

**COMMENTS OF  
THE CITY OF REDDING, CALIFORNIA  
ON THE CALIFORNIA ISO'S PROPOSAL ON MODELING AND PRICING OF  
INTEGRATED BALANCING AUTHORITY AREAS**

**FEBRUARY 4, 2008**

In response to the Market Notice issued by the California Independent System Operator Corporation ("CAISO") on January 30, 2008, the City of Redding, California ("Redding") hereby submits the following comments on the CAISO's latest proposal for modeling and pricing of Integrated Balancing Authority Areas ("IBAAAs"), including the ISO's January 22, 2008 version of the draft proposed Tariff language on IBAAAs.

As an initial matter, Redding notes that on January 24, 2008, it sent questions to the CAISO regarding the impact of the CAISO's proposal on imports utilizing the California Oregon Transmission Project ("COTP"). CAISO acknowledged receipt of the questions, and indicated that a response would be provided within one week. To date, no response has been provided. Redding restates its January 24<sup>th</sup> questions here, and requests a response:

- 1) If an import at Captain Jack results in a corresponding import into the CAISO system at Tracy of 25% for example, shouldn't the COTP distribution factor be weighted 25% at Tracy?
- 2) If CAISO wants to settle more closely on physical flows, why isn't the COTP modeled to reflect physical flows onto the CAISO Grid at Tracy?
- 3) The proposal to settle imports to the CAISO grid from the COTP as radial seems to conflict with the hub logic. Like Tracy, there are no System Resources at Captain Jack, but the modeling is different. There is a price signal between Captain Jack and Tracy, but the CAISO prevents transmission owners of IBAAAs from using it.

Redding provides the following additional comments, questions and concerns regarding the IBAA proposal:

- 4) Although it is not clear from the proposed Tariff language, the CAISO is proposing a change from the original proposed settlements at the interties/scheduling points to a hub pricing system. In addition, the new proposal irrationally prices imports utilizing the COTP at Captain Jack, even though the energy imported on the COTP enters the CAISO grid at Tracy 500. CAISO should return to settlements at the interties/scheduling points to avoid unjust and unreasonable impacts on entities located in neighboring control areas.

- 5) The CAISO's voluntary, unilateral decision to price in the same way that they model the IBAs is unnecessary and unjustified. CAISO's submittals to FERC have made it apparent that it can price at the interties/scheduling points, and that is what Redding was led to believe the CAISO would be doing. The decision to change to a hub approach, coupled with the decision to price COTP imports weighted 100% based on Captain Jack, fails to reflect any value of the COTP in bringing energy onto the CAISO grid. It also fails to reflect what Redding understands to be a basic premise of CAISO's LMP pricing, *i.e.*, energy closer to load is priced higher. CAISO's unilateral decision to change pricing methods has a substantial and unjust impact on entities with rights to utilize the COTP, including Redding.
- 6) CAISO's unilateral decision to change the method for settling imports conflicts with the training CAISO provided to members of the SMUD/Western control area, including Redding. Representatives from Redding attended training performed by CAISO personnel at Western in late August of 2007. CAISO instructed participants that imports would be settled at the intertie/scheduling point LMPs. Please explain why CAISO did not include the "hub pricing" method in its training.

In addition, Redding supports and incorporates the comments and questions that will be submitted jointly today by the Sacramento Municipal Utility District, Turlock Irrigation District and others. Redding has reviewed those comments, and rather than duplicate them it incorporates the questions and comments by reference.