

**Western Area Power Administration  
Position/Comments on the CAISO's 5/19/2008 Proposed Tariff Language  
May 27, 2008**

Western Area Power Administration submits the following comments on the revised Integrated Balancing Authority Area draft tariff language that the CAISO posted to its website on May 19, 2008.

As an initial matter, Western notes this opportunity to comment is not meaningful because the CAISO Board of Governors (Board) has already approved the proposed CAISO's IBAA proposal for filing. The CAISO posted its draft tariff language on May 19, 2008 and, at the May 21-22 Board meeting, the Board approved the CAISO's IBAA proposal for filing.

The CAISO's prior schedule allowed for, and recognized the need for, stakeholder comment. On April 16, 2008, the CAISO's proposed schedule indicated it would post the draft tariff language on May 9th and allow comments on the draft tariff language by May 19<sup>th</sup>, prior to the Board meeting.

During the past year Western has repeatedly raised, discussed, and documented its many numerous concerns with the implementation-related impacts on our existing operations and transmission contracts, our business processes, and seams issues associated with CAISO's continually changing and evolving Integrated Balancing Authority Area (IBAA) proposal. Rather than reiterating those prior concerns here, Western requests the CAISO refer to our prior written comments and concerns.

On May 7, 2008, Western, along with the other members of the Western-Sacramento Municipal Utility District (SMUD) balancing area (BA), the Turlock Irrigation District (TID) BA, the Transmission Agency of Northern California (TANC), and TANC members provided the CAISO with a proposal that was designed not only to enable the CAISO to meet its publicly stated goals for IBAA implementation, but also to simultaneously address many of Western's contractual and operating concerns. The focus of the proposal was to assist the CAISO in improving its modeling accuracy by providing access to "after-the-fact" data and to undertake affirmative and proactive steps to reduce the possibility of third parties from engaging in inappropriate scheduling practices (i.e., gaming), which result in adverse impacts to market participants.

In light of the above ongoing discussions and the effort Western has put into the stakeholder process, Western was disappointed to learn that none of the numerous concerns Western previously raised were addressed or referenced by the CAISO in its proposed draft tariff. As a result, Western believes that it has no other alternative but to protest the CAISO's tariff when it is filed at the Federal Energy Regulatory Commission.

Western's prior concerns, include, but are not limited to the following:

1. As previously stated, Western believes there are three fundamental concepts that must guide the implementation of an IBAA proposal in the CAISO's MRTU process. First, the implementation of an IBAA proposal must not create any uncompensated adverse operational and/or financial impacts. Second the implementation must not abrogate or violate any existing statutory, regulatory or contractual rights and obligations. Third, the implementation must be made in a non-discriminatory manner, and must be done on a bilateral and collaborative basis. Finally, the CAISO's proposal must be consistent with other transmission providers' rights, duties and obligations under their Open Access Transmission Tariffs. The CAISO's proposal does not satisfy these concepts.
2. Western requests the CAISO provide a specific definition and examples of what constitutes "gaming" or what actions would be considered taking advantage of "inappropriate scheduling incentives and price signals." Without a specific definition, it is difficult to ascertain the difference between a prudent market participant maximizing the value of his assets versus a market participant who has definitely stepped over the bounds of proper and appropriate behaviors.
3. The proposal treats the Western-SMUD and TID BAs differently than any other balancing area. For example, under the proposal, the CAISO prices all imports to the CAISO from Western, regardless of the actual locational marginal price (LMP) at one single injection node, as an injection at Captain Jack. The CAISO allows prices for imports from all other BAs such as the Los Angeles Department of Water and Power or the Bonneville Power Administration as receiving the LMP price at the injection node. The use of Captain Jack as a single pricing point for all injections from the Western-SMUD and TID balancing areas into the CAISO balancing area coupled with Tracy as a single point of export is not only discriminatory, it devalues prior transmission investments (e.g., Central Valley Project transmission system, the Pacific AC Intertie line, and the California-Oregon Transmission Project) that Western and its customers have made under a previous regulatory regime. In addition, a single import/export pricing point for all transactions with Western distorts price signals and will lead to distorted modeling results.
4. Western is concerned that use of a single pricing point at Captain Jack for COTP injections into the CAISO will not provide sufficient incentives for generators in the Pacific Northwest to furnish energy to the CAISO and result in the creation of phantom congestion on the Pacific AC Intertie, thus having a direct negative impact on reliability.

5. The CAISO's proposal is discriminatory and overly intrusive, in that it seeks information related to the internal operations of the SMUD-Western and TID balancing areas while other balancing areas are modeled only on a net interchange basis. Western should be treated similar to any other comparable balancing area with a reasonable expectation of reciprocity.
6. The CAISO in its role as balancing area, independent system operator, and market operator mixes and matches its data needs and roles and cannot or does not independently separate these functions/responsibilities resulting in any overly intrusive and confusing approach. A good example of this comes from the CAISO's recent proposal for exceptional dispatch, a condition under which the CAISO system reliability operators have decided to bypass the market and make purchases/sales based on system conditions. The distinction is that the CAISO system operators perform the actual transactions, unlike Western, where the real time dispatcher determines the need to rebalance the system and the real-time merchant then makes a sale/purchase based on an instruction is allowed to use only publicly available information.
7. The proposal may abrogate existing contractual obligations that the CAISO has with Western. Western believes that the IBAA proposal does not acknowledge the duties and obligations that CAISO, Pacific Gas and Electric Company (PG&E) and Western have to each other under their existing contracts. These contracts include, but are not limited to the Transmission Exchange Agreement, the Parallel Operations Agreement, the Owner's Coordinated Operation Agreement, the Path Operator's Agreement, PG&E's Wholesale Distribution Direct Access Tariff for Federal end-use customers, and Western's existing contracts with PG&E for the New Melones and San Luis Unit hydropower generators.
8. The IBAA proposal does not take into account CAISO flows on Western's system and depending on how the proposal is implemented the CAISO could conceivably override Western's own internally established security constraints. Thus, rather than maintaining two independent security constraints, the CAISO would be operating under one. This could mean the CAISO could attempt to utilize Western's internal transmission resources without Western's consent. Western does not foresee any situation in which it would allow the CAISO to utilize Western's internal transmission resources.
9. The proposal does not explicitly recognize Western's unique statutory duties and responsibilities. Generally, Congress authorized the construction of federal dams primarily for navigation, flood control, and irrigation; power is a secondary use to aid the primary purposes. As a Federal Power Marketing Administration, Western has the statutory responsibility for serving project use loads and ensuring the widespread

beneficial allocation and use of the Federal hydropower resource. Western has the obligation to serve these project use loads and preference power allottees at the lowest rates possible consistent with sound business principles. Consequently, Western's transmission system was built and is operated to meet its statutory responsibilities and not to meet a commercially-oriented interest. Hydropower generation from the Central Valley Project is a byproduct of U.S. Bureau of Reclamation's water releases which are governed by statutory mandates, including navigation, flood control, downstream environmental concerns, water quality, and water temperature regulatory constraints. As such, the CAISO should not run after-the-fact economic optimization studies to second guess Reclamation water management decisions to determine which storage reservoirs should have released water, when, or for how long.

10. Western does not object with the CAISO's desire to improve the accuracy with respect to the way it models its system operations in the state of California. However, its current approach of attempting to seek and rely on real-time or near real time data of the Western-SMUD and TID balancing area's internal generation, loads, and transmission data is uniquely different from the way the CAISO models/interacts with other neighboring balancing areas.

Western understands that comments will be submitted by other impacted BA members of the Western-SMUD and TID BAs. Western has reviewed these comments and concurs with their emphasis and content.