

Integrated Balancing Authority Area (“IBAA”) Stakeholder Comments of the Modesto Irrigation District (“MID”)¹

February 20, 2008

In response to the California Independent System Operator Corporation’s (“CAISO”) February 14 and 19, 2008 Market Notices concerning the CAISO’s IBAA proposal, MID submits the following observations and comments.

The IBAA pricing methodology devalues transmission assets located outside of the CAISO’s Balancing Authority Area (“BAA”), such as the California-Oregon Transmission Project (“COTP”) and the Westley-Tracy transmission line. MID would be adversely impacted by the CAISO’s proposal, as MID has a percentage share of the Transmission Agency of Northern California’s (“TANC”) Entitlement to capacity on the COTP and owns a share of the Westley-Tracy line.

The issue of “pricing methodology” arose late in this IBAA stakeholder process, emerging last fall. While the CAISO may claim that certain “modeling” information has been available for many months, such claim would be off point to the issue of pricing methodology. Accordingly, the availability of modeling data cannot be seen as a substitute for vetting of this issue which will have significant impact to market participants, including MID.

The CAISO has stated that: “[T]he CAISO believes that establishing a sub-hub prices [sic] for the Western sub-system of the SMUD BAA and the TID system is fully consistent with the nature of, and *appropriately values*, the impact of flows from the Western subsystem and the TID system on the CAISO Controlled Grid, and that such flows are distinguishable from the impact of flows from the SMUD system on the CAISO Controlled Grid.”² However, the CAISO does not appropriately value such flows. Under the current IBAA proposal, the CAISO proposes that for any transaction that occurs between the IBAA or one of its members and the CAISO, the Locational Marginal Price (“LMP”) depends upon which IBAA or IBAA member with which that transaction occurs. Given this CAISO position, this means that there could be up to six different LMPs for transactions that leave or enter the CAISO BAA at the Tracy Scheduling Point, (but are “mapped” to individual IBAs or members’ hubs, or even to Captain Jack).

¹ MID submits these comments in the spirit of open discussion, and reserves the right to change its position on the above matters in the future, as well as reserves the rights to comment on any other issue in this stakeholder process.

² “Integrated Balancing Authority Areas CAISO Response to Stakeholder Questions,” posted Feb. 5, 2008, page 5, response to MID question 1, noted as posted on Feb. 1, 2008 (emphasis added).

The CAISO claims to appropriately value these transactions which occur at the same point (an example would be Tracy), yet the CAISO's proposal would charge multiple LMP prices. At the same time, the CAISO is claiming *not* to charge IBAA's (or its members) for losses or congestion within the IBAA's controlled grid. However, effectively, the CAISO would be doing just that.