

PUBLIC UTILITIES COMMISSION

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January 27, 2011

The CPUC staff appreciates the CAISO's efforts in developing the 2012 grid management charge (GMC) rate structure. The CPUC staff generally believes that the CAISO is moving in the right direction in simplifying the GMC rate structure and in following cost causation principles. The CPUC staff appreciates the opportunity to comment on the modifications as proposed in the CAISO's January 20, 2011 presentation.

The 1% increase of the revenue requirement cap should not be considered in the GMC 2012 stakeholder process

The CAISO started the GMC 2012 stakeholder process on April 2010. At that time, the CAISO didn't bring up the proposed 1% annual increase of the revenue requirement cap (RRC) for 2012 to 2016. Only now, at the end of the stakeholder process, has CAISO raised this issue. The CAISO and the stakeholders should have more time to work on this, and, given the tight timeline, this issue should be parked for future consideration.

The CAISO has proposed a 1% increase of the RRC every year from 2012 to 2016, and also to waive the 205 filing requirements during the same time period. With economic uncertainties in California in the future (six years look ahead), the CPUC staff does not believe that the CAISO should be granted the flexibility to spend this additional customer money without proper vetting by stakeholders. This proposal is premature and the 1% increase of the RRC should not be included in this stakeholder process.

The \$197 million revenue requirement cap is sufficient for year 2012

The CAISO has asserted that the driver for the 1% increase of the RRC is mainly due to forecasted salary and benefit increases for its employees. However, with the current downturn of the economy many private businesses are facing employee lay offs and salary and benefit decreases. California's budgetary crisis speaks for itself. In this economic climate, it is difficult to see the rationale for increasing the salaries and benefits for the CAISO's employees. Looking ahead on a six-year time frame, what is the CAISO's confidence level in asserting the need of a 1% increase in the RRC? Did the CAISO conduct any studies or analysis to arrive at this number? If so, it would be helpful to share this information with stakeholders.

The original \$195 million RRC was an outcome of the 2004 GMC settlement and reflected stakeholder concerns over a perceived lack of budget control at the CAISO. Later, in response to MRTU development costs, the CAISO proposed to increase the RRC from \$195 million to \$197 million in 2006.

The CPUC staff commends the performance of CAISO in implementing the MRTU and understands that RRC increases were necessary to support start up efforts. However, it is unclear why RRC increases are needed going forward. The CAISO acknowledges that it does not need

January 27, 2011

Page 2

the same level of funding in developing market products and services as it did for MRTU development in past years. Therefore, it should be expected that the CAISO could operate under a smaller annual budget. The existing RRC of \$197 million should be more than sufficient through 2012. Beyond 2012, the CAISO could submit a 205 filing to either extend the RRC, or to modify the RRC to reflect budget requirements at that time.

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