Stakeholder Comments on GMC 2012 rate design process discussed April 21, 2010

Please comment on the following

1. Process suggestions and improvements
2. Proposed calendar of events
3. SMCR allocation based on settlement charges
4. 35% of Core Reliability Services going to Energy Transmission Services, both Net Energy and Uninstructed Energy
5. 80%/20% split of Energy Transmission Services between metered load and uninstructed imbalance energy
6. Billing determinants
7. Other issues

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SCE	Southern California Edison submits these comments in response to the request of the ISO for stakeholder input regarding the 2012 Cost of Service Study for the 2012 GMC rates. The ISO specifically requested input on several issues, as follows with SCE's input: 1) Process suggestions and improvements. SCE does not have any suggestions to improve the process of conducting the 2012 Cost of Service Study. 2) Proposed calendar of events. The proposed schedule for completing the 2012 Cost of Service Study is reasonable. 3) SMCR allocation based on settlement charges. SCE is supportive of the current method of billing SMCR costs, where a given amount (currently $1,000 per month) is collected through a fixed charge from each SC that has activity in a month, and the remainder of costs is reallocated to other GMC charge buckets. It seems appropriate to have a fixed cost component of the GMC to represent that there are a certain amount of fixed costs that the ISO incurs in servicing an SC, regardless of its size (such as sending out a bill each month to each SC, and doing accounting on a per SC basis). Accordingly, SCE is not supportive of eliminating the fixed charge component of the SMCR charge. SCE is open to the possibility of billing the remainder of SMCR costs not collected through the $1,000 monthly charge in proportion to an SC's settlement charges, rather than reallocating the costs to other GMC cost buckets. This could be appropriate if it could be demonstrated that there is both a fixed cost component of servicing SCs, as well as a variable cost that is in some measure proportional to the amount of business that an SC does with the ISO. 4) 35% of Core Reliability Services going to Energy Transmission Services, both Net Energy and Uninstructed Energy. SCE is generally supportive of the current transfer of CRS costs to the ETS cost bucket. This transfer originated as a result of the settlement of the 2004 GMC case (ER04-115), and therefore in SCE's view represents a consensus among stakeholders that likely should be maintained. However, SCE would like to see more cost information	The issues, concerns and suggestions raised by SCE have been incorporated into the new proposed GMC rate design

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	before definitively supporting this cost allocation transfer. 5) 80%/20% split of Energy Transmission Services between metered load and uninstructed imbalance energy. SCE is supportive of maintaining the 80/20 split between the ETS costs that are recovered from metered load and costs that are recovered from uninstructed imbalance energy, assuming that the underlying relationship between metered load and uninstructed deviation energy have not changed since the original study. The original rationale for a split billing determinant of the ETS charge was that ETS costs are scalable costs that vary in proportion to the level of activity on the transmission system. Metered load and uninstructed imbalance energy are both measures of this scalable activity, and so both are appropriate as billing determinants. The 80/20 split was based on an analysis of the standard deviation of energy versus deviations. If this basic relationship has not changed much since the original study, SCE is supportive of keeping the 80/20 split. Additionally, SCE agrees that it is appropriate to allocate some ETS costs to uninstructed imbalance energy from an incentive perspective, in order to provide SCs with the incentive to minimize these deviations. 6) Billing determinants - SCE supports the current set of billing determinants. 7) Other issues.- SCE has no other issues to raise at this point.	
PG&E	PG&E proposes that the rate for the Settlements, Metering and Client Relations (SMCR) Charge Type be doubled, from the current $1,000 per month charge to $2,000 per month. CAISO cost studies have long established that the current SMCR charge recovers only a small fraction of the costs associated with SMCR activities. Increasing the monthly SMCR charge to $2,000 will move the charge, albeit minimally, closer to a cost-based rate. Regarding other GMC allocations, such as the allocation of certain Core Reliability Services (CRS) costs to Energy Transmission Services – Net Energy (ETS-NE), PG&E does not have enough information to formulate an opinion. PG&E will be able to formulate an opinion once quantitative analyses, such as cost-of-service or bill impact analyses, are available from the CAISO.	The issues, concerns and suggestions raised by PG&E have been incorporated into the new proposed GMC rate design

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MID / SVP	The Modesto Irrigation District ("MID") and the City of Santa Clara, California, doing business as Silicon Valley Power ("SVP"), thank the California Independent System Operator Corporation ("CAISO") for the opportunity to submit comments concerning the CAISO's Grid Management Charge ("GMC") for 2011 and Cost-of-Service study considerations leading up to a filing in 2012. MID's and SVP's comments concern the latter issue, the CAISO's development of a Cost-of-Service study over 2010-11, and for what purpose that study would be used for the GMC that would take effect January 1,2012. MID and SVP believe that the CAISO should, and is obligated to, file a full Federal Power Act ("FPA") Section 205 filing for 2012, which includes the information required in the Federal Energy Regulatory Commission's ("FERC" or "Commission") regulations in 18 C.F.R. 35.13, *et seq.* The CAISO has not submitted a GMC filing with full Section 35.13 support since its GMC filing aimed to take effect in 2004. Since that time, the CAISO has undergone a sea change in operations, business objectives and infrastructure, headlined by the Market Redesign and Technology Update ("MRTU"). In addition, the CAISO has undergone construction of a new building meant to meet the requirements of a rigorous Reliability Standard regime required as a result of the Energy Policy Act of2005. While it is understandable that the CAISO would not want to undertake a full Section 35.13 filing during the development and start-up of MRTU, it appears, particularly with the addition of new capital investments such as the CAISO headquarters, that the CAISO should file with the Commission, as soon as practicable, a full Section 35.13 filing. A full section 35.13 filing is, in MID's and SVP's view, what was intended by the Tariff language that arose from the settlement that requires the CAISO to file a Section 205 filing at the end of a GMC term. While stakeholders have agreed to extensions in the past, the only logical meaning for the language is that it would ultimately require a full Section 205 filing with Section 35.13 support. Section 35.13 filings fulfill important needs for both stakeholders and the Commission. A formulary approach makes it more difficult to determine whether the FERC rate regulated public utility is making reasonable forecasts. Even this year, we have found that the CAISO has had to use its Tariff rate adjustment authority twice. Whether or not factors are outside of the CAISO's control, a Section 35.13 filing under FPA Section 205, as opposed to Section 206, allows the Commission and stakeholders to determine whether expense projections were reasonable when made. Further, Section 35.13 support helps establish accurate cost allocations. As part of filing Section 35.13 support, the CAISO needs to perform and submit an updated Cost-of Service and use that Cost-of-Service to re-establish the allocation factors. One problem with the CAISO extension approach that has been used in the past is that the	The issues, concerns and suggestions raised by SVP and MIDISO regarding a rigorous cost-of-service study have been incorporated into the process. A cost-of-service analysis based on using Activity based costing and process mapping was undertaken. The resulting study was posted and presented at the October stakeholder meeting. Section 35.13 is triggered whenever the ISO makes a Section 205 filing to change rates in a "rate schedules, tariff or service agreement." Therefore, the ISO will comply with any Section 35.13 provisions that are applicable to the 2012 GMC changes that are submitted for approval. The ISO notes that many of the information categories described in Section 35.13 do not apply to the ISO and the calculation of the GMC.

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	stakeholders tend to walk through the motions rather than focusing on cost allocations to determine if they are updated and accurate. The CAISO is well aware of concerns that the allocation of Settlements, Metering and Client Relations ("SMCR") activity costs do not reflect actual cost causation principles. Moreover, a formulary rate shifts the burden on stakeholders and the Commission to question annual costs. At FERC, a concerned stakeholder would have to raise a complaint under FP A Section 206 to challenge CAISO costs, and the Commission would have to open an investigation under FP A Section 206 to undertake its own review. Further, the granularity of data may not be sufficient for full Commission review of CAISO costs. Cost containment concerns have been raised previously. A May 21, 2007 letter to the U.S. Government Accountability Office from Senators Lieberman and Collins noted that, "While the RTOs/ISOs have no profit motive, they also are not subject to the usual pressures or mechanisms to keep the rates charged for their services low." While the letter referred to lack of competitive pressure, owing to the fact that RTOs/ISOs have a monopoly over certain functions, one of the usual mechanisms that has been absent has been full cost-of-service review. Further, the GAO's subsequent report on electricity restructuring *(note 1 - GAO Report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate, "Electricity Restructuring: FERC Could Take Additional Steps to Analyze Regional Transmission Organizations' Benefits and Performance" at 36-43 (Sept. 2008) ("GAO Report").)* was concerned with FERC's lack of regular review of proposed RTO/ISO expenses. The GAO was aware of the extensions that deferred full review of the CAISO's expenses. *(note 2- See id. at 37.)* A full Section 205 filing with Section 35.13 support, whether or not resulting in certain revenue requirement adjustments, could cause an independent third party such as FERC Staff and other regulatory functions, to review CAISO costs and improve stakeholder confidence in both the CAISO's cost review processes and the administration of the CAISO's functions, particularly after the major capital expenditures of the past several years. While the revenue requirement cap has helped keep the annual rate down, the CAISO has been permitted to borrow debt, and market participants want to ensure that GMC rates decrease due to reduced debt payments as soon as practicable. MID and SVP urge other market participants to become more involved in the process of GMC review. Because CAISO GMC costs can be automatically passed-through by many market participants, there has been less incentive to undertake the exercise contemplated under Section 35.13. Nevertheless, given the current economic climate, MID and SVP urge heightened interest in reviewing costs and forecasts. On a separate issue of what substantively should be considered in the Cost-of-Service study, MID and SVP note that Ben Arikawa submitted testimony on the CAISO's Cost-of-Service in 2008. At that time, the CAISO's analysis and Cost-of-	

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	Service study appeared to be a conversion of the old CAISO Cost Centers to new CAISO Cost Centers and also included the CAISO Staffs initial thinking regarding how MRTU costs should be collected in GMC rates. MID and SVP believe that a more rigorous Cost-of-Service study should be undertaken. MID and SVP maintain that we do not fully understand the CAISO's costs and the CAISO's analysis of those costs without the benefit of Time Sheets and tracking. MID and SVP understand that the CAISO is implementing an Activity Based Cost method to track CAISO Staff time and their consultants - a method supported by MID, SVP and others. Further, MID and SVP request that the CAISO provide a further explanation of how it forecasts denominators in the GMC rate determination. While it is understood that weather and economic factors can affect the denominators through lower energy sales, it is important to MID and SVP that stakeholders understand how the CAISO develops its ongoing forecasts for those denominators, including ongoing consideration of all factors (weather, economic and otherwise).	