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* REGISTERED TO PRACTICE
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** NOT ADMITTED IN DC

CAISO Board
California Independent System
Operator Corp.
151 Blue Ravine Road
Folsom, CA 95630

Re: Modesto Irrigation District Comments to September 20, 2004 "California ISO White Paper, Market Redesign and Technology Upgrade (MRTU) (formerly MD02) Proposal for Honoring Existing Contracts"

Dear Members of the CAISO Board:

The Modesto Irrigation District ("MID") submits its comments to the California Independent System Operator Corporation's ("CAISO" or "ISO") September 20, 2004 "White Paper, Market Redesign and Technology Upgrade (MRTU) (formerly MD02) Proposal for Honoring Existing Contracts" ("ETC¹ White Paper"). MID submits its Comments according to the timelines specified in the ETC White Paper for submittals to the CAISO Board.

The CAISO has noted that it is uncertain when it will be able to implement Locational Marginal Pricing ("LMP") or whether it will be able to implement LMP at all.

¹ Abbreviation for "Existing Transmission Contract".

Accordingly, the need to develop a program for integrating ETCs into an LMP system is not supported by a reliable LMP start date.

In addition, the CAISO will spend substantial money on new software and computer systems to make ETCs comply with either LMP or the Transitional Alternative Pricing and Settlement (“TAPAS”) scheme should TAPAS be implemented.

It is fundamentally misguided for the CAISO to justify those new systems and their attendant costs on an asserted need to be prepared for an LMP pricing scheme that is far from implementation and may never be implemented. As the CAISO has noted in its White Paper on TAPAS, substantial outstanding concerns regarding LMP are not yet resolved.² Indeed, those concerns are far from resolved. It is doubly wrong for the CAISO to employ a scheme that first creates unjustified additional costs to “honor” ETCs and then arbitrarily spreads those costs to all consumers.

Further, the CAISO has not set forth any updated estimates of economic impacts of ETCs on the CAISO-Controlled Grid in recent months. MID suspects the perceived, potential economic impacts have been decreasing over time.

The most effective means of addressing the perceived problems noted by the CAISO in the ETC White Paper are to arrive at a credible assessment of the dollar value of the problem and calculate the dollar value benefit in resolving the perceived problem. Such an analysis would inform the CAISO of how much it will cost to achieve the intended result and how valuable the intended result will be. Such an analysis could also rescue the CAISO from embarking on risky, expensive programs with negligible benefits to ratepayers.

Last, the CAISO’s proposal to subordinate ETC transmission to CAISO market experiments is at odds with the Commission’s decision as to CAISO Amendment No. 2.³ There, the CAISO made a bid to gain control over ETC transmission on the thin premise that ETC transmission was primarily for the benefit of the CAISO.⁴ The CAISO’s proposal in the ETC White Paper is based on the same premise – that ETCs be honored, but only in the context of primary benefit to the CAISO.

MID has always held the position that the most prudent means of addressing market development issues is to go slow and resolve those perceived problems in a low risk, incremental manner. The CAISO’s proposal goes too far too fast, and for these reasons, MID requests that the CAISO reconsider the breadth and extent of the

² Draft Work in Progress, September 3, 2004, CAISO “Transitional Alternative Pricing and Settlement (TAPAS) Approach to Locational Marginal Pricing” at 3.

³ *California Indep. Sys. Operator Corp.*, 82 FERC ¶ 61,312 (1998).

⁴ See California Independent System Operator Corporation’s “Amendment No. 2 to the ISO Operating Agreement and Tariff, including the ISO Protocols,” Docket Nos. EC96-19 and ER96-1663, at 2, 5-7 (Feb. 25, 1998).

proposals in its ETC White Paper.

Respectfully yours,

/s/ Sean Neal
Sean M. Neal

Attorney for the
Modesto Irrigation District