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January 12, 2010

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. RM07-19-____, AD07-7-____, and ER09-1048-____**

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 CAISO stated that it expected to resolve these issues through its planned Market Initiatives. Specifically, the Proxy Demand Resource product, which the ISO described in detail in its filing, was designed to accommodate participation by ARCs. The ISO expressed its belief that its efforts were consistent with the Commission's directive that the CAISO 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.

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 In addition, in response to concerns expressed by the Transmission Access Policy Study Group, the Commission required each RTO or ISO, through the stakeholder process, to develop appropriate mechanisms for sharing information about demand response resources, including, at a minimum, a mechanism through which an affected load-serving entity would be notified when load served by that entity is enrolled to participate as a demand response resource in an RTO or ISO market and the expected level of that participation for each enrolled demand response resource.⁷

In a letter dated November 2, 2009, the ISO explained that, because the ISO's tariff did not as yet include language to amend regarding the acceptance of bids from ARCs, the ISO was not yet able to demonstrate its compliance with these provisions of Order No. 719-A. The ISO stated that the ISO's Board of Governors had 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 anticipated filing tariff language to authorize the program in early 2010, with implementation in the second quarter of 2010. The ISO believed that these actions would fully implement the Commission's goals regarding bidding by ARC.

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 4 million MWh in the previous year unless the regulatory authority permits the bidding of such demand by ARCs.

⁶ *Id.* at P 64.

⁷ *Id.* at P 69.

The Commission ruled on the ISO's compliance filing on November 19, 2009. The Commission concluded that the ISO was in compliance with Order No. 719, inasmuch as the ISO had provided an adequate roadmap to full compliance.⁸ Consistent with the roadmap approved by the Commission, the ISO has completed the design of its Proxy Demand Resource product and is developing the tariff language. As planned, the Proxy Demand Resource product will fulfill the Order No. 719-A requirements regarding information available to load-serving entities.

In implementing its Proxy Demand Resource product, the ISO will satisfy FERC's load-serving entity notification requirement by using a task list feature within the ISO Demand Response System. This notification is consistent with the original policy for the ISO's Proxy Demand Resource product, regarding which stakeholders agreed that the ISO's demand response registration process "provides [a] series of controls to ensure the appropriate acknowledgement to required parties of [Proxy Demand Resource] registrations, most important being those to the [load-serving entity] and/or [Utility Distribution Company] so that changes to functions such as forecasting can be altered."⁹

Consistent with the Commission's notification requirement, a Demand Response Provider will begin the enrollment process for a demand response resource by logging into the ISO-operated Demand Response System and entering key enrollment data about the demand response resource, including its expected level of participation. The Demand Response Provider will enter the total load and load reduction capacity of the demand response resource into the Demand Response System.¹⁰ Once all data are entered into the Demand Response System, the Demand Response Provider will submit the enrollment for approval by various parties, including the load-serving entity serving the underlying load of the enrolled demand response resource. The Demand Response System will automatically update all task lists to ensure that all parties are appropriately and timely notified.¹¹ In addition, the load-serving entity has certain access rights to the ISO's Demand Response System and can log into the system, as desired, to see all enrolled demand response resources within its service territory, including those that require enrollment approval. A newly enrolled demand response resource will remain on the load-serving entity's task

⁸ *Cal. Indep. Sys. Operator Corp.*, 129 FERC ¶ 61,157, at P 56 (2009).

⁹ ISO Draft *Final Proposal for the Design of Proxy Demand Resource (PDR)*, Revised on August 28, 2009, at 20, available at <http://www.caiso.com/241d/241da56c5950.pdf>.

¹⁰ Total Load represents the underlying load of the demand response resource. Load Reduction Capacity represents the maximum amount of load reduction that can be provided by a given demand response resource.

¹¹ The following ISO business requirements are being used to guide the implementation of the above mentioned solution: (1) PDR.DR.BRQ000200, (2) PDR.DR.BRQ000300. The ISO Business Requirements Specification for Proxy Demand Resources can be found at <http://www.caiso.com/2494/249473613ffe0.pdf>

list, for approval, for ten days from the date of submittal by the Demand Response Provider. If a load-serving entity takes no action within this 10-day window, the enrollment will be automatically approved.

The ISO's schedule for filing and implementation of the Proxy Demand Response program remains within the time-frame outlined to the Commission in the November 2, 2009, letter: filing in the first quarter and implementation in the second quarter of 2010.

Respectfully submitted,

/s/ Michael E. Ward

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all parties listed on the official service list 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 Washington, D.C. this 12th day of January, 2010.

/s/ Daniel Klein
Daniel Klein