CAISO Stakeholder Process for Grid Management Charge for 2011 and Cost-of-Service for 2012

Comments by the Modesto Irrigation District and the City of Santa Clara, California, doing business as Silicon Valley Power

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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 of 2005. 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 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 FPA Section 206 to challenge CAISO costs, and the Commission would have to open an investigation under FPA 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[1] 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.[2]

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.

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[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").
[2] *See id.* at 37.

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-Service study appeared to be a conversion of the old CAISO Cost Centers to new CAISO Cost Centers and also included the CAISO Staff's 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).