



CALIFORNIA MUNICIPAL UTILITIES ASSOCIATION

915 L STREET, SUITE 1460 • SACRAMENTO, CALIFORNIA 95814
(916) 326-5800 • FAX (916) 326-5810 • www.cmua.org

JERRY JORDAN, Executive Director

OFFICERS

President
ALLEN SHORT
Modesto Irrigation District

Vice President
RON DAVIS
Burbank

Secretary
JAMES W. BECK
Transmission Agency of No. California

Treasurer
JOSEPH F. HSU
Azusa

General Counsel
ARLEN ORCHARD
Sacramento Municipal Utility District

BOARD OF GOVERNORS

DAVID A. BRENINGER
Placer County Water Agency

BILL D. CARNAHAN
So. California Public Power Authority

RICK COLEMAN
Trinity Public Utilities District

PHYLLIS E. CURRIE
Pasadena

RONALD DEATON
Los Angeles

ANE DEISTER
El Dorado Irrigation District

MARCIE L. EDWARDS
Anaheim

VALERIE FONG
Palo Alto

DUANE GEORGESON
Metropolitan Water District
of Southern California

SUSAN LEAL
San Francisco

JAMES H. POPE
Northern California Power Agency

JAN SCHORI
Sacramento Municipal Utility District

MARSI STEIRER
San Diego

MIKE WALLIS
East Bay Municipal Utility District

KEVIN L. WATTIER
Long Beach

LARRY W. WEIS
Turlock Irrigation District

DAVID H. WRIGHT
Riverside

April 2, 2008

Mr. Yakout Mansour
Chief Executive Officer
California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630-4704

Re: Integrated Balancing Authority Areas ("IBAA") Proposal

Dear Mr. Mansour:

I am writing to express the California Municipal Utilities Association's ("CMUA") concerns regarding the California Independent System Operator Corporation's ("CAISO") current proposal to make changes to how energy schedules are priced between and within certain neighboring Balancing Authorities and the CAISO, the so-called IBAA proposal. I also would like to clarify certain issues from CMUA Members' perspective to the report that you provided to the CAISO's Board of Governors at its March 26-27, 2008 meeting.

At the outset, CMUA recognizes the CAISO's desire to improve the accuracy of its Full Network Model. In fact, CMUA and its Members have themselves raised model accuracy concerns at the CAISO stakeholder meetings, and before the Federal Energy Regulatory Commission ("FERC") in the Market Redesign and Technological Upgrade ("MRTU") dockets in the context of seams between the CAISO's financial rights model and how it interacts with the physical rights regime in the rest of the West. Like the CAISO, CMUA and its Members remain concerned that inaccurate representations of external systems will mean inaccurate prices in the CAISO markets upon which many CMUA Members rely, in whole or in part, to serve their customer-owners. CMUA supports constructive efforts to improve predictive modeling and to increase pricing accuracy inside the CAISO markets. Unfortunately, we believe the IBAA proposal does not accomplish that, and raises other substantive issues.

CMUA will not reiterate in depth all of its substantive concerns here, and looks forward to a fresh start on this issue given the delay

Mr. Yakout Mansour
Chief Executive Officer
California Independent System Operator Corporation
Page 2

announced by the CAISO. Suffice it to say we have several concerns; it is appropriate that the CAISO Management and Board of Governors are fully aware of the nature and extent of our objections to the IBAA proposal as currently structured. The IBAA proposal appears to set prices within other Balancing Authorities, seeks to assign costs in a manner inconsistent with current agreements, and devalues assets of CMUA Members. Moreover, the IBAA proposal attempts to affect these changes without the mutual agreement reached through collaborative bilateral discussions that were promised by the CAISO during FERC's Technical Conference on MRTU Seams, and at other times since. CMUA Members are broadly and adversely affected by the current IBAA proposal, and other CAISO market participants will also be adversely affected because of potential inaccuracies the proposal introduces.

A significant matter of concern to CMUA is that the proposal effectively eliminates beneficial use of the California-Oregon Transmission Project ("COTP") by pricing certain COTP schedules for entities within the CAISO Balancing Authority at Captain Jack substation, rather than at the contractual COTP Interconnection Point between the CAISO and Sacramento Municipal Utility District ("SMUD") Balancing Authorities – the Tracy 500kV substation. The CAISO provided neither sufficient nor compelling technical analysis that supports this change to an existing FERC-approved agreement. This change exposes COTP Participants that sink their loads in the CAISO Balancing Authority to certain CAISO charges despite their physical ownership of the COTP asset. This treatment is also inconsistent with the allocation of costs under FERC-approved agreements that govern operation of the California-Oregon Intertie, particularly the Owners Coordinated Operations Agreement, an item that the CAISO completely failed to consider in its IBAA proposal. In short, the current proposal does not appear to be supported by rational evidence by the CAISO, and appears to take away beneficial use of a critical high-voltage transmission asset from certain CMUA Members, whose customers had the foresight to build it, and who continue to pay the costs of the facility.

CMUA Member frustration on this issue has only increased in the CAISO's stakeholder process, where many CMUA Members have raised these and other concerns and comments, but have received in return none of the give and take on substantive issues that would be the hallmark of an effort to reach consensus resolution of these matters. CMUA welcomes the intention to re-start this stakeholder process because we do not believe the current proposals were the product of a meaningful and collaborative stakeholder process, despite our efforts to highlight concerns and provide comments throughout the CAISO's stakeholder process.

Even as recently as the Report to the Board of Governors during the March 26-27, 2008, meeting this issue was characterized as one that has "been in discussion with various stakeholders for almost two years ..." CMUA states as fact that neither CMUA nor many directly affected Members have been engaged by CAISO for two years or

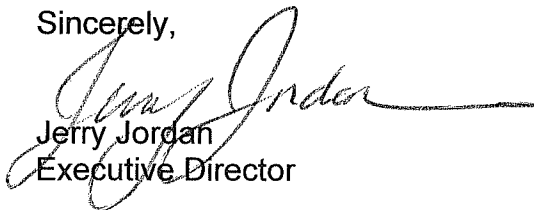
Mr. Yakout Mansour
Chief Executive Officer
California Independent System Operator Corporation
Page 3

remotely close to it. In fact, the IBAA proposal was presented to CMUA and many directly affected stakeholders in October, 2007, and then was presented as if it were fixed in stone. Indeed, it is difficult to fathom how an issue that is now presented as "significant risk to ISO markets and reliability," as stated in the Report to the Board of Governors, was presented to the market in October when an MRTU Start Date was then contemplated for the first two quarters of 2008. It is also difficult to ascertain the stated "significant risk to markets and reliability," without any evidence provided in the Stakeholder Process to date to support this. Nor has there been support to show that there are costs to the CAISO which are "unfairly borne by the rest of the market." Again, these costs are not outlined, described, supported, or even validated in any manner.

CMUA urges the CAISO to take advantage of the most recently announced delay in MRTU and your deferral of this issue at your May 21-22 Board of Governors meeting, and make a sincere "attempt to resolve those issues for additional consideration by all parties" as stated in your report to the Board of Governors.

Thank you for your consideration. Please do not hesitate to contact me if you would like to discuss this matter further.

Sincerely,



Jerry Jordan
Executive Director

cc: CAISO Board of Governors