission rejected those arguments of SWP in the proxy demand resource proceeding and should do the same in the instant proceeding. In its

⁸ SWP at 2-3.

Transmittal letter for May 20, 2011 tariff amendment at 3-4.

See SWP comments, Docket No. ER10-765-000 (Mar. 9, 2010); SWP comments, Docket No. ER10-765-000 (June 7, 2010); 132 FERC ¶ 61,045, at PP 30, 63 (summarizing SWP comments).

order in the proxy demand resource proceeding, the Commission denied SWP's request that the ISO be required to pay proxy demand resources the same nodal or sub-load aggregation point locational marginal price as the underlying retail customer is charged:

We recognize SWP's concern regarding the level of granularity inherent in Default LAPs [load aggregation points]. As mentioned above, we have already directed the CAISO to introduce more granular load aggregation points. We have also noted that the timeline contained in that directive, requiring more granular load aggregation points to be introduced in time for MRTU [market redesign and technology upgrade] Release 2, which is to be implemented within three years of the MRTU go-live date of April 1, 2009 remains sufficient to address SWP's concerns. We are not persuaded that the timeline should be revised here. At such time, SWP's concerns regarding this pricing proposal will be resolved.²¹

Further, the Commission accepted the cost and settlement provisions proposed by the ISO in their entirety, subject only to the condition that the ISO undertake a study to determine if the effects of demand response apply more broadly than to the individual load-serving entity in which a proxy demand resource is located.²²

In that same order, the Commission also found that the ISO had proposed reasonable market mitigation tools to address market manipulation or gaming concerns, including SWP's concern that gaming could occur due to market participants taking advantage of price differences between the default load aggregation point and the more granular nodal point.²³ The ISO will apply those

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¹³² FERC ¶ 61,045, at P 77 (citations omitted).

Id. at PP 32, 34. The Commission directed the ISO to file this study for informational purposes 14 months after new proxy demand resources begin participating in the ISO's markets. *Id.* at P 34. The ISO will timely submit the informational study required by the Commission.

²³ *Id.* at P 66-67.

same market mitigation tools to address any market manipulation or gaming concerns with regard to reliability demand response resources.

These Commission directives regarding pricing and payment for proxy demand resources are equally applicable to the ISO's proposal to apply the same pricing and payment requirements to reliability demand response resources. SWP does not identify any changed circumstances that would justify the Commission's revisiting the conclusions it reached last year in its order on the proxy demand resource tariff amendment. Therefore, for the reasons explained in that proxy demand resource order, the Commission should accept the same pricing and payment requirements for reliability demand response resources in this proceeding.

D. ISO Customers Will Not Be Allocated Costs of Dispatches of Reliability Demand Response Resources by Entities Other Than the ISO

SWP requests clarification of whether ISO customers will bear any of the costs of the dispatch of a reliability demand resource by an entity other than the ISO if, pursuant to proposed Section 34.18 of the ISO tariff, a contractually authorized entity other than the ISO (e.g., an investor-owned utility) dispatches reliability demand response resources to mitigate a local transmission or distribution system emergency.²⁴ The ISO clarifies that ISO customers will not bear any of costs of such non-ISO dispatches.

11

SWP at 3.

E. The ISO Clarifies the 40-Minute Ramping Requirement for Reliability Demand Response Resources

SWP requests clarification of how the requirement set forth in proposed Section 4.13.5.3 of the ISO tariff that a reliability demand response resource "shall be capable of reaching its maximum load curtailment within forty (40) minutes after it receives a Dispatch Instruction," should be reconciled with other statements in the May 20 tariff amendment regarding the use of demand response to provide energy in emergency circumstances. The ISO clarifies that there is no need to reconcile these statements in the tariff amendment, because the statements are fully consistent with each another.

In emergency circumstances the ISO will issue exceptional dispatches to needed and available resources on an equal basis, including reliability demand response resources that are available for dispatch to address the emergency. ²⁶ As the ISO explained in the stakeholder process for the tariff amendment, the purpose of the 40-minute timeframe set forth in Section 4.13.5.3 is to provide sufficient flexibility for each reliability demand response resource to uniquely specify its advance notification time and ramping period. This will allow the ISO and the demand response provider to translate these advance notification and ramping values, based on maximum load curtailment of the reliability demand response resource, into an equivalent start-up time and ramp rate for that

²⁵ *Id.* at 3-4.

Transmittal letter for May 20, 2011 tariff amendment at 20 n.49.

resource.²⁷ The ISO will dispatch reliability demand response resources in emergency circumstances consistent with their start-up times and ramp rates.

In contrast, the type of demand response for which SWP is responsible – participating load – is not subject to similar start-up times and ramp rates. SWP's participating load is powered by water and has the ability to provide demand response to the ISO anytime that water management conditions permit.²⁸ As SWP correctly notes, its participating load has an "immediate response time."²⁹ Therefore, it is appropriate for the ISO to take into account both the immediate response time of participating load and the start-up times and ramp rates of reliability demand response resources in issuing dispatches.

Regarding a related request for clarification by SWP,³⁰ the ISO does not envision using reliability demand response resources to shave severe coincident peak loads over a more attenuated timeframe or to respond to sudden disturbances or imbalances. As set forth in proposed Section 34.18 of the ISO tariff, the ISO will issue an exceptional dispatch instruction for a reliability demand response resource solely for reliability or to perform a test of the resource.

Reliability demand response product, revised draft final proposal (version 2.0), at 9, 16, 20 (Oct. 14, 2010). As explained in the May 20, 2011 tariff amendment (at footnote 6), this ISO document is available on the ISO's website at http://www.caiso.com/281a/281abd55ec00.pdf.

SWP at 4-6 (stating that "SWP's aqueducts and reservoirs are designed to provide water storage that enhances SWP's ability to choose (within the constraints of water delivery obligations) the hours and locations in which certain generators and pumps will run. . . . SWP is able to use its demand-side resources to provide reliability support to the power grid . . . when water management conditions so permit").

²⁹ *Id.* at 4.

³⁰ *Id.*

F. Participating Load Is a Type of Demand Response that Is Different from a Proxy Demand Resource or a Reliability Demand Response Resource

SWP claims that the May 20 tariff amendment does not recognize participating load as a type of demand response, on the grounds that the tariff amendment proposes to revise the definition of the term demand response services in Appendix A to the ISO tariff to include proxy demand resources and reliability demand response resources but not participating loads.³¹

SWP is incorrect in asserting that the definition of the term "demand response services" as that term is used for purposes of the ISO tariff somehow signals that the ISO believes participating load is not a type of demand response. The ISO has consistently recognized that demand response includes participating load.³² However, as the Commission has recognized with regard to proxy demand resources, participating load differs in significant ways from other types of demand response.³³ Indeed, the ISO implemented the proxy demand resource tariff amendment and has proposed to implement the reliability demand response resource tariff amendment in order to provide alternative mechanisms

³¹ *Id.* at 2.

See, e.g., page 4 of the ISO's fourth annual demand response report (Jan. 14, 2011), cited in footnote 5 of SWP's comments (stating that the "Participating Load product is a dispatchable demand resource offered to the ISO"); transmittal letter for February 16, 2011 tariff amendment to implement proxy demand resources, Docket No. ER10-765-000, at 4 ("The ISO currently provides for demand response resources to participate in wholesale markets primarily as 'participating load,' which enables resources to provide curtailable demand in the ISO market.") (citation omitted).

¹³² FERC ¶ 61,045, at P 93 ("We note that the CAISO continues in its efforts to resolve issues regarding Participating Load in its stakeholder process. The arguments raised by SWP regarding Participating Load, including pricing differences, bidding parameters, operational characteristics, and tariff definitions are outside the scope of this [proxy demand resource] proceeding, and will be better addressed when the CAISO files tariff language to amend its Participating Load program.").

from participating load for demand response participation in the ISO market and in response to order 719.³⁴ Therefore, it is entirely appropriate that the tariff provisions applicable to proxy demand resources and reliability demand resources differ in some respects from the tariff provisions applicable to participating loads. One of those differences is that the definition of the term "demand response services" as that term is used in the ISO tariff includes proxy demand resources and reliability demand response resources but not participating loads.

G. The ISO Clarifies Other Aspects of the May 20 Tariff Amendment

PG&E states that the May 20 tariff amendment contains a single sentence of contradictory tariff language: the ISO proposed in new Section 10.1.7 of the tariff to permit a demand response provider representing a proxy demand resource or reliability demand response resource to request ISO approval of a methodology for deriving settlement quality meter data for that resource using a statistical sampling of energy usage data, but the ISO did not also propose to delete the sentence in Section 10.3.6.1 of the tariff stating that "Scheduling Coordinators cannot submit Estimated Settlement Quality Meter Data for Proxy Demand Resources." PG&E recommends that the quoted sentence in Section 10.3.6.1 be deleted from the tariff because it is inconsistent with the intent of the

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See *id.* at P 92 ("Proxy Demand Resource is a *new option* through which demand resources can participate in the CAISO markets. The presence of Proxy Demand Resource does not cause undue harm to Participating Load.") (emphasis added).

ISO based on stakeholder input.³⁵ The ISO agrees that the sentence in Section 10.3.6.1 should be deleted in a compliance filing.

Also, the ISO, in reviewing the tariff amendment after it was filed, found that it contained the following inadvertent errors, all but the last two of which appeared in the tariff records in the filing but did not appear in the clean and marked tariff language attachments to the filing posted in PDF format on the Commission's website:

- A phrase inadvertently included in Section 30.7.9 that reads "and, for a Reliability Demand Response Resource, the submitted shut down cost must be zero (0)."
- A comma between the words "Resources" and "must" in Section 40.6.4.1
 that the ISO intended to delete.
- The missing phrase "(DRPA)" that the ISO intended to include in the title
 of the defined term demand response provider agreement in Appendix A.
- The missing word "the" that the ISO intended to include after the phrase "pursuant to" in the definition in Appendix A of the term proxy demand resource.
- An incorrect definition of the term reliability demand response resource in Appendix A.
- The struck-through letters "ie" that the ISO intended to delete from the word "Servicing" in the black-line for Section 4.1.1 of Appendix B.14.

3

³⁵ PG&E at 3-4.

 The struck-through word "to" that the ISO intended to delete immediately before the phrase "technical information" in the black-line for Section 4.3.2 of Appendix B.14.

The ISO proposes to correct each of these errors in a compliance filing.

II. Conclusion

For the reasons explained above, the Commission should accept the May 20 tariff amendment as filed in this proceeding, subject only to the tariff clarifications discussed in Section I.G, above.

Respectfully submitted,

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Dated: June 27, 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, D.C. this 27th day of June, 2011.

<u>/s/ Bradley R. Miliauskas</u> Bradley R. Miliauskas