Template for comments

Please use the template below to submit comments to the CAISO.

Stakeholder Comments Template
Subject: 2012 GMC Cost of Service Straw Proposal

Submitted by (Name and phone number)	Company or Entity	Date Submitted
Jeff Davis (209) 526-7504	Modesto Irrigation District	January 27, 2011

The Modesto Irrigation District ("MID") responds to the California Independent System Operator Corporation's ("CAISO") request for comments regarding its revisions to its Grid Management Charge ("GMC") proposal, targeted to become effective January 1, 2012. MID supports the CAISO on several of its revisions, including but not limited to, its proposal to revise the GMC rate design to acknowledge the proportionately lesser impact of Transmission Ownership Rights ("TORs") on the CAISO Grid. MID's remaining comments go to the CAISO's proposed structure for a revenue requirement cap that would go into effect January 1, 2012 and last for five years, increasing one percent per year. Under the CAISO's proposal, the cap above which the CAISO could not exceed without filing cost justification at the Federal Energy Regulatory Commission ("FERC") would increase from $197 million in calendar year 2012 to approximately $205 million in calendar year 2016.

MID is skeptical of and opposes the CAISO's revenue requirement cap proposal. MID's first objection goes to the built-in increases in revenue requirement. While MID understands that the CAISO intends to budget below the revenue requirement cap, and has made efforts to do so in the past, by proposing a one percent-per year increase, the CAISO signals that it does intend to spend up to the limit in place for a particular year. California's economy remains in a state that should dictate that increases in revenue requirement should be avoided whenever possible. The CAISO should make consideration of the consumer even more of a priority in this economic climate. While there have been some economic indicators that suggest some cause for optimism, it is premature to predict that the economy will improve significantly in the next couple years. California's unemployment rate increased to 12.5 percent in December, 2010. The rate for Stanislaus County, where MID is located, is higher, at 17.6 percent. (Employment Development Department, State of California - http://www.edd.ca.gov/About_EDD/pdf/urate201101.pdf). This figure does not include the underemployed. California is the third worst state in the nation in foreclosure rates, behind only Nevada and Arizona. One in every 203 housing units received a foreclosure filing in December, 2010 in California. (http://www.realtytrac.com/trendcenter/). The rate in Stanislaus County is worse, at 1 in every 104 housing units. (http://www.realtytrac.com/trendcenter/ca-trend.html). On top of those concerns, state and local budgetary issues remain far from resolved, and the impact of future cuts has not been reflected in the economy.

Likewise, it is premature to project that trading volumes will increase measurably in the next couple years. Similarly, predicting significant load growth in the state is premature at this time. If trade volumes do not increase, it would be difficult to maintain GMC rates at an average $0.80/MWh level. If the economy does improve, and the CAISO's administrative costs increase, the CAISO would not be precluded from proposing a new revenue requirement at FERC to justify such costs. However, as evidenced by the Midwest Independent System Operator's ("MISO's") "rolled in" rates, if the economy does improve and California's load does increase, that should not necessarily merit an increase in costs for the CAISO. (MISO's "rolled in" administrative costs rate is approximately $0.40/MWh of load serving approximately double the load of the CAISO. (2010 ISO/RTO Metrics Report at p. 190 - http://www.isorto.org/atf/cf/%7B5B4E85C6-7EAC-40A0-8DC3-003829518EBD%7D/2010%20ISO-RTO%20Metrics%20Report.pdf)). When one extends the range covered by the proposal to four to five years, as the CAISO has done, projections regarding the economy and trading volumes become even more tenuous.

A five year revenue requirement proposal, with a built-in escalator is problematic for other reasons. With the significant financial milestone of MRTU debt being retired within three years, maintaining a steady, revenue requirement increase is counterintuitive. MRTU is still relatively new, and the administrative costs of the CAISO in managing the grid are unpredictable at this point. The amount of enhancements to MRTU over the next five years is unpredictable. While some enhancements could be ordered by FERC or be seen as necessary, others are discretionary or leave room for flexibility, and the CAISO does not have to pursue each enhancement suggested by stakeholders. An example of an enhancement that was postponed was the initiative to further disaggregate the locational prices paid by load. This was an enhancement that FERC wanted within three years of the implementation of MRTU. However, with a majority of stakeholder approval, the CAISO has asked FERC to further delay this enhancement requirement.

As a compromise proposal, MID would not object to a three-year revenue requirement proposal with no percent escalator to the present cap. Such a proposal is a significant departure from MID's position voiced earlier in this process that traditional cost-of-service rate filings under Federal Power Act Section 205 are the appropriate means for gaining regulatory approval of the GMC.[1] MID believes that Section 205 filings provide better protections for the consumer, as the burden is on the filing utility to show the proposed rate is just and reasonable, as opposed to a Section 206 complaint, where the burden is placed on the complainant to show that a rate is or has become unjust and unreasonable, and the expense and initiative is placed on the complainant for raising the concerns. A three-year limit would give the CAISO the opportunity to review the landscape after the retirement of MRTU debt and decide on a revenue requirement proposal that matches contemporary data. Further, if the CAISO finds, for example, in year two, that it is directed to implement a market enhancement, the revenue requirement cap would not preclude the CAISO from filing at FERC for recovery of a revenue requirement that would pay for the market enhancement.[2] A slower, deliberate approach is consistent with the way the CAISO treated load granularity, and would be beneficial to the consumers of the CAISO's services when it comes to CAISO administrative costs. For these reasons, MID supports a more deliberate approach concerning the CAISO's revenue requirement.

---

[1] As such, MID notes that this position is in the spirit of compromise, and MID reserves the right to advocate for a traditional cost-of-service filing under Section 205 or other alternatives in the future.

[2] *See also Southern California Edison Co.*, 133 FERC ¶ 61,269 at P 28 (2010) (citing ability of utility of the right to change rates "at any time, provided the filing is consistent with the utility's right to change rates").