

FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

OFFICE OF ENERGY MARKET REGULATION

In Reply Refer To:  
California Independent System Operator Corp.  
Docket Nos. ER11-3616-004, ER11-3616-005  
ER11-4100-002, ER11-4100-003

**August 27, 2012**

Sean A. Atkins  
Bradley R. Miliauskas  
Alston & Bird LLP  
The Atlantic Building  
950 F Street, NW  
Washington, DC 20004

Dear Messrs. Atkins and Miliauskas:

On March 14, 2012, you submitted for filing, on behalf of the California Independent System Operator (CAISO), a combined compliance filing in response to the Commission's December 15, 2011 order regarding CAISO's compliance with Order No. 745<sup>1</sup> and in response to the Commission's February 16, 2012 order rejecting tariff changes to implement CAISO's reliability demand response proposal<sup>2</sup> (March 14 Filing). On March 15, 2012, CAISO filed an errata to its March 14 Filing to correct certain errors in the filing. Also, on April 19, 2012, CAISO filed an answer to comments regarding its compliance with Order No. 745 (April 19 Answer). Please be advised that CAISO's submittal is deficient and additional information is necessary to process the filing.

In order to better evaluate CAISO's proposal, please provide the following information:

- (1) In the March 14 Filing, CAISO states that the elimination of the default load adjustment for demand response resources that are dispatched when the

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<sup>1</sup> *Cal. Indep System Operator Corp.*, 137 FERC ¶ 61,217 (2011).

<sup>2</sup> *Cal. Indep System Operator Corp.*, 138 FERC ¶ 61,117 (2012).

locational marginal price (LMP) is at or above the threshold price satisfies the requirements of Order No. 745 and allocates the cost of demand response associated with the billing unit effect on a “market-wide basis.”<sup>3</sup> As described in Order No. 745, the cost of demand response associated with the billing unit effect is the difference between the amount owed by the Regional Transmission Operator and Independent System Operator (RTO/ISO) to resources, including demand response providers, and the revenue derived from load that occurs as a result of the dispatch of demand response resources.<sup>4</sup> Accordingly, please describe which tariff provisions control the allocation of this cost and how they will allocate this cost market-wide.

(2) In the March 14 Filing, CAISO states that by eliminating the application of the default load adjustment to demand response resources paid an LMP at or above the threshold price, and by allocating the costs of demand response market-wide, it satisfies the cost allocation requirements of Order No. 745.<sup>5</sup> CAISO also states in its April 19 Answer that “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 reduced losses or less congestion that would affect the Default [load aggregation point] price.”<sup>6</sup> However, CAISO’s filing does not include a demonstration that its cost allocation methodology allocates costs to those that benefit from a decreased LMP, as required by Order No. 745, which is necessary for the Commission to evaluate the proposal.<sup>7</sup> Accordingly, please include such a demonstration in response to this request for additional information.

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<sup>3</sup> March 14 Filing at 7.

<sup>4</sup> *Demand Response Compensation in Organized Wholesale Energy Markets*, Order No. 745, FERC Stats. & Regs. ¶ 31,322, at P 99 (2011).

<sup>5</sup> March 14 Filing at 6-7.

<sup>6</sup> April 19 Answer at 4-5.

<sup>7</sup> Order No. 745, FERC Stats. & Regs. ¶ 31,322 at P 102.

(3) In the March 14 Filing and April 19 Answer, CAISO cites to a Commission order accepting market-wide cost allocation for demand response in ISO New England as compliant with Order No. 745.<sup>8</sup> ISO New England stated in its filing that the specific conditions of its system are such that market-wide cost allocation allocates costs to those that benefit from demand response.<sup>9</sup> Specifically, ISO New England's filing argued that demand response in one location tends to lower LMPs in multiple locations because transmission constraints on its system are not severe at this time. ISO New England also argued that demand response resources are located throughout the New England region, making simultaneous demand reductions in multiple zones relatively common, so that LMPs from dispatched demand response is likely to affect LMPs across the region even where binding transmission constraints do arise.<sup>10</sup>

By citing to the ISO New England order, it is unclear if CAISO claims that conditions on its system are similar to those on the ISO New England system. Please clarify whether the justification provided by ISO New England also supports its cost allocation proposal or whether CAISO relies on other justifications.<sup>11</sup> If so, please include such justifications in your response.

The information requested in this letter will constitute an amendment to CAISO's filings. A notice of the amendment will be issued upon receipt of the response.

This letter is issued pursuant to the authority delegated to the Director, Division of Electric Power Regulation – West, under 18 C.F.R. § 375.307 and is interlocutory. This letter is not subject to rehearing pursuant to 18 C.F.R. 385.713. CAISO must file a response within 30 days of the date of this letter. An additional electronic copy of the response should be emailed to Dennis Reardon at [dennis.reardon@ferc.gov](mailto:dennis.reardon@ferc.gov).

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<sup>8</sup> March 14 Order at 7; April 19 Answer at 4.

<sup>9</sup> *ISO New England Inc.*, 138 FERC ¶ 61,042 at P 37 (2012).

<sup>10</sup> *Id.* PP 37, 42.

<sup>11</sup> *See also, PJM Interconnection, L.L.C.*, 137 FERC ¶ 61,216, at PP 77-78 (2011); *Midwest Indep. Transmission Sys. Operator*, 140 FERC ¶ 61,059, at PP 101-102 (2012).

Failure to respond to this order within the time period specified may result in a further order rejecting the filing. Pending the receipt of the above information, a filing date will not be assigned to the submittal.

Sincerely,

Steve P. Rodgers, Director  
Division of Electric Power  
Regulation – West

cc: All Parties