

**Western Area Power Administration  
Position/Comments on the CAISO's April 18<sup>th</sup> IBAA Paper  
April 28, 2008**

Comments

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 April 18<sup>th</sup> IBAA 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."
3. The proposal treats the Western-SMUD and TID balancing areas 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 LMP at the Intertie node, as an injection at Captain Jack. The CAISO prices imports from all other BAs such as Los Angeles or Bonneville as receiving the LMP price at the Intertie 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 the SMUD Sub-Hub 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 scheme. In addition, a single import/export pricing point for all transactions with Western distorts price signals and will lead to distorted models.
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.
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, PG&E and Western have to each other under their existing contracts
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 dispatch Western's internal resources without our consent.
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 SMUD-Western 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.
11. Western and other IBAA members are working to develop a comprehensive proposal which we hope to share with the CAISO shortly. The proposal will address the primary concerns publicly expressed by the CAISO: accuracy of modeling and the prevention of gaming. As part of this effort, Western has reviewed and concurs with the many of the comments prepared and submitted by other impacted IBAA members