

**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
FIRST QUARTER OF 2008**

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 Sacramento Municipal Utility District (“SMUD”), Turlock Irrigation District (“TID”) and the Bonneville Power Administration (“Bonneville”) regarding seams-related discussions that took place during the first quarter of 2008. 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 first quarter of 2008.

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 first quarter of 2008 the CAISO has met with Bonneville and through the Integrated Balancing Authority Area (“IBAA”) stakeholder process also met with SMUD, Western and TID. The CAISO is submitting joint reports with these parties as provided below in Part III, and related Attachments, of this report.

In the first quarter of 2008, 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.

In addition, during the first quarter of 2008, the CAISO continued its stakeholder process to address issues related to its modeling and pricing on IBAA's. The CAISO does not report specifically on the outcome of the IBAA stakeholder process in this report given that it anticipates to file its proposal with the Commission at the end of May 2008, or soon thereafter. In that upcoming filing, the CAISO will provide the Commission with a complete report on the development and outcome of the IBAA stakeholder process.

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.

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.²

² 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.

- 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.

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 – D of this filing include joint reports of the one-on-one meetings between the CAISO and certain neighboring Balancing Authority Areas.

IV. WECC SEAMS ACTIVITY

The CAISO continues to work through and with the established WECC committees to identify and discuss potential seams issues. The WECC Seams Issues Subcommittee (“SIS”) of the WECC Market Interface Committee (“MIC”) did not hold nay meetings during the first quarter of 2008 (the previously scheduled February 15, 2008, SIS conference call was cancelled). The next regularly scheduled in-person SIS meeting will take place on April 30-May 1, 2008, in Las Vegas, Nevada.

The WECC MIC held its quarterly meeting on March 6-7, 2008, in Albuquerque, NM. At the MIC meeting, Jerry Smith, Chair of the SIS, provided an

SIS Report. In that report, Mr. Smith summarized the goals of the SIS, briefly reported on the status of the CAISO's MRTU project, and stated that the SIS had formed a congestion management work group to address region-wide congestion management issues. Mr. Smith explained that congestion management was an ongoing regional seams issue. The CAISO will continue to engage in all WECC-sponsored discussions regarding regional seams issues and will report to FERC through the FERC Quarterly Seams Reports.

V. CONCLUSION

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

Respectfully submitted,

/s/Anna A McKenna

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Dated: April 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 April, 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**

April 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 January 30, 2008, joint report, the CAISO and Western have met on a number of occasions to discuss our respective positions on a number of outstanding issues. In addition, the CAISO and Western have exchanged letters to document our respective positions.

1. Integrated Balancing Authority Area Initiative (IBAA)

The CAISO hosted IBAA conference calls/meetings with stakeholders on February 25th and March 6th. As a result of questions arising from these meetings, Western, SMUD, TID, and representatives from the Transmission Agency of Northern California (TANC) met separately on April 3rd to discuss a number of interrelated contractual, financial, operational, technical, and procedural issues pertaining to the CAISO's IBAA proposal. On April 9th, the CAISO hosted a meeting of TANC participants and other stakeholders to discuss technical aspects related to the CAISO's Full Network Model. These meetings did not resolve the outstanding issues between the CAISO, Western, and the TANC entities. Although Western hopes the CAISO and Western can agree to more meaningful exchange of data and information, Western continues to have differences with the CAISO's new approach for modeling and pricing transactions. Consistent with its stakeholder process and FERC regulatory requirements on compliance and as necessary to obtain FERC approval of its pricing proposal, the CAISO plans to file any necessary tariff language at the end of May 2008 or shortly thereafter. Western continues to disagree with the CAISO. Western believes the unilateral approach taken by the CAISO on this

ATTACHMENT A

issue is inconsistent with the Commission's previous guidance. Western believes the CAISO should have taken a collaborative approach to resolve this issue. Western believes that this is a critical issue that must be mutually resolved before MRTU is implemented. The CAISO has explained the reasons for its default approach and has indicated that parties should put forth alternative proposals that could be addressed through special arrangements to address Western and any other stakeholder concerns. Absent such special arrangements, the CAISO has indicated that it is necessary to proceed with its proposal to mitigate for the identified risks for this particular area.

Western believes it is unable to objectively evaluate the CAISO's proposal and continues to remain concerned that its proposal lacks detailed supporting analyses, devalues the existing investment in transmission infrastructure made by Western under a legacy regulatory scheme, may be inconsistent with existing contractual obligations, and may result in undue discriminatory treatment *vis a vis* other market participants. The CAISO does not concur with Western's positions and has endeavored to work with Western and other affected IBAs and, despite best efforts, has been unable to obtain a written proposal and explanation of the basis for any alternative arrangement. Western submitted its latest comments to the CAISO's proposed IBA proposal on April 28th. As part of its comments, Western informed the CAISO that Western was working in concert with other public power IBA participants in an attempt to work through and develop an alternative pricing and modeling approach. Western believes that the alternative approach should address the issues the CAISO has previously raised related to improving modeling accuracy and minimizing market gaming opportunities. 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. FERC has previously acknowledged the need for the CAISO to work with other IBAs to obtain the requisite information for accurately modeling these entities in the CAISO's MRTU models, systems and applications.

While the CAISO has agreed to file this statement jointly, the CAISO notes that the IBA proposal is currently undergoing broader stakeholder review and is not a proposal that is intended to address solely Western's seams issues. Consistent with its stakeholder process, the IBA proposal will be finalized and presented to the Board of Governors for approval at the end of May. Subject to the Board of Governors' approval of the proposal, the CAISO will file its proposal at FERC consistent with its compliance obligations and obligations under Section 205 of the Federal Power Act. At that time, Western and all other parties will have the opportunity to present their comments and protests to FERC and nothing in joint reports that have been submitted in this Docket No. ER06-615-002 should prejudice the position of any of the parties to that new proceeding, including the CAISO.

2. MRTU Readiness Issues

Western agrees with the CAISO's decision to delay the start up date of MRTU. There must be sufficient time for all parties to robustly undertake and complete the testing of business processes and software applications associated with the MRTU market design before going "live". Western continues to participate in certain CAISO-sponsored market simulation testing activities to assure that Western's applications and business processes will be ready when MRTU goes live. Western remains cautiously optimistic that the many new promised changes and updates (e.g., master file, Transmission Rights Transmission Curtailments instructions, Transmission Exchange Agreement, and ancillary services from the Boulder Canyon Project) will be implemented early on during the next round of market simulation activities to allow Western to robustly test and confirm the accuracy of these modifications before MRTU goes live.

3. Transmission Exchange Agreement (Pacific AC Intertie)

Western and the CAISO continue to have ongoing discussions to ensure that the CAISO honors its contractual obligations under the Transmission Exchange Agreement (TEA). It now appears that the CAISO and Western have a mutual understanding that the CAISO will represent Western's Pacific AC Intertie (PACI) rights under the TEA as a transmission ownership-like right. The CAISO has informed Western that in order to assure that it will be able to honor its contractual obligations under the TEA, a tariff amendment memorializing that understanding will more than likely have to be made prior to the MRTU go live date. Making this filing will ensure that Western will not be inadvertently stranded at Round Mountain whenever Western uses its TEA rights to move energy from Malin to Tracy. Finally, Western and the CAISO are still in the process of discussing how the CAISO's post-MRTU billing statements will appear when Western uses its PACI rights under the TEA. Finally, Western recently has discovered that the CAISO's post-MRTU scheduling algorithm does not make provisions for allowing Western to self-provide its own ancillary services as provided for under the TEA. Western has informed the CAISO of this contractual inconsistency and has the expectation that this anomaly will be satisfactorily resolved and tested during market simulation phase 2 activities so that it will be fully functional when MRTU goes live.

4. Additional Grid Management Charges on Transmission Ownership Rights

As it relates to the GMC, Western understands the CAISO will not be assessing any GMC charges whenever Western uses the TEA to import energy from the Pacific Northwest. As part of resolving this overall issue, Western received a letter from the CAISO dated January 23, 2008, confirming that understanding.

5. Update from the January 31, 2008 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. As was identified in the January 2008, report, Western now understands 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

Although Western believes that the CAISO has explained how the proposed new rules would work, in light of the changing MRTU processes, Western will continue to evaluate 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 understands that the CAISO and Southern California Edison Company have resolved the outstanding issues related to scheduling AS from the Boulder Canyon Project. Western understands that this proposed resolution will be tested by SCE and Western's Desert Southwest Region. Western looks forward to confirming that the proposed resolution of this problem has in fact been satisfactorily resolved when the unstructured portion of the Integrated Market Simulation Phase II testing process commences in the latter part of April 2008.

- *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

ATTACHMENT A

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 the non-disclosure agreement to combine and 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 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, Western 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.

ATTACHMENT A

The CAISO has confirmed 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: Western continues to remain cautiously optimistic that many of the anticipated software and application changes and modifications promised by the CAISO will be made available to market participants so that the new changes may be tested and verified before MRTU goes live. Western's supports any approach which will ensure that all new MRTU-related business processes and systems, as well as applications are robustly tested by both the CAISO and market participants before going live.

Western and the CAISO agree that the issues identified as open above 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

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

Joint Report on Balancing Authority Area Meeting Between the California ISO and The Bonneville Power Administration

April 30, 2008

Throughout the first quarter of 2008, staff members of the California Independent System Operator Corporation (CAISO) and the Bonneville Power Administration - Transmission Business Line and, separately, Power Business Line (Bonneville) participated in conference calls and had e-mail exchanges 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 and Fourth Quarter 2007 Joint Seams Reports, 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 and Fourth Quarter Joint Reports, 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).

As reported on the Fourth Quarter 2007 Joint Seams Report, throughout Fall 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. Bonneville and the CAISO continued such discussions through the first quarter of 2008. The only noteworthy development that has arisen is the need to establish separate arrangements with Bonneville's transmission and power business lines. Originally, Bonneville examined whether it could execute an overarching agreement that addressed the needs and requirements of both the transmission and power business lines. The draft Operating Agreement between the CAISO and Bonneville's transmission business line is now largely complete. The CAISO and Bonneville power business line are continuing discussions on a separate Operating Agreement.

The CAISO and Bonneville are confident that the Operating Agreements can be finalized over the next several months in advance of the Summer 2008 operating season. 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.



California Independent
System Operator Corporation

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

**Joint Report on Control Area Meeting between the California ISO and
the Sacramento Municipal Utility District**

April 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, and the Sacramento Municipal Utility District, 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 January 30, 2008, joint report, the CAISO and SMUD have met on a number of occasions to discuss our respective positions on a number of outstanding issues. In addition, the CAISO and SMUD have exchanged comments and responses to document our respective positions.

1. Integrated Balancing Authority Area Initiative (IBAA)

The CAISO hosted IBAA conference calls/meetings with stakeholders on February 25th and March 6th. As a result of questions arising from these meetings, Western Area Power Administration (Western), SMUD, the Turlock Irrigation District (TID), and representatives from the Transmission Agency of Northern California (TANC) met separately on April 3rd to discuss a number of interrelated contractual, financial, operational, technical, and procedural issues pertaining to the CAISO's IBAA proposal. On April 9th, the CAISO hosted a meeting of TANC participants and other stakeholders to discuss technical aspects related to the CAISO's Full Network Model. These meetings did not resolve the outstanding issues between the CAISO, SMUD, and the TANC entities. Although SMUD hopes the CAISO and SMUD can work through the issues relating to future mutual exchanges of data and information to improve seams between their BAs, SMUD continues to have significant concerns with the CAISO's new approach for modeling and pricing transactions. Consistent with what it believes its stakeholder process and FERC regulatory requirements on compliance require and as necessary to obtain FERC approval of its pricing

ATTACHMENT C

proposal, the CAISO plans to file proposed tariff language at the end of May 2008 or shortly thereafter. SMUD continues to disagree with the CAISO. SMUD believes the unilateral approach taken by the CAISO on this issue is inconsistent with the Commission's previous guidance. SMUD believes the CAISO should have taken a collaborative approach to resolve this issue, and moreover should have commenced any such process far earlier in an effort to arrive at a consensus agreement. SMUD believes that this is a critical issue that must be mutually resolved before MRTU is implemented. The CAISO has explained the reasons for its default approach and has indicated that parties should put forth alternative proposals that could be addressed through special arrangements to address SMUD and any other stakeholder concerns. Absent such special arrangements, the CAISO has indicated its belief that it is necessary to proceed with its proposal to mitigate against the identified risks for this particular area.

SMUD believes it is unable to objectively evaluate the CAISO's proposal and continues to remain concerned that its proposal lacks detailed supporting analyses, devalues the existing investment in transmission infrastructure made by SMUD and others under a legacy regulatory scheme, may be inconsistent with existing contractual obligations, and may result in undue discriminatory treatment *vis a vis* other market participants. The CAISO does not concur with SMUD's positions and states that it has endeavored to work with SMUD and other affected IBAs and, has been unable to obtain a written proposal and explanation of the basis for any alternative arrangement. 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 further believes 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. The CAISO also maintains that the FERC has previously acknowledged the need for the CAISO to work with other IBAs to obtain the requisite information for accurately modeling these entities in the CAISO's MRTU models, systems and applications. While the CAISO has agreed to file this statement jointly, the CAISO notes that the IBA proposal is currently undergoing broader stakeholder review and is not a proposal that is intended to address solely SMUD's seams issues. The CAISO states that consistent with its stakeholder process, the IBA proposal will be finalized and presented to the Board of Governors for approval at the end of May. Subject to the Board of Governors' approval of the proposal, the CAISO will file its proposal at FERC in a manner it believes is consistent with its compliance obligations and obligations under Section 205 of the Federal Power Act. At that time, SMUD and all other parties will have the opportunity to present their comments and protests to FERC and nothing in joint reports that have been submitted in this Docket No. ER06-615-002 should prejudice the position of any of the parties to that new proceeding, including the CAISO.

2. MRTU Readiness Issues

SMUD continues to participate in certain CAISO-sponsored market simulation testing activities to assure that SMUD's applications and business processes will be ready when MRTU goes live.



CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION

**Joint Report on Control Area Meeting between the California ISO and
Turlock Irrigation District**

April 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, Turlock Irrigation District (TID), 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 January 30, 2008, joint report, the CAISO and TID have met on a several occasions to discuss our respective positions on a number of outstanding issues. In addition, the CAISO and TID have exchanged comments and responses to document our respective positions.

1. Integrated Balancing Authority Area Initiative (IBAA)

The CAISO hosted IBAA conference calls/meetings with stakeholders on February 25th and March 6th. As a result of questions arising from these meetings, TID, SMUD, Western, and representatives from the Transmission Agency of Northern California (TANC) met separately on April 3rd to discuss a number of interrelated contractual, financial, operational, technical, and procedural issues triggered by the CAISO's IBAA proposal. On April 9th, the CAISO hosted a meeting of TANC participants and other stakeholders to discuss technical aspects related to the CAISO's Full Network Model. These meetings did not resolve a number of outstanding issues between the CAISO and TID. Although TID hopes the CAISO and TID can agree to a more meaningful exchange of information, TID continues to have significant differences with the CAISO's latest approach for modeling and pricing transactions.

Consistent with its stakeholder process and FERC regulatory requirements on compliance and as necessary to obtain FERC approval of its pricing proposal, the CAISO plans to file any necessary tariff language at the end of May 2008 or

ATTACHMENT D

shortly thereafter. TID continues to disagree with the CAISO's proposals. TID believes the unilateral approach taken by the CAISO on this issue is inconsistent with the Commission's previous guidance and will create an unjust, unreasonable and unduly discriminatory result. TID believes the CAISO should have taken a more collaborative approach to resolve this issue so as to avoid discriminatory treatment of the BAAs. TID believes that modeling and pricing at the interties are critical issues that must be mutually resolved before MRTU is implemented.

TID believes it is unable to fully evaluate the CAISO's proposal and continues to remain concerned that its proposal lacks detailed supporting analyses, misstates distribution factors, devalues investment in transmission infrastructure made by TID and others, may be inconsistent with existing contractual obligations, and will result in undue discriminatory treatment *vis a vis* other market participants. The CAISO does not concur with TID's positions. 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. TID challenged this position and continues to request support for this position. FERC has 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.

While the CAISO has agreed to file this statement jointly, the CAISO notes that the IBAA proposal is currently undergoing broader stakeholder review and is not a proposal that is intended to address solely TID's seams issues. Consistent with its stakeholder process, the IBAA proposal will be finalized and presented to the Board of Governors for approval at the end of May. Subject to the Board of Governors' approval of the proposal, the CAISO will file its proposal at FERC consistent with its compliance obligations and obligations under Section 205 of the Federal Power Act. At that time, TID and all other parties will have the opportunity to present their comments and protests to FERC and nothing in joint reports that have been submitted in this Docket No. ER06-615-002 should prejudice the position of any of the parties to that new proceeding, including the CAISO.

2. MRTU Readiness Issues

TID agrees with the CAISO's decision to delay the start up date of MRTU. There must be sufficient time for all parties to robustly undertake and complete the testing of business processes and software applications associated with the MRTU market design before going "live". TID and the CAISO agree that the

ATTACHMENT D

issues identified as open above need further and prompt consideration and TID believes that they should be resolved prior to the start up of MRTU. The CAISO and TID 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. However, based on the considerable differences between TID's and the CAISO's positions, TID does not believe that it will be possible to resolve these issues prior to the current MRTU implementation dates. TID expects the CAISO, as part of its MRTU implementation efforts to identify and implement solutions that are just, reasonable and not unduly discriminatory and which to the maximum extent possible, minimize adverse impacts on TID and its customers. The CAISO believes that the IBAA proposal in no way impacts TID's customers adversely because TID has the ability to serve its customers via the COTP without utilizing the CAISO Controlled Grid. TID disagrees with this position.