CAISO Stakeholder Process for Grid Management Charge
Cost-of-Service Study Discussion Paper for 2012

Joint Comments of the
Modesto Irrigation District and the City of Santa Clara, California

October 21, 2010

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") Cost-of-Service Study discussion paper to be used in an analysis leading up to a GMC filing for 2012.

MID/SVP have concerns regarding a proposal that would use SCIDs (active or inactive) as a billing determinant, as expressed on slide 17 of the CAISO's Oct. 14 presentation on the Cost-of-Service study. While there may be better solutions to allocating the costs that were attributed to the Settlements, Metering and Client Relations ("SMCR") bucket, which MID/SVP understand is proposed to be retired in the next rate design, MID/SVP are concerned with a potential continuation and expansion of the billing determinant used for SMCR. MID/SVP's concerns were realized earlier after reviewing the proposal submitted by Pacific Gas and Electric Company ("PG&E"), in PG&E's June 18, 2010 comments in this stakeholder process.[1] PG&E expressed a preference to increase the SMCR charge to $2,000 per SCID per month. MID/SVP strongly oppose the proposal to increase per-SCID costs in the next rate design, and would support elimination of the use of such a per-SCID cost allocation method in the GMC altogether.

A per-SCID billing determinant is punitive toward smaller entities, as the same charge is assessed to differing entities irrespective of size. Also, an entity may elect to use one or more SCIDs, which does not necessarily reflect a greater proportion of business that such entity may conduct in comparison to a smaller entity. Further, entities may use separate SCIDs for specific, valid, business purposes, such as distinguishing sales transactions to different classes of entities. Emphasizing cost allocation on a per-SCID basis greatly discourages market participants from using SCIDs for such purposes. While MID/SVP have endured under this approach under the current rate design, MID/SVP do not want to see it increased or expanded.

MID/SVP also do not believe that a charge on inactive SCIDs is justified. MID/SVP have a hard time seeing how inactive SCIDs create significant work for the CAISO. Once an SCID is created, it would seem that the primary effort and expense in connection with such SCID would have passed. Thereafter, the CAISO's ongoing work with respect to SCIDs should be minimal, and this is even more the case with respect to inactive ones. For example, settlements as to inactive SCIDs should be relatively simple to produce, as there should be no transaction information to report and verify. Further, SCIDs can be

[1] MID's/SVP's and PG&E's June 18, 2010 comments referred to herein were posted under the 2011 GMC Stakeholder Process link: http://www.caiso.com/2768/2768e445540e0.html .

inactive for relatively short periods of time, for example two-to-three months, and such short periods of inactivity should not warrant the same charge as if the SCID(s) were active. SCIDs can also be inactive for longer periods of time. If the CAISO is concerned about SCIDs remaining inactive for long periods of time, a better option (instead of levying a charge) would be for the CAISO to correspond with the holder of the SCID to discuss whether such SCID should be retired.

Further, the CAISO is aware of MID/SVP's concerns regarding a formula rate concept utilized over a long-period of time. As illustrated from the CAISO's presentation, when debt service is retired, as is projected in 2013, or other expenses decrease, there is no effective protection to prevent spending up to the revenue requirement cap. MID/SVP's concerns are expressed in greater detail in their joint comments submitted to the CAISO on June 18, 2010.