

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

California Independent System)
Operator Corporation) Docket No. ER06-615-002

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION JOINT
QUARTERLY SEAMS REPORTS FOR THE
FOURTH QUARTER OF 2007**

In compliance with the Federal Energy Regulatory Commission’s (“FERC” or Commission) September 21, 2006, order directing “the CAISO and neighboring control areas to meet as needed to resolve seams between them” and to “jointly report on the progress of these efforts in quarterly status reports filed with the Commission within 30 days of the end of each calendar quarter,”¹ the California Independent System Operator Corporation (“CAISO”) hereby submits joint quarterly reports with Western Area Power Administration (“Western”); the Los Angeles Department of Water and Power (“LADWP”), the Bonneville Power Administration (“Bonneville”) regarding seams-related discussions that took place during the fourth quarter of 2007. The joint status reports identify and, as appropriate, summarize bilateral discussions between the CAISO and neighboring control areas regarding seams issues. In addition, the CAISO also reports on additional seams-related activities and discussions facilitated by the Western Electricity Coordinating Council (“WECC”) during the fourth quarter of 2007.

¹ *California Independent System Operator Corp.* 116 FERC ¶ 61,274 at P 490 (emphasis in original) (“September 21 Order”).

I. INTRODUCTION

In an effort to continue to identify and resolve inter-control area seams issues, during the fourth quarter of 2007 the CAISO has met with: Western, LADWP, and Bonneville. The CAISO is submitting joint reports with these parties as provided below in Part III, and related Attachments, of this report.

In the fourth quarter of 2007, representatives of the CAISO also met with representatives of other control areas in the Western Interconnection under the auspices of committees organized by the WECC. The purpose of these meetings is to identify and discuss any issues that might exist today or might arise with the inception of MRTU that could affect the operation of interconnected control areas as well as to discuss general seams issues in the Western Interconnection. A summary of those meetings is provided in Section IV of this report. Finally, Section V includes the CAISO's status report regarding certain of the Commission's directives in its April 20, 2007, Order Granting In Part and Denying In Part Requests for Clarification and Rehearing of the September 21, 2006, MRTU Order.²

II. JOINT QUARTERLY REPORT PROCESS

As described further in this document, since the Commission's September 21 Order requiring the CAISO to meet with neighboring Control Areas to resolve seams issues, the CAISO has been diligently seeking to meet with its neighboring control areas to identify and resolve any seams issues. The CAISO is approaching this in a two-pronged fashion: (1) one-on-one meetings with neighboring control areas, and (2) participation in WECC committee activities on regional issues.

² *California Independent System Operator Corp.*, 119 FERC ¶ 61,076 (2007) ("Order on Rehearing").

In an attempt to fulfill the requirement for a joint reporting process on the meetings with neighboring control areas, the CAISO, working with neighboring control areas, has established what it views as an administratively simple process to ensure that the parties are in mutual agreement on the reports filed with the Commission. This process consists of the following.

- 1) At the time of the meeting the parties discuss the need for a joint report filing with the Commission and agree which party will prepare the first draft of the joint meeting report.
- 2) Within fourteen (14) calendar days following the end of the calendar quarter, the applicable party prepares the first draft of the meeting report and shares this with the meeting participants.
- 3) Within twenty-one (21) calendar days following the close of the calendar quarter the parties submit responsive comments to the entity that prepared the first draft of the meeting summary. Through any required iterations of modifications, the parties reach consensus that the summary may be filed as a joint report.³
- 4) At least one (1) day prior to filing the report with the Commission the CAISO provide to all counterparties a copy of the full text of the quarterly seams report.
- 5) The CAISO then includes all joint reports in the next quarterly report to the Commission or any supplement to such quarterly report.

³ Should the CAISO and the counter party fail to reach a consensus on the summary, the CAISO shall inform the Commission of this fact in its quarterly report. In such instances, nothing shall limit a party's right to provide additional information, comments or summaries to the Commission regarding seams discussions between the CAISO and neighboring control areas.

With respect to the WECC process, the CAISO continues to work with the chairs of the relevant committees to develop a mutually-agreeable description of WECC activities to be filed with this quarterly status report.

III. JOINT REPORT OF THE CAISO AND OTHER CONTROL AREAS

Attachments A – C of this filing include joint reports of the one-on-one meetings between the CAISO and certain neighboring Balancing Authority Areas. As note above, the CAISO met with the following parties during the fourth quarter of 2007:

Western – December 27, 2007;

LADWP – October 25, and December 16, 2007; and

Bonneville – December 27, 2007.

IV. WECC SEAMS ACTIVITY

The CAISO continues to work through and with the established WECC committees to identify and discuss potential seams issues. During the fourth quarter of 2007, the CAISO has engaged in discussions facilitated by the WECC Seams Issues Subcommittee (“SIS”) of the WECC Market Interface Committee (“MIC”). A summary of the WECC SIS discussions is provided below. The following summary of seams efforts of WECC committees for the fourth quarter of 2007 was presented to Jerry Smith, Chair of the WECC SIS and Vice-Chair of the MIC. Although this summary has not been formally adopted by the WECC, Mr. Smith authorized the CAISO to state that he has reviewed this summary and personally agrees with it.

Summary of Seams Issues Subcommittee Activities

The SIS held a meeting on December 13-14, 2007. Although not yet posted, the meeting minutes are anticipated to be posted on the WECC website (<http://www.wecc.biz>) prior to the next WECC SIS meeting.

December 12-13, 2007 SIS Meeting

As summarized in the draft meeting notes, the December 12-13 SIS meeting primarily focused on reports from, and discussions related to, the following agenda items:

- 1) **Schedule Curtailment at Ties** – The SIS members discussed curtailment procedures at interties, with a particular focus of curtailments at the California Oregon Intertie (COI). The SIS members discussed Bonneville’s change to its curtailment process (effective December 1, 2007) and why such changes will likely address curtailment mismatch (on each side of the intertie) problems that have occurred in the past. The SIS members discussed the new process that provides for e-tag cuts on the Bonneville side and lets the “sink side” of the transaction determine how the cuts will be made. The SIS agreed to monitor the new process to determine if it addresses the problem and will also further evaluate whether a West-wide standard on how curtailments are made on interties is appropriate and necessary.
- 2) **WestConnect/CAISO Seams Coordination Paper** – Following up on the discussion at the August, 2007, SIS meeting, the SIS members reviewed and discussed the proposed WestConnect/CAISO Seams Coordination Paper and proposed process. As discussed at the August, 2007, SIS meeting, the proposed process is intended to establish a generic process by which entities in the West can identify and potentially resolve purported seams issues in the West. As discussed, under the process SIS would be required to investigate but would not be required to act. The entity claiming that a seams issue exists must demonstrate that they have been impacted by the seams issue. Pursuant to the process, the SIS-facilitated investigation will attempt to determine the nature/cause of the identified problem. The definition of potential seams issues was purposefully left open and non-specific to allow any issue to be addressed. However, the process is clear that the party raising the issue has the burden to demonstrate that there is a real and persistent issue to address. The SIS acknowledged that the process was not likely to be used often. SIS members also discussed whether this process can/should be used for e-tag denials. The seams investigation process was approved by the SIS. The process will be forwarded to the MIC for approval.

- 3) **Congestion Management Paper** – The SIS members reviewed and discussed a proposal for consideration by the Congestion Management Work Group regarding possible improvements to congestion management practices in the West. The primary focus of the paper was on real-time procedures, with a particular focus on the WECC Unscheduled Flow Mitigation Procedure. The paper acknowledged that the Reliability Coordinators may be taking over the obligation of curtailing schedules and that such a change would remove the marketers from the reliability process. The paper also discussed how the West-wide system model should enable calculation of Transmission Distribution Factors (TDFs) on a real time basis and should allow for recalculation of TDFs when outages occur. The SIS discussed whether a new tool is needed to calculate TDFs. The SIS agreed that it appears that all of the information needed to implement the proposed process is available on today's e- tags. The Congestion Management Work Group acknowledged that the paper is not a finished product. SIS participants recommended that examples of how Firm/Non-Firm cuts are made today and a discussion of alternative options be added to the paper. Finally, the SIS participants agreed that a day-ahead congestion process should be examined and that such a process may be easier to address than a real time process. The SIS discussed how a day-ahead process could be addressed by the sub-regions (Northern Tier, CAISO, WestConnect, Columbia Grid) to see if there is a solution to the larger regional congestion management issue. The SIS agreed that the congestion management issue should become a standing issue on the SIS agenda, including regular updates on the development of a day-ahead congestion management process. In addition, the SIS agreed that the SIS should get more involved with the Unscheduled Flow Administrative Subcommittee (UFAS). The SIS participants generally agreed that this is a seams issue and that the SIS and UFAS need to coordinate their activities on this matter.
- 4) **Updates on the CAISO's FERC Readiness Certificate and MRTU** – The CAISO provided an update on the implementation of MRTU. The CAISO distributed copies of the MRTU High-Level Timeline that is available at <http://www.caiso.com/1c59/1c59be0b44540.pdf>, and discussed that document, and the Draft MRTU Readiness Certification Plan and Draft MRTU Cutover and Reversion Plan (current versions of both available at <http://www.caiso.com/18ae/18ae96b71f1a0.html>). The CAISO's report indicated that, as of the December 13 – 14 SIS meeting, the CAISO was still on track for an April 1, 2008, MRTU implementation date. The CAISO acknowledged that there a number of outstanding issues and that much work remains. The CAISO also explained that it has formed a team that is working one-on-one with key market participants to resolve issues that arise as the implementation date approaches. The concern was raised by a SIS participant that last minute changes in how Transmission Rights Transmission Curtailment (TRTC) Instructions related to Existing Transmission Contracts are administered may cause congestion issues. The CAISO explained that it

has been working with market participants since several months ago to ensure that their TRTC Instructions have been correctly submitted, and its quick response team is available to resolve any remaining issues. The SIS agreed to discuss this issue at an upcoming meeting.

The SIS will hold a conference call on February 15, 2008. The next regularly scheduled in-person SIS meeting will take place on May 1, 2008.

V. UPDATE ON CAISO EFFORTS RELATED TO DIRECTIVES IN THE COMMISSION'S APRIL 20, 2007, ORDER ON REHEARING

On April 20, 2007, the Commission issued an Order Granting In Part and Denying In Part Requests for Clarification and Rehearing ("Order on Rehearing") of its September 21, 2006, order on MRTU. The Order on Rehearing addressed a number of issues raised by parties on seams issues. Among other actions, the Commission's Order on Rehearing disposed of a number of issues raised in parties' comments, directed the CAISO to address certain issues, and imposed certain procedural requirements. The CAISO provides an update below on its efforts regarding certain of the Commission's directives in the Order on Rehearing.

MRTU Readiness – In paragraph 188 of the Order on Rehearing the Commission encourages the CAISO to provide periodic updates to the appropriate WECC committees and subcommittees such as the SIS on the status of its readiness efforts. In addition, the Commission directs the CAISO and neighboring control areas to include in their joint quarterly reports on seams the input and comments received from WECC Committees.

As discussed above, at the December 13-14, 2007, WECC SIS meeting, the CAISO provided an update on the CAISO's MRTU Readiness Program and the status of the CAISO's MRTU Cutover and Reversion Plan. The CAISO's update

indicated that, as of that date, the CAISO was still on track for an April 1, 2007, implementation of MRTU. The CAISO stated that while there are a lot of outstanding issues and much work is still needed, it appears the CAISO will reach its target go live date.⁴ The concern was raised by a SIS participant that last minute changes in how TRTC Instructions related to Existing Transmission Contracts are administered may cause congestion issues. The CAISO explained that it has been working with market participants since several months ago to ensure that their TRTC Instructions have been correctly submitted, and its quick response team is available to resolve any remaining issues. The SIS agreed to discuss this issue at an upcoming meeting.

Data Exchange – In paragraph 208 of the Order on Rehearing, the Commission stated that, “...we encourage the commenters to work through the appropriate WECC committees to identify and put in place a process for exchange of data among WECC control areas and take advantage of the West-wide System Model.” In addition, the Commission stated that, “We expect the CAISO to participate fully in this process and direct it and neighboring control areas to include in their quarterly joint seams reports the status of efforts on data exchange and modeling.

As reported in the CAISO’s Third Quarter FERC Seams Report, the CAISO, and all other entities subject to the Commission-approved North American Electric Reliability Corporation’s National Reliability Standards, is enhancing its compliance efforts with respect to all of the applicable standards. Among others, the Reliability Data Sharing Requirements Standard TOP-005-1 provides that Balancing Authorities

⁴ As of the date of this filing, the status of MRTU implementation has changed and April 1, 2008, is no longer viable.

and Transmission Operators with immediate responsibility for operational reliability share with other such Balancing Authorities and Transmission Operators, upon request, the data necessary to perform operational reliability assessments and coordinate reliable operation of the interconnected system. As summarized in the CAISO's Third Quarter FERC Seams Report and in the attached Joint Report with LADWP (**Attachment B**), the CAISO is continuing to work with LADWP and other neighboring Balancing Authorities and Transmission Operators to ensure that the CAISO provides, and is supplied, the requisite information. As stated in **Attachment B**, in a letter dated December 18, 2007, LADWP memorialized discussions among various Balancing Authorities and the commitment of those Balancing Authorities to continued coordination through appropriate notifications, the exchange of data, coordination of plans and schedules, and other related actions. The CAISO is committed to continued coordination with LADWP and all other Balancing Authorities in the region. In collaboration with these entities, the CAISO will continue to update the Commission regarding these activities.

VI. CONCLUSION

Wherefore, the CAISO respectfully requests that the Commission accept this quarterly seams status report.

Respectfully submitted,

/s/Anna A McKenna

Nancy Saracino
General Counsel
Anna McKenna
Counsel
Steve Greenleaf
Director, Regional Market Initiatives
California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400

amckenna@caiso.com
sgreenleaf@caiso.com

Dated: January 30, 2008

Certificate of Service

I hereby certify that I have this day served a copy of this document upon all parties listed on the official service list compiled by the Secretary in the above-captioned proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated this 30th day of January, 2008 at Folsom in the State of California.

/s/ Susan L. Montana

Susan L. Montana

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION****Joint Report on Control Area Meeting between the California ISO and
Western Area Power Administration****January 30, 2008**

As part of the Federal Energy Regulatory Commission's (FERC) conditional approval of the California Independent System Operator Corporation's (CAISO) Market Redesign Technology Upgrade (MRTU) initiative, FERC directed the CAISO, Western Area Power Administration (Western), as well as other adjacent control areas (now referred to as Balancing Authority Areas or BAAs) to file joint quarterly reports which identify MRTU-related implementation issues and the progress that the parties are making to resolve such issues in a timely and effective manner.

Since the filing of the October 30, 2007, joint report, the CAISO and Western have met and exchanged letters outlining our respective positions on several outstanding issues.

1. Modeling Transactions in Certain Balancing Areas

As reported in the CAISO and Western's Second Quarter 2007 Joint Seams Report, the CAISO first introduced its proposal for modeling certain adjacent balancing areas (BA) including those operated by the Sacramento Municipal Utility District (SMUD), Turlock Irrigation District (TID), and Western Area Power Administration (Western) on June 5, 2007. As reported in the Third Quarter 2007 CAISO-Western Joint Seams Report, the parties further discussed this issue on August 9, 2007, and August 21, 2007. The CAISO subsequently provided Western, SMUD and TID a proposal in writing on October 5, 2007. The CAISO and Western most recently exchanged letters outlining our respective positions on November 14th and December 6th. A face-to-face discussion occurred on December 11th, and was followed up by a January 4, 2008, letter from Western and its IBAA counterparts to the CAISO. Additionally, Western and other IBAA operators (e.g., SMUD and TID) and IBAA participants (e.g., Modesto Irrigation District, Cities of Redding and Roseville, U.S. Bureau of Reclamation, and the U.S. Department of Energy) either attended or dialed-in on two CAISO-hosted meetings where the IBAA proposal was discussed with other CAISO stakeholders. The CAISO and Western continue to have philosophical differences with respect to the CAISO's proposed new approach for modeling transactions (i.e., prices, schedules, and settlements) from certain adjacent

BAAs. Western believes that this is a critical issue that must be mutually resolved before MRTU is implemented.

In short, Western believes that the CAISO's proposal is not timely, is incomplete, and lacks detailed supporting analyses. Additionally, it appears from Western's perspective that the proposal is being implemented in a piecemeal, rather than a comprehensive approach. Western believes that the proposal's implementation may cause unintended impacts which may not only disadvantage Western and certain other BAA operators and their participants, but may also inadvertently result in discriminatory treatment *vis a vis* other market participants. In addition, Western is concerned that the proposal may devalue the existing investment in transmission infrastructure made by Western and other impacted BA members under a legacy regulatory scheme.

Western also believes that given what it represents is the relatively late finalization of the proposal, and in the event that potential financial harm is shown to Western, that the CAISO should consider revisiting its allocation of congestion revenue rights (CRR) as Western's CRR decisions were made under different scheduling assumptions. Western believes that this proposal in its entirety must be mutually resolved and the CAISO must file and receive approval from FERC before the proposal can be implemented. Throughout this process, Western was under the impression that the CAISO would use a more collaborative approach and as a result, the CAISO would not consider implementing it unilaterally as the CAISO is currently proposing.

The CAISO does not concur with Western's positions. As provided for in the conditionally-approved MRTU Tariff language, the CAISO has always intended to address the unique circumstances of the previously named Adjacent/Embedded Control Areas and that, as acknowledged in the Commission's September 21, 2006, Order on MRTU, the Commission recognized the need for the CAISO to work with the appropriate entities to obtain the information necessary to model, and establish the appropriate settlement treatment of, IBAs. The CAISO has endeavored to work with Western and other affected IBAs and, despite best efforts, has been unable to reach agreement. Notwithstanding the fact that the parties were unable to reach consensus, the CAISO believes that there exists a well-articulated rationale for the need to implement its proposal and that the proposal is well supported by the facts and underlying studies. The CAISO has also taken the position that it has the general authority under the conditionally approved MRTU Tariff language to implement its proposed modeling approach. Moreover, the CAISO does not believe that it is implementing its proposal in a piecemeal fashion. The Commission previously acknowledged the need for the CAISO to work with other BAAs to obtain the requisite information for accurately modeling these entities in the CAISO's MRTU models, systems and applications. To date, the CAISO has only been able to complete modeling of the SMUD/Western and TID systems and portions of the transmission system in Southern California/Desert Southwest. Moreover, and with respect to Western's concerns regarding the impact of the proposal on its CRRs, the CAISO has previously clarified that the proposed modeling detail was included in the

Network Model used for CRR allocation and auction purposes and, as stated in the CAISO's discussion paper, the CAISO will ensure that entities allocated CRRs to/from the affected points will continue to receive the intended hedge against congestion costs (in other words, the CAISO will ensure that market congestion and CRRs are settled on a consistent basis). That said, the CAISO appreciates the concerns raised by Western and others regarding the efficacy of existing CAISO tariff language regarding this matter, and is further considering whether there is a need to further supplement the CAISO's existing MRTU Tariff language.

As of the date of this filing, the CAISO plans to file its IBAA proposal at the Commission on or around February 15, 2008. The CAISO's filing will include proposed CAISO Tariff changes that appropriately reflect implementation of the CAISO's IBAA proposal.

2. MRTU Readiness Issues

On December 27th, Western sent a letter to the CAISO which identified its critical MRTU-readiness to implement issues. The letter and accompanying attachment identified 25 outstanding implementation issues. Western identified 13 as being critical, and thus requiring resolution, prior to the start up of MRTU in order to avoid being precluded from either fully exercising its rights or fully participating in the CAISO's new MRTU market environment. At the present time, the CAISO has informally indicated that they believe that they have either resolved these issues, or are in the process of actively working on their resolution. Western seeks confirmation from the CAISO that its issues have been satisfactorily resolved and that the CAISO's proposed modifications are capable of being tested as part of ongoing market simulation activities. The CAISO has assured Western that most of these changes will be addressed and available for testing during Integrated Market Simulation Update 2. From Western's perspective, continued inability to test and verify that the required changes to CAISO business processes and software applications during market simulation activities increase our risk and uncertainty and increasingly raise the specter that Western will need to test these changes when MRTU goes into production. Western believes that this is an unacceptable risk for its stakeholders and customers. On January 23, 2008, the CAISO provided a response to Western's December 27, 2007, letter, addressing each of the issues raised by Western. The CAISO and Western will continue to work collaboratively to ensure that Western's issues are addressed prior to the MRTU Go- Live date.

3. Transmission Exchange Agreement (Pacific AC Intertie)

On December 27th, Western and CAISO staff met to discuss ongoing issues related to fully implementing contractual requirements associated with the Transmission Exchange Agreement (TEA). In previous discussions, Western informed the CAISO about its concerns regarding the potential that Western's

Pacific AC Intertie (PACI) rights under the TEA could inadvertently be stranded as a result of treating the Malin to Round Mountain segment as a transmission ownership right (TOR) and the Round Mountain to Tracy segment as an existing transmission contract (ETC).

Contractually and operationally, the CAISO treats the Western's PACI reservation as one integrated right and Western's 400-megawatt scheduling right has a superior priority with respect to any California-Oregon Intertie curtailments. Western represented that because they believe the CAISO's tariff does not allow ETCs to be renewed, under the proposed approach, when the TEA comes up for renewal, the Round Mountain to Tracy segment could be inadvertently extinguished. The CAISO acknowledged Western's concern and understood Western's position. The CAISO agreed to work with their legal group to identify an approach (treat the Round Mountain to Tracy segment as a TOR-like right) which would appropriately document and memorialize Western's rights. Western seeks confirmation that this issue has been resolved not only as soon as practicable, but before the start up of MRTU. On January 23, 2008, the CAISO sent Western a letter memorializing the CAISO's treatment of the TEA under MRTU. Subject to Western's review, the CAISO believes that Western's concerns regarding the treatment of the TEA under MRTU are resolved.

In addition to the potential stranding of Western's Round Mountain to Tracy segment of its PACI right, in previous FERC updates, Western has reported on the status of receiving multiple contract reference numbers (CRN) for its PACI scheduling rights. Under the terms of the TEA, the CAISO is contractually committed to providing Western with the right to have multiple CRNs for its PACI scheduling rights in order to allow Western to sell transmission service to third parties under Western's Open Access Transmission Tariff. Western and the CAISO met on December 27, 2007, to discuss a CAISO-proposed approach that would allow Western and appropriate Western-authorized users of Western's rights to receive congestion revenues and the scheduling rights/priorities associated with Western's TEA rights. Under the CAISO's proposal, Western and authorized users of its TEA rights would also receive the same settlement treatment provided for under the TEA. Pursuant to the terms of the TEA, except for losses and ancillary services in the event these two elements are not self-provided, the CAISO may not impose any charges on Western or any other Western-authorized user of Western's TEA rights including, but not limited to any CAISO market or administrative charges. In addition, Western and the CAISO discussed the CAISO's administrative need for developing a pre-approved list of eligible third parties to assure credit worthiness. Western appreciates the time and effort that the CAISO has expended in attempting to resolve this specific issue and is currently in the process of evaluating the CAISO's proposal and expects to provide its feedback shortly.

4. Grid Management Charges

During the December 27th discussions, Western and the CAISO also addressed the CAISO's ongoing efforts under the MRTU GMC initiative to potentially assess TOR rights holders with additional GMC charges. The CAISO agreed that under the terms of the TEA, such new charges were precluded, and as part of documenting Western's TEA rights, agreed to memorialize this additional clarification. Western again seeks confirmation in market simulation testing that its rights will be appropriately represented in the CAISO's billings/invoices.

As noted above, on January 23, 2008, the CAISO sent Western a letter memorializing the CAISO's treatment of the TEA under MRTU. In that letter, the CAISO, among other issues, states that CAISO administrative charges (GMC) do not apply to Western transactions that utilize its TEA rights. Western acknowledges receipt of that letter and is currently reviewing its contents to confirm that all of Western's requirements have or will be met. After Western completes its review and analysis of the letter's contents, Western anticipates sending a letter back to the CAISO concerning its conclusions

5. Update from the October 30, 2007 Joint Report

In reviewing our October 30, 2007, joint report, Western has several other outstanding issues needing resolution.

- *MRTU Curtailment of Firm Exports from the CAISO Control Area.* In the October 2007, joint report, the CAISO stated that firm exports would have the same priority as its own firm load. As a result, firm exports would only be cut as a last resort consistent with Western Electricity Coordinating Council policies and procedures. Based on these assurances Western believed that its concern regarding the potential curtailment of firm exports during real-time was resolved. Recently, Western has discovered that under certain constrained transmission conditions, the CAISO will establish and enforce export priorities. Under the CAISO's proposed new rules, the following export priorities will be enforced:

1. Transmission Ownership/Existing Transmission rights
2. Price Taker
3. Lower Price Taker
4. Economic

Western is currently evaluating whether this business rule will change Western's previous understanding of how the CAISO proposes to address Western's concern as it relates to the potential curtailment of firm exports from the CAISO balancing authority. In the event that the business rule changes the resolution of this issue, Western reserves the right to bring the issue to the attention of the CAISO again.

- *Self-Providing Ancillary Services (AS) from Boulder Canyon Project.* Western has recently raised concerns that the software modifications implemented by the CAISO staff to ensure that AS will continue to be provided from the Boulder Canyon Project (BCP) are not functioning as intended. Personnel from Western's Desert Southwest Region have requested a status report from Southern California Edison Company (SCE). Western was informed that SCE and the CAISO have been working to deploy the new software modifications, but to date, have not had any success. Lack of success has also caused the recertification process for this resource with the CAISO under post MRTU operations to also be delayed. Western is concerned that, under Federal law, resale of AS from BCP is prohibited. Western believes that in order to avoid regulatory entanglements it is essential that this issue be resolved prior to the start up of MRTU.

The CAISO has committed to work with Western and SCE to resolve this issue. At the time of this filing, the CAISO understands that the primary issue is with respect to the TRTC Instructions regarding treatment of the BCP facility. The CAISO believes that the TRTC issues have now been worked out and that the CAISO MRTU functionality is now not an issue. SCE is indicating to Desert Southwest personnel that they have been working diligently with the CAISO and are confident that all AS issues have been resolved. SCE's legal department is in the process of drafting a letter to Western wherein the pre-process functionality will be explained, a statement will be included that the process will function properly under MRTU, and a statement that CAISO will not require the re-certification of the BCP resource under MRTU. This letter is expected to be sent by the end of January 2008. Western staff will be working closely with their SCE counterparts during IMS Update 2 to test and confirm that the CAISO's recent software modifications have successfully resolved this issue.

- *Congestion Revenue Requirements (CRR).* Western noted in the October 2007 report that the CAISO had finalized its white paper reflecting its revised approach regarding its IBAA proposal only after the initial due date for submissions for Tier 1 CRR nominations and on the date Tier 2 CRR nominations opened for submissions. To the extent that the CAISO's implementation of its preferred modeling approach impacts Western's current CRR allocations or allocation requests, Western requests consideration from the CAISO for modification.

Consistent with representations made in the CAISO IBAA discussion paper, "The CAISO recognizes that the amount of Congestion cost that will be charged in the Day-Ahead Market for Schedules to or from an ACA will need to be consistent with the proposed pricing approach, but this does not affect the acquisition of CRRs whose purpose is to offset costs associated with Congestion costs that occur in the Day-Ahead Market...Therefore, the ultimately adopted pricing approach should not impact participation in the CRR allocation process for acquiring CRRs

whose purpose is to offset Congestion costs that occur in the Day-Ahead Market.”

As stated in the October report, the CAISO acknowledges that its IBAA discussion paper (provided to Western on October 5, 2007) was distributed after the CRR Tier 1 nomination process was concluded and at the start of the CRR Tier 2 nomination process. That said, the CAISO believes that in discussions that took place prior to Tier 1 nominations with Western and others, that the CAISO clearly indicated the pricing/settlement options under consideration and that the CAISO was uncomfortable with a scheduling point-based settlement option.

Both Western and the CAISO recognize that the Commission may have to resolve this issue.

- *Development of a data sharing agreement governing the terms and conditions under which Western would provide real-time information to CAISO.* Western and the CAISO discussed the CAISO’s Full Network Model FNM data needs, and the objective to help ensure an accurate power flow solution, that both optimizes use of the CAISO grid and improves reliability of grid operations in real time. The parties agreed that any such data exchanged will be proprietary and used only for operating purposes (i.e., not for market purposes). Western provided its comments to the CAISO’s original pro forma non-disclosure agreement on December 5, 2007, and is hopeful that a resolution of any outstanding issue(s) will be possible. Due to the information sharing that may occur on a west-wide basis, Western changed the character of the original agreement from an agreement between the CAISO and Western’s Sierra Nevada Region, to an agreement between the CAISO and Western’s Desert Southwest, Rocky Mountain, and Sierra Nevada regions.

The CAISO is currently reviewing Western’s comments. The CAISO notes that Western revised non-disclosure agreement combines together and attempts to address two separate issues. The CAISO had originally proposed two separate non-disclosure agreements, one to cover data sharing between balancing authorities under the NERC reliability standards and one to allow for Western to participate in a pilot test of the CAISO’s Grid View effort. Western appears to have collapsed those two partially-related efforts into one non-disclosure agreement. The CAISO also notes that Western has included Reliability Coordinators in the agreement. The CAISO will continue to work with Western to address each of the identified matters and is confident that the parties can successfully resolve all outstanding issues.

- *Enhanced Real-Time Notification of Unmatched Inter-Scheduling Coordinator (SC) Trades:* As was reported on the October 30th joint seams report, this is a newly identified item. Western sent a request to the CAISO on October 2, 2007, identifying a potential enhancement to the CAISO's existing notification service for unmatched Inter-SC trades. Rather than waiting for the CAISO's notification cycle to run, Western believes that a more real-time oriented notification service would be preferable and reduce/mitigate market risk for all scheduling coordinators. Western would appreciate timely action on this request from the CAISO.

Subsequent to receiving Western's letter and request, the CAISO engaged Western in discussions with Western and understood the issue to be resolved. The CAISO understood Western's primary issue to be whether there is sufficient information contained in the CAISO's Scheduling Infrastructure and Business Rules ("SIBR") system for Western to verify that Western's trading partners are balanced and synchronized with Western's schedules. The CAISO explained to Western the full extent of the information and validation mechanisms available in SIBR. The CAISO understood Western to be satisfied with the CAISO's response and that that issue was resolved.

In addition, Westerns raised concerns that the CAISO's documentation regarding inter-SC trades may not be accurate because it inferred that a Scheduling Coordinator could trade multiple times at the same location. The CAISO has conformed that a non-Physical inter-SC trade in a specific direction can only occur once, not multiple times, at the same location.

- *Timely Progress and Success on Market Simulation Activities:* Like many other CAISO market participants, Western continues to remain cautiously optimistic that many of the software and application changes and modifications promised by the CAISO will bear fruit and be made available so that they may be tested and verified before MRTU "goes live". To the extent that many of Western's requested changes continue to be either unavailable or not capable of being tested before the conclusion of IMS Update 2 activities, Western believes this will increase the financial and operational risks to Western and its customers when MRTU starts. To the maximum extent possible, Western requests that the CAISO ensure that its priority issues, along with those of other CAISO stakeholders be appropriately addressed, tested, and resolved before MRTU goes into production. As noted above, on January 23, 2008, the CAISO provided a response to Western's December 27, 2007, letter, addressing each of the MRTU issues raised by Western. The CAISO and Western will continue to work collaboratively to ensure that Western's issues are addressed prior to the MRTU Go- Live date. Western acknowledges receipt of that letter and is currently reviewing its contents to determine if all of its issues and concerns have been satisfactorily addressed. After Western completes

its review and analysis of the letter's contents, Western anticipates sending a letter back to the CAISO concerning its conclusions.

Western and the CAISO agree that all of these open issues need further and prompt consideration and require at a minimum conceptual resolution prior to the start up of MRTU. The CAISO and Western are committed to, if possible, resolving these issues prior to the MRTU implementation date so that the appropriate business process changes and any associated programming/coding changes, if any, may be designed, implemented, and tested prior to the start of MRTU. Although the CAISO and Western acknowledge that depending on the nature and complexity of the involved software changes, in some cases, software implementation may have to be deferred beyond the initial MRTU implementation date, the CAISO and Western agree that the parties shall use their "best efforts" to ensure that as much of the required software changes will be implemented and tested as soon as practicable prior to MRTU start up. Western expects the CAISO, as part of its MRTU implementation efforts to identify and implement solutions which to the maximum extent possible, minimize adverse impacts on Western and its customers.



CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

**Joint Report on Control Area Meeting Between the California ISO and
The Los Angeles Department of Water and Power**

January 30, 2008

On October 25 and November 16, 2007, staff members of the California Independent System Operator Corporation (CAISO), the Los Angeles Department of Water and Power (LADWP), and certain other entities met to explore any issues that might exist today or might arise with the inception of MRTU that would pose difficulties for the continued operation of the interconnected Balancing Authority Areas and to coordinate on issues pertinent to each entity's continued satisfaction of the applicable North American Electric Reliability Corporation (NERC) and Western Electricity Coordinating Council (WECC) reliability standards. The meeting was arranged and scheduled so as to enable LADWP's wholesale trading staff to attend and address commercial issues and to allow LADWP's grid operations staff to attend other portions of the meeting to address reliability issues.

FERC further directed the CAISO, LADWP and other adjacent Balancing Authority Areas to file at FERC a joint quarterly report regarding progress on the identification and resolution of MRTU seams issues. The parties discussed the following topics:

- *Development of Potential Agreements to Address Compliance with Applicable NERC/WECC Reliability Standards:* As summarized in their Second and Third Quarter 2007 Joint FERC Seams Reports, representatives of the CAISO and LADWP have been discussing arrangements and agreements that may further enhance each party's compliance all applicable NERC and WECC Reliability Standards.

As reported in the Third Quarter Report, LADWP and the CAISO have been coordinating with all the Balancing Area Authorities with which LADWP and the CAISO are interconnected in order to explore the possibility of developing a standard umbrella agreement that each Balancing Area Authority could use to further codify each party's continued satisfaction of various reliability standards and related requirements. Discussions among all of the involved entities resulted in a good understanding of the issues and various means of coordinating to ensure continued satisfaction of all applicable reliability

standards. Those discussions and understandings were summarized in a letter from LADWP to the involved entities dated December 18, 2007. The letter memorialized discussions among the various Balancing Authorities and the commitment to continued coordination through appropriate notifications, the exchange of data, coordination of plans and schedules, and other related actions. The CAISO informed LADWP that it agreed with the representations made in the letter.

- *Issues requiring resolution before MRTU start-up:* Identification of seams issues requiring resolution prior to MRTU start-up are a priority to LADWP and the CAISO. The parties have identified for immediate action the coordination necessary to ensure satisfaction of all reliability standards and, if any, related mitigation plans. While no MRTU-specific seams issues have been identified to date, not all seams issues may have been identified and may not become apparent until MRTU start-up. As issues become apparent concerning MRTU implementation, the parties will work together to resolve them so that MRTU can be implemented successfully on schedule.

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION****Joint Report on Balancing Authority Area Meeting Between the California
ISO and The Bonneville Power Administration****January 30, 2008**

On December 27, 2007, staff members of the California Independent System Operator Corporation (CAISO) and the Bonneville Power Administration - Transmission Business Line (Bonneville) participated in a conference call. The purpose of the meeting was to continue to coordinate on issues pertinent to each entity's continued satisfaction of the applicable NERC and WECC Reliability Standards.

FERC further directed the CAISO, Bonneville and other adjacent Balancing Authorities to file at FERC a joint quarterly report regarding progress on the identification and resolution of MRTU seams issues. The parties discussed the following topics:

- *Satisfaction of NERC Standard Emergency Operating Plan-001-0, Requirement 1 (EOP-001-0, R1) and Relationship to Broader Interconnected Balancing Authority Area Operating Agreement:* As noted in the Third Quarter 2007 Joint Seams Report, Bonneville earlier expressed a need to enter into an Operating Agreement with the CAISO in order to satisfy the specific requirements of EOP-001-0, R1. EOP-001-0, R1 states that each Balancing Authority is required to develop, maintain, and implement a set of plans to mitigate operating emergencies, and to coordinate such plans with other Balancing Authorities. Requirement 1 of the standard specifically directs Balancing Authorities to have emergency assistance arrangements in place. As previously explained, Bonneville indicated that while the CAISO and Bonneville have, in the past, entered into seasonal and other shorter-term assistance arrangements, Bonneville wanted to establish a more enduring arrangement. Bonneville presented a draft Operating Agreement that it believes satisfies the requirements of the NERC standard.

As noted in the Third Quarter Joint Report, the CAISO agreed with Bonneville on the need for a long-term agreement that would further codify each party's continued satisfaction of the applicable NERC and WECC requirements. The CAISO explained that it has reviewed its existing pro forma Interconnected Control Area Operating Agreement (ICAOA) and revised the agreement to

reflect adoption of the NERC and WECC Reliability Standards, as well as other changes related to the CAISO's MRTU program and other improvements and enhancements identified over the past several years. The CAISO expressed its view that the new draft "Interconnected Balancing Authority Area Operating Agreement" or "IBAAOA" was a possible vehicle that could assist the CAISO and Bonneville in satisfying all applicable NERC and WECC Reliability Standards, not just EOP-001-0, RR1, and otherwise ensure coordinated Balancing Authority Area operations. In September 2007, the CAISO expressed a willingness to enter into an Operating Agreement in order to satisfy the immediate requirements of EOP-001-0, R1, but requested that Bonneville consider quickly working towards a long-term IBAAOA arrangement. The CAISO stated that the relevant terms of such an Operating Agreement could eventually be incorporated into the IBAAOA. The CAISO also expressed its view that any Operating Agreement and successor IBAAOA should build off of the Real-Time Operating Protocol established by the CAISO and Bonneville earlier this summer. In addition, the CAISO stated that, based on earlier discussions, the CAISO believed that Bonneville's concerns regarding the pricing for emergency assistance have been addressed (MRTU Tariff Section 11.5.8).

Over the course of October and November, 2007, Bonneville and the CAISO exchanged various drafts of an Operating Agreement that could satisfy both Bonneville's and the CAISO's desire for a more formal agreement regarding the specific requirements of EOP-001-0, R, and that could be a bridge to a more comprehensive and enduring agreement regarding coordinated operations. On the December 27, 2007, conference call, the parties reviewed the latest draft of the Operating Agreement and agreed that the parties were making reasonable progress on the agreement and in resolving the limited identified remaining issues. Based on the discussions to date, the CAISO and Bonneville are confident that an Operating Agreement can be finalized over the next several months. In addition, both parties are committed to pursuing and making progress towards a longer-term comprehensive agreement regarding coordinated reliable operation of the interconnection.

- *Issues requiring resolution before MRTU start-up:* Identification of seams issues requiring resolution prior to MRTU start-up are a priority to Bonneville and the CAISO. The parties have identified for immediate action the coordination necessary to ensure satisfaction of all reliability standards and, if any, related mitigation plans. While no MRTU-specific seams issues have been identified to date, not all seams issues may have been identified and may not become apparent until MRTU start-up. As issues become apparent concerning MRTU implementation, the parties will work together to resolve them so that MRTU can be implemented successfully on schedule.