Decision on Integrated Balancing Authority Area Proposal (IBAA)

Steve Greenleaf, Director, Regional Market Initiatives

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General Session
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The objective of this presentation is to obtain Board approval of the following:

- IBAA modeling methodology
- IBAA pricing methodology
- Proposal to address impact of IBAA proposal on Congestion Revenue Rights
- Proposed process for creating or modifying IBAAs
- Authorization to continue discussions with affected IBAA entities
What are IBAAs… and why SMUD, TID first?

- Multiple interconnections with the CAISO
- Parallel transmission
- Differences scheduled v actual flows
- Availability of information

Because of these characteristics we need to

- Appropriately model and price transactions with IBAA
The CAISO followed a consultation & stakeholder process to arrive at this proposal

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<tr>
<th>Date</th>
<th>Event Description</th>
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<tbody>
<tr>
<td>February 2006</td>
<td>Initial MRTU tariff filing re IBAAs</td>
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<td>Throughout 2006</td>
<td>Bilateral discussions, FERC Seams</td>
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<td>Technical Conference</td>
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<td>Beginning Spring 2007</td>
<td>CAISO engaged SMUD, TID, others in IBAA discussions</td>
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<td>December 2007 - Present</td>
<td>CAISO conducted broader stakeholder process</td>
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The IBAA proposal was originally intended to achieve the following objectives:

- Ensure feasible forward-market schedules (modeling accuracy)

- Effective Congestion Management
  - Align forward market *schedules* and *prices*
  - Increase market efficiency

- Eliminate poor pricing incentives (gaming).
CAISO original proposal placed greater emphasis on modeling accuracy….
...but Market Surveillance Committee and CAISO’s expert consultant raised concerns with design...

Purported “accuracy” is illusory – need better information on resources supporting transactions

Proposal subject to gaming
Imports – Captain Jack
April: $50.51
June 30: $90.48

Exports - SMUD Hub
April: $53.07
June 30: $98.45

CAISO therefore modified proposal to address pricing concerns....

Single Hub Proposal
- Flow model based on distribution factors
- Default Pricing Rule: imports to CAISO priced at Captain Jack, exports from CAISO priced at SMUD
- Alternative pricing available depending on satisfying information requirements
Stakeholders generally support better modeling, but either do not support or are uncertain on pricing

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<tr>
<th>Stakeholder</th>
<th>Comments</th>
<th>Management Response</th>
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<tr>
<td>IBAA entities (SMUD, Western, TANC, TID, MID, Redding, DOE, CCSF, SVP, CMUA)</td>
<td>Oppose pricing, Generally support better modeling, Negotiated agreements, Conditionally support IBAA CRR and process proposals</td>
<td>Default Pricing Rule and option for alternative pricing is balanced, Pricing rules must apply to and work for all CAISO market participants</td>
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<td>Investor Owned Utilities (Edison, PG&amp;E, SDG&amp;E)</td>
<td>Generally support modeling, pricing proposal and CRR and process recommendation, Concerned about one-off agreements</td>
<td>All alternative pricing arrangements must benefit CAISO and will be filed at FERC</td>
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<td>Powerex, WPTF, IID and Calpine</td>
<td>All support objectives, Powerex – supports proposal, WPTF - pricing not supported/timely</td>
<td>Proposed pricing methodology appropriately supported</td>
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Therefore, based on all of the above, Management recommends that the Board approve the following:

- Single-Hub (Proxy Bus)

- Default Pricing Rule (Imports – Captain Jack, Exports at SMUD Hub)

- Provide opportunity for alternative pricing if the CAISO is provided additional information that provides a benefit to the CAISO and its customers.