

Keoni/Steve,

Thank you for offering the opportunity to ask questions which may help us understand the rationale for the ISO IBAA Proposal and the Partial Loop Proposal as presented to Market Participants on January 8, 2008.

It appears that the ISO is offering two different solutions for what appears to be essentially the same problem: How to settle with neighboring Balancing Authority Areas when that BAA has more than one Scheduling Point with the ISO?

In one case, the ISO has proposed to implement a "hub" pricing methodology, but only to the SMUD/WAPA and TID BAAs. It appears that the rationale for this method (as opposed to modifying the Full Network Model as in the Partial Loop Proposal) was chosen due to the "High" "Data Sufficiency For Modeling IBAA". (Slide 23 of Mark Rothleder's "Modeling and Pricing of IBAA's" January 8, 2007 presentation.)

However, the ISO will maintain individual Scheduling Point LMPs and model transmission lines outside the ISO Grid in order to more closely approximate actual flows using the "Partial Loop" method with IBAA's which have "Medium" or "Low" "Data Sufficiency For Modeling [the] IBAA."

It appears that the ISO is implementing a hub pricing scheme in at first glance what would be the inverse solution to the level of the ISO's problem. Can the ISO explain the rationale for implementing "hub" pricing with the SMUD/WAPA and TID BAAs when the ISO has "high" data sufficiency for modeling, while using the "Partial Loop" method and pricing individual LMPs at other BAAs' Scheduling Points which the ISO has only medium or low data sufficiency for modeling?

The ISO has stated that the SMUD/WAPA and TID IBAA's, a combined total peak of approximately 5k MW, have a large impact on the ISO's operations, which has a peak of approximately 50k MW. It is MID's opinion that this is akin to "the tail wagging the dog." The ISO is even the path operator for one of the biggest transmission assets in the SMUD/WAPA BAA (the COTP). Can the ISO give MID examples of when SMUD/WAPA's or TID's daily operations severely impacted the ISO's operations more so than other IBAA's?

There is ISO generation east of the SMUD/WAPA and TID IBAA's. The Bay Area is a load center which is located generally west of the IBAA's. It is MID's opinion that IBAA hub prices would mask the impact of losses

suffered on the IBAA's systems caused by ISO load and generation. Can the ISO give specific examples of why the above opinion may not be true?