



California Independent
System Operator Corporation

November 25, 2008

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

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FEDERAL ENERGY
REGULATORY COMMISSION

**Re: California Independent System Operator Corporation
Compliance Filing, Docket No. ER08-1113-___**

Dear Secretary Bose:

The California Independent System Operator Corporation (CAISO) hereby submits proposed tariff language to comply with the Commission's Order Conditionally Accepting Tariff Changes and Directing Compliance Filing, issued on September 19, 2008.¹ The proposed tariff language will ensure that the CAISO's nodal market reflects the impacts of interchange transactions between the CAISO and Sacramento Municipal Utility District (SMUD) and Turlock Irrigation District (TID) Balancing Authority Areas and that those transactions are priced at just and reasonable levels.² The CAISO solicited comments from all stakeholders including, SMUD and TID, on the proposed tariff language. As described below, the proposed tariff language reflects input from that process.

I. Background

On June 17, 2008, the CAISO submitted proposed revisions to its Market Redesign and Technology Upgrade (MRTU) Tariff. The revisions sought to enhance the management of congestion on the CAISO Controlled Grid by appropriately pricing and modeling interchange transactions, *i.e.*, imports and exports between the CAISO Balancing Authority Area and the SMUD and TID Balancing Authority Areas on an integrated basis. As part of its request in this matter, the CAISO sought authority to establish the SMUD and TID Integrated Balancing Authority Area (IBAA or SMUD-TID IBAA).³

¹ *California Indep. Sys. Operator Corp.*, 124 FERC ¶ 61,271 (2008) (September 19 Order). On November 12, 2008, the CAISO filed a motion for an extension of time to make this compliance filing on or before November 25, 2008, in order to review proposed tariff language with interested parties.

² Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the Market Redesign and Technology Upgrade or MRTU Tariff. Except where otherwise noted herein, references to sections are references to sections of the MRTU Tariff.

³ The IBAA includes the transmission facilities within the SMUD and TID Balancing Authority Areas. The SMUD Balancing Authority Area includes (in addition to SMUD's own transmission system)

The IBAA proposal has two main goals. The first goal is to protect CAISO ratepayers from unjust and unreasonable prices that may result in the absence of the CAISO having accurate information that allows the CAISO to verify the location of external resources within the IBAA that are dispatched to implement interchange transactions between the SMUD-TID IBAA and the CAISO. The second goal is to appropriately model and price interchange transactions, *i.e.*, imports and exports, between the CAISO Controlled Grid and the SMUD-TID IBAA in a manner consistent with the use of locational marginal prices (LMPs) under MRTU.⁴

On September 19, 2008, the Commission issued an order which conditionally accepted, subject to modification, the CAISO's proposed tariff revisions to establish an IBAA to become effective upon implementation of MRTU. The September 19 Order conditionally approved the CAISO's configuration of the IBAA as a single hub with default modeling and pricing points for all interchange transactions for the SMUD - TID IBAA as just and reasonable. In addition, the Commission authorized the CAISO, consistent with the limitations set forth in the September 19 Order, to enter into Market Efficiency Enhancement Agreements (MEEAs) with entities to establish LMPs for external resources within the IBAA that are dispatched to implement interchange transactions between the SMUD-TID IBAA and the CAISO.

The Commission directed the CAISO to make the following modifications to the proposed tariff to comply with the September 19 Order:

- (A) Provide an appropriate adjustment under its default pricing points to entities who demonstrate that they use the California Oregon Transmission Project to (COTP) to import energy to the CAISO Balancing Authority and already pay for transmission losses to the Western Area Power Administration (WAPA) or the Transmission Agency of Northern California (TANC). (PP 106, 120, 246)
- (B) State the default pricing points under the IBAA and that any change to these default pricing points must be filed with the Commission as a change to the tariff; state that the CAISO must file any changes to an IBAA or any new IBAA proposal with the Commission under Section 205 of the Federal Power Act. (PP 92, 215, 380, 388)

the transmission facilities of the Western Area Power Administration – Sierra Nevada Region; Modesto Irrigation District; the City of Redding; and the City of Roseville.

⁴ The IBAA proposal enhances the accuracy of the CAISO's congestion management process by including a representation of the transmission facilities of the SMUD-TID IBAA (as well as modeling the external resources supporting scheduled interchange transactions within the SMUD-TID IBAs) in the Full Network Model.

- (C) State the minimum information the CAISO requires in connection with an MEEA to model interchange transactions accurately and explain the need for this information and how the CAISO will identify the resource supporting interchange transactions. (P 183)
- (D) State the limited purpose for which the CAISO will use information provided under an MEEA; the measures the CAISO will take to preserve the confidentiality of information provided to the CAISO; the procedures parties would have to comply with in connection with negotiating an MEEA; the audit rights of both parties; and the dispute resolution procedures. (P 184)
- (E) Delete the requirement that the CAISO may enter an MEEA providing that there is a demonstrable benefit to the CAISO Markets resulting from the MEEA; state that the CAISO shall file all MEEAs with the Commission under section 205 of the Federal Power Act; eliminate the stakeholder process requirement for developing an individual MEEA; and delete tariff language that would allow the CAISO under an MEEA to enforce network constraints on other transmission systems. (P 188, 189, 192, 381)

The CAISO describes below modifications to its MRTU tariff provisions to comply with these requirements and identifies concerns of interested parties raised during the stakeholder process preceding this filing.

II. Tariff Revisions Directed in the September 19 Order

- A. The proposed tariff language provides an appropriate adjustment to entities who demonstrate that they use the COTP to import energy into the CAISO Balancing Authority Area and already pay Western or TANC for transmission losses for such imports.**

The Commission directed the CAISO to provide an appropriate adjustment to marginal losses payments by entities that can demonstrate that they use the COTP to import energy to the CAISO Balancing Authority Area and that they already pay WAPA or TANC for transmission losses for such imports. In paragraph 106 of the September 19 Order, the Commission determined that because “COTP customers already pay TANC or Western a rate under the TANC or Western tariff for losses,” such “COTP customers who serve load in the CAISO could be over-charged for losses.” The Commission then stated that “COTP users that import to CAISO who demonstrate that they pay for losses to Western or TANC should receive an appropriate adjustment in the marginal cost component of the price paid for their import” and directed CAISO to “allow COTP customers to make this demonstration and, in compliance, to propose what showing will be needed for this treatment.” The Commission also stated in response to claims raised

by intervenors that the IBAA proposal devalues the COTP facility that “any price decrease will be partially mitigated by the Commission’s determination above to require the CAISO to allow COTP users that import to CAISO that demonstrate that they pay for losses to Western/TANC to have the *marginal loss component of Tracy applied to their import.*” (*emphasis added*) Finally, the Commission stated in paragraph 246 of its order, that “[t]he IBAA proposal, as modified by the Commission, recovers the costs the CAISO incurs as a result of congestion and uplift, caused by imports from the SMUD-TID IBAA, on the CAISO-controlled grid.”

In compliance with these directives the CAISO developed a mechanism that enables COTP users to pay the marginal cost of losses component of the LMP at the Tracy substation for imports scheduled at the Tracy Scheduling Points as opposed to the marginal cost of losses component of the default IBAA LMP.⁵ The losses adjustment will apply to all cleared import schedules into the CAISO Balancing Authority Area at the southern terminus of the COTP at the Tracy substation that (a) use the COTP, and (b) are charged for transmission losses by the Western or TANC for such use. For such schedules, the CAISO will replace the marginal cost of losses at the otherwise applicable source for such schedules with the marginal cost of losses at the Tracy substation. The marginal cost of losses component of the LMP at the Tracy substation will be calculated by the market clearing process which assumes that an actual physical injection to the integrated grid occurs at the Tracy substation. The CAISO believes this approach reflects the Commission’s directive to apply the “*marginal loss component of Tracy.*” This marginal loss component of Tracy will be different than the marginal losses component of the default of IBAA LMP for imports, which is calculated based on the assumption that the source of power is from the Captain Jack substation.

⁵ The CAISO includes this measure in fulfillment of the Commission’s directives but notes that this measure will further diminish the CAISO’s ability to apply an appropriate allocation of the costs of losses. In particular, because the California-Oregon Intertie (COI) consists of three 500 kV lines, of which two are within the CAISO Balancing Authority Area, and because the underlying 230 kV transmission system within the CAISO Balancing Authority Area is more extensive than in the SMUD/TID IBAA, approximately two-thirds of the overall losses for power imported from the Northwest from Malin and Captain Jack to Tesla and Tracy will occur within the CAISO Balancing Authority Area. The CAISO’s calculation of marginal cost of losses excludes the losses on transmission facilities within the SMUD-TID IBAA, and charges for losses only on schedules into the CAISO Balancing Authority Area. If the CAISO were to collect for losses on all flows from Malin and Captain Jack to Tesla and Tracy (which it is not doing), and were to charge for losses only on transmission facilities within the CAISO Balancing Authority Area, then the CAISO would recover approximately two-thirds of the overall losses. Alternatively, if the CAISO were to collect for losses only on interchange schedules at Malin (which is approximately two-thirds of the total at COI) and charge for the marginal impact on losses over all of the transmission system, then the CAISO would similarly recover approximately two-thirds of the overall losses from Malin and Captain Jack to Tesla and Tracy. However, the CAISO’s original IBAA proposal as filed only included losses on transmission facilities within the CAISO Balancing Authority Area and only charged for schedules in the CAISO Balancing Authority Area. This created already had a built-in under-collection for marginal cost of losses, in the IBAA proposal as filed and conditionally accepted by the Commission. The modification to charge the Tracy loss LMP instead of the Captain Jack loss LMP increases the under-collection of marginal loss revenues on the CAISO grid. The CAISO will monitor the extent of this issue once the MRTU market is in operation, and will make any necessary filings with the Commission to address this issue if the under-collection is found to be a significant problem.

In Section G.1.2 of Appendix C of the CAISO's tariff compliance language, the CAISO is proposing to apply this marginal cost of losses adjustment to schedules submitted under specific resource identifications numbers (Resource ID) created specifically for this purpose. The CAISO will establish Resource IDs that are to be used only to submit Bids, including Self-Schedules, for the purpose of establishing Schedules that are eligible for this loss adjustment. Prior to obtaining such Resource IDs, the relevant Scheduling Coordinators shall certify that that it will only use this established Resource ID for Bids, including Self-Schedules, that originate from transactions that (a) use the COTP, and (b) are charged by the Western or TANC for transmission losses for such use. Further, by actually using the Resource ID, the Scheduling Coordinator will be representing again that such Bids, including Self-Schedules, are consistent with its original certification.

Commenting parties expressed concerns over the CAISO's ability to ensure that the Resource IDs will be used appropriately. After considering alternative approaches, the CAISO determined that the requirement that the parties only use the Resource IDs for the stated purposes is consistent with its existing practices that similarly require limitations on the use of certain Resource IDs. In addition, the CAISO included provisions in its proposed tariff that enable the CAISO from time-to-time to request information from Scheduling Coordinators to verify the legitimate use of the Resource IDs. In the event that the CAISO determines that the Resource ID is used inappropriately, the CAISO will calculate a re-adjustment of the Marginal Cost of Losses for any Settlement Interval in which the CAISO has determined that the Scheduling Coordinator's payments did not reflect transactions that (a) use the COTP, and (b) are charged for losses by Western or TANC for the use of the COTP. Any amounts owed to the CAISO for such Marginal Cost of Losses re-adjustments will be recovered by the CAISO from the affected Scheduling Coordinator by netting the amounts owed from payments due in subsequent Settlements Statements until the outstanding amounts are fully recovered.

B. The proposed tariff language identifies the default pricing points under the IBAA and provides that any change to these default pricing points must be filed with the Commission as a change to the tariff as well as requires the CAISO to file any changes to an IBAA or any new IBAA proposal with the Commission under Section 205 of the Federal Power Act

The Commission directed the CAISO to state in its tariff the default pricing points under the IBAA and to state that any change to these default pricing points must be filed with the Commission.⁶ In compliance with this directive, the CAISO is proposing to specify in section G.1.1 of Appendix C specification that unless as required pursuant to

⁶ September 19 Order at P 92.

an existing MEEA, the default pricing for all exports from the IBAA(s) to the CAISO Balancing Authority Areas will be based on the SMUD-TID IBAA Import LMP and all imports to the IBAA(s) from the CAISO will be based on the SMUD TID IBAA Export LMP. The CAISO further specifies in that section that the SMUD-TID Import LMP will be calculated based on modeling of supply resources that assumes all supply is from the Captain Jack substation as defined by WECC. Furthermore, the CAISO specifies in the tariff that the SMUD-TID Export LMP will be calculated based on the SMUD hub that reflects Intertie distribution factors developed from a seasonal power flow base case study of the WECC region using an equivalencing technique that requires that the SMUD hub is equivalenced to only the buses that comprise the System Resources, with all generation also being retained at its buses within the IBAA . The resulting load distribution from the equivalencing technique within each aggregated System Resource defines the Intertie distribution factors for exports from the CAISO Balancing Authority Area. In further compliance with paragraph 92 of the September 19 Order, the CAISO is also specifying in Section 27.5.3.8 that any proposals to change the IBAA default pricing specifications must be filed with the Commission for approval under Section 205 of the Federal Power Act.

In its original IBAA filing, the CAISO stated that it would make “any necessary filings” with the Commission if it determined that it was necessary to do so to establish a new IBAA. The Commission directed the CAISO to modify its tariff to clearly state that the CAISO must file any changes to an IBAA or any new IBAA proposal with the Commission under Section 205 of the Federal Power Act.⁷ In compliance to this requirement and in further compliance to the similar requirement in paragraph 92 that changes to the default IBAA pricing be filed with the Commission, the CAISO is proposing to explicitly state in Section 27.5.3.8 that upon the completion of the stakeholder process and having determined it necessary to establish a new IBAA or modify an existing IBAA, the CAISO will seek FERC approval under Section 205 of the Federal Power Act of a proposed new IBAA or changes to an existing IBAA. Upon the request of commenting parties, the CAISO also included additional language that makes it clear that at such time it will also provide its supportive findings for the establishment of any new IBAA or modification to an existing IBAA.

C. The proposed tariff language states the minimum information the CAISO requires in connection with an MEEA to model interchange transactions accurately and explains the need for this information and how the CAISO will identify the resources supporting interchange transactions.

In its IBAA filing, the CAISO proposed that an entity owning or controlling resources could enter into an MEEA if it believes the CAISO default price will not appropriately reflect the value of interchange transactions. The CAISO explained that it would need additional information from an MEEA signatory to confirm the location and

⁷ September 19 Order at P 215.

operation of resources within the IBAA used to satisfy the interchange transaction. The Commission directed that with respect to the data or information that the CAISO needs to accurately model and price external resources, the CAISO should include tariff provisions that specify the minimum information it requires to model interchange transactions accurately and explain the reason for requiring information and how it will identify the resource supporting an interchange transaction.⁸

In Section 27.5.3.2 of its proposed tariff compliance language, the CAISO describes two sets of information it requires to model and price interchange transactions accurately. First, in Section 27.5.3.2.1 the CAISO states that it will request that an entity seeking to negotiate an MEEA provide its historical hourly metered generation from the supply resources within the IBAA as well as the entity's metered load data from within the IBAA. The purpose for obtaining this information as described in Section 27.5.3.2 is determine the injection and withdraw points that will be used to model the IBAA under an MEEA. Essentially, this information will permit the CAISO and the entity requesting an MEEA to develop the topology of the entity's external resources for purposes of modeling the IBAA to establish LMPs for these resources when they used for interchange transactions. The CAISO anticipates that from time to time it will need to request updated information from an MEEA signatory or that an MEEA signatory will want to provide updated information to reflect changes to the MEEA signatories' supply resources and loads within the IBAA.

Second, the CAISO requires a MEEA signatory to provide historical hourly information to determine the volume of eligible imports or exports that will qualify an interchange transaction for an MEEA price as opposed to the default IBAA price. Under the CAISO's proposed tariff the MEEA signatory must include data for all Affiliates of the MEEA signatory or entities over which the MEEA signatory exercises control.⁹ Section 27.5.3.2.2 specifies the required hourly information as follows:

- (a) total metered generation owned or under the control of the MEEA signatory within the IBAA.
- (b) total gross energy scheduled by the MEEA signatory into the IBAA from other Balancing Areas (excluding the CAISO Balancing Authority Area);

⁸ *Id.*, at PP 182-183.

⁹ Affiliate under the CAISO tariff is defined as: "With respect to a corporation, partnership or other entity, each such other corporation, partnership or other entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such corporation, partnership or other entity." For purposes of these tariff rules, the CAISO shall consider that an MEEA signatory has control of a resource if it owns the resource or has any contractual arrangements that provide scheduling control and/or financial benefits of the resource.

- (c) total gross energy purchases made by the MEEA signatory at delivery points within the IBAA, including (i) purchases from third parties, and (ii) exchanges acquiring energy from third parties.
- (d) total metered load served by the MEEA signatory within the IBAA.
- (e) total gross energy scheduled by the MEEA signatory out of the IBAA into other Balancing Authority Areas (excluding the CAISO Balancing Authority Area)
- (f) total gross energy sales made by the MEEA signatory for delivery points within the IBAA, including (i) sales to third parties, and (ii) exchanges providing energy to third parties.¹⁰

As explained in Section 27.5.3.2 and reflected in the formula presented in Sections 27.5.3.2.3 and 27.5.3.2.4, this information will permit CAISO to provide an MEEA price as opposed to a default price for eligible quantities within an hourly timeframe. The MEEA price will apply when hourly information reflects that the incremental source of generation supporting an import to the CAISO, or being reduced as a result of an export from the CAISO, is actually located at the injection/withdrawal points used to model and price the system of resources and loads owned or controlled by the MEEA signatory within the IBAA. In addition to controlling actual generation within an IBAA, this formula recognizes that MEEA signatories may also engage in bilateral transactions within the IBAA and may import and/or export energy between the IBAA and other Balancing Authority Areas. As a consequence, in order to achieve the fundamental goal of an MEEA – to price external resources accurately within the IBAA—the CAISO proposes to require the above hourly historical information for its settlement processes.

As described in Sections 27.5.3.2.3 and 27.5.3.2.4, the information will permit the CAISO to identify quantities of sales or purchases that qualify for pricing under an MEEA. These quantities may be associated with a specific resource or a group of resources as reflected in an MEEA. For any energy sales from the IBAA into the CAISO Balancing Authority Area in excess of eligible quantities, the MEEA signatory will receive the default pricing point for the corresponding volume and time period. For any energy purchase from the CAISO Balancing Authority Area in excess of eligible quantities, the MEEA signatory will pay the default pricing point for the corresponding volume and time period. Moreover, during any hour in which an MEEA signatory makes purchases or sales to the CAISO at an interchange between the IBAA and the CAISO in the same hour that the MEEA signatory is making an energy purchase or sale from the

¹⁰ As stated in Section 27.5.3.2.2, an MEEA signatory must provide the data to the CAISO in standard electronic format and in a manner and timeline that is consistent with the rules for the submission of meter data specified in Section 10 of the MRTU Tariff.

CAISO Balancing Authority Area, at an interchange between the IBAA and the CAISO, the MEEA signatory will not be charged or paid based on the MEEA price, but rather will be charged or paid the default IBAA price for the corresponding volume and time period.

During the stakeholder process concerning the CAISO's draft tariff compliance language, parties submitted various comments and questions regarding the information required to obtain MEEA pricing. For instance, parties asked whether the CAISO was seeking day-ahead information. The proposed tariff language clarifies that the CAISO is only seeking historical or after-the-fact information under an MEEA. Parties also questioned whether an MEEA signatory would need to provide only information relevant to it or would need to provide the required information for all entities operating within an IBAA. The proposed tariff rules clarify that the MEEA signatory would only need to provide information related to its portfolio within the IBAA and not the resources and loads of the entire IBAA.

Participants also argued that the draft tariff compliance language exceeds the minimum information requirements the CAISO needs to develop an MEEA price because the draft language could be read to require that neighboring Balancing Authorities provide this information rather than individual sellers who engage in commercial transactions with the CAISO. The CAISO does not anticipate that its IBAA proposal or an MEEA will change the roles and responsibilities of Balancing Authorities. Instead, the IBAA and any MEEA is intended to address interchange transactions between the SMUD-TID IBAA and the CAISO. The proposed tariff language makes clear that only the MEEA signatory that seeks to engage in transactions with the CAISO is required to provide information about its loads, resources and other commercial transactions within the IBAA to obtain MEEA pricing. This language should answer stakeholder questions with respect to which type of entities may enter an MEEA. All entities seeking to enter into commercial transactions in the CAISO markets may enter into MEEAs. This list could include both load servicing entities and non-load servicing entities. However, only quantities as determined by the CAISO's formula set forth in Sections 27.5.3.2.3 and 27.5.3.2.4 will qualify for the MEEA price.

Finally, during conference calls discussing the proposed language, stakeholders asked why during any trading hour in which an MEEA signatory engages in imports and exports between the CAISO Balancing Authority and the IBAA the default price would apply to all quantities. The CAISO explained that this practice is consistent with the Eastern Markets and that if there are imports and exports between the CAISO and the integrated SMUD-TID Balancing Authority Areas within the same hour, it is more difficult for the CAISO to ensure that the interchange transactions are supported by external resources within the IBAA. The CAISO acknowledges that this provision may disqualify volumes that would otherwise be eligible for an MEEA price and is willing to discuss instances where this tariff provision should not apply with entities seeking to negotiate an MEEA. However, the CAISO believes it is prudent to adhere to rules adopted by Eastern markets until the CAISO and market participants develop some

experience with modeling and pricing interchange transactions between the CAISO and the SMUD-TID Balancing Authority Areas.

D. The proposed tariff language describes provisions of the MEEA as directed by the Commission.

In its IBAA filing, the CAISO proposed that market participants seeking to obtain a price other than the default price for interchange transactions between the CAISO and the SMUD-TID IBAA could enter into an MEEA. The purpose of an MEEA from the CAISO market perspective is to obtain sufficient information so to enable the CAISO to verify the location and operation of resources within an IBAA, which are dispatched to implement an interchange transaction. This information will permit the CAISO to provide a resource-specific price for interchange transactions when appropriate under an MEEA as opposed to a default price. The Commission determined that an MEEA would provide a mechanism to allow the CAISO to verify when external resources within the IBAA are used to satisfy an interchange transaction and thereby value and compensate them appropriately. The Commission directed the CAISO to provide tariff provisions related to the MEEA process, including (1) the procedures with which the parties would have to comply in MEEA negotiations; (2) the use of data provided to the CAISO under an MEEA; (3) the measures the CAISO will take to preserve the confidentiality of information provided under an MEEA; (4) dispute resolution procedures; and (5) audit rights.¹¹

Section 27.5.3.3 of the CAISO's tariff compliance language explains the process for establishing an MEEA. Under this provision, a market participant may submit a written request to negotiate an MEEA to the CAISO. The parties shall then enter into MEEA negotiations in good faith. Section 27.5.3.3 provides that the CAISO shall file an executed MEEA with the Commission pursuant to Section 205 of the Federal Power Act. This provision is consistent with the Commission's direction.¹² In the event the parties are unable to complete negotiations and execute an MEEA within 180 days from the date an entity seeking to negotiate an MEEA submit a written request to the CAISO, the requesting entity shall have the right to invoke the dispute resolution procedures under Section 13 the CAISO's tariff. Under those procedures, if the dispute cannot be resolved, the requesting entity may initiate arbitration.¹³ Under the CAISO's procedures, an arbitration award is subject to an appeal before the Commission or a court of competent jurisdiction.¹⁴ During the CAISO's stakeholder process addressing draft tariff compliance language, interested parties argued that both the CAISO and an entity requesting to negotiate an MEEA should be subject to a requirement to negotiate in good

¹¹ September 19 Order at P 184.

¹² *Id.* at P 188.

¹³ MRTU Tariff at Section 13.3.

¹⁴ MRTU Tariff at Section 13.4.1.

faith. The CAISO agrees and the proposed tariff language reflects this requirement. Interested parties also asked whether the CAISO intended to create a standard, *pro forma* MEEA. Although MEEAs will likely have standard terms and conditions, at this time the CAISO believes it will need to negotiate MEEAs with individual entities as opposed to developing a *pro forma* agreement. The CAISO intends to develop a sample MEEA for stakeholder review and comment during the first quarter of 2009. Notwithstanding this effort, the CAISO is ready to commence MEEA negotiations upon request.

Section 27.5.3.4 of the CAISO's tariff compliance language specifies the use of data provided to the CAISO under an MEEA will be used for the purposes of modeling and pricing interchange transactions. These purposes include configuring pricing points under an MEEA. Modeling information concerning the location of these resources as agreed under an MEEA will be incorporated in the CAISO's Full Network Model and Congestion Revenue Rights Full Network Model. Data concerning an MEEA signatory's hourly transactions shall be used solely to calculate quantities eligible for an MEEA price and for no other purpose unless parties specifically agree to dynamic changes in the modeling of resources subject to an MEEA. The proposed tariff language should answer legitimate questions raised during the CAISO's stakeholder process regarding how the CAISO intends to use or disclose this data. The CAISO does not intend to share information it receives under an MEEA with third parties such as Scheduling Coordinators.

Section 27.5.3.5 of the CAISO's tariff compliance language sets forth the measures the CAISO intends to use to preserve the confidentiality of data under an MEEA. Specifically, the CAISO intends to treat any information provided by a market participant to the CAISO during the negotiation of an MEEA or under an executed MEEA as confidential data subject to Section 20 of the CAISO's Tariff. This provision provides sufficient assurances that the CAISO will protect against the disclosure of commercially sensitive and proprietary data. The CAISO anticipates the terms and conditions of a negotiated MEEA would be consistent with the provisions of Section 20 of the CAISO's Tariff.

Section 27.5.3.6 of the CAISO's tariff compliance language describes the dispute resolution procedures that will apply to an MEEA. The CAISO is proposing that any disputes arising out of or in connection with an MEEA shall be subject to the dispute resolution procedures of Section 13 of the CAISO's Tariff. These dispute resolution procedures will provide MEEA signatories with the ability to escalate the negotiation of disputes within the CAISO, initiate mediation and/or arbitration and appeal any arbitration award to the Commission or a court of competent jurisdiction. During the review of draft tariff language, stakeholders questioned why disputes under an MEEA would be subject to the dispute resolution procedures of the CAISO's Tariff. The CAISO believes the dispute resolution procedures set forth in its Tariff, which have been approved by the Commission, are just and reasonable and provide all parties with sufficient recourse in the event of a dispute under an MEEA. Moreover, these disputes

resolution procedures apply today to interchange transactions involving the CAISO's markets.

Section 27.5.3.7 of the CAISO's tariff compliance language specifies the audit rights of the CAISO and an MEEA signatory. Under this provision, the CAISO proposes a reciprocal audit right, which would permit the CAISO to request information from an MEEA signatory to verify the hourly information provided to determine eligible quantities that would receive an MEEA price. An MEEA signatory would also have the rights set forth in the CAISO's tariff to audit its settlement statements through the CAISO's Settlement and Billing Process set forth in Section 11 of the CAISO's tariff and through data provided to the MEEA signatory as a Market Participant under the tariff. Stakeholders raised questions about the scope of information the CAISO would seek to verify hourly transactional data. The proposed tariff language is intended to establish the audit rights under an MEEA as directed by the Commission. The CAISO anticipates that the parties to an MEEA would determine the scope of any necessary information to verify hourly transactional data in manner that does not create undue burdens for either party.

E. The proposed tariff language complies with the September 19 Order's additional requirements concerning MEEAs.

In its IBAA filing, the CAISO proposed that the Commission permit it to enter into an MEEA provided that there is a demonstrable benefit to the CAISO's markets from entering such an agreement. The CAISO proposed to base this determination on whether an MEEA would create increased market efficiencies and enhancements from the receipt of data to verify resources used for interchange transactions. The CAISO proposed to hold a stakeholder process to review a proposed MEEA and make any necessary filings with the Commission to obtain approval of an MEEA. In its Order, the Commission directed the CAISO to delete the requirement that the CAISO determine there is a demonstrable benefit to the CAISO Markets resulting from the MEEA. The Commission determined that the accurate provisioning of data under an MEEA will itself provide a demonstrable benefit to the CAISO and there is no need of a separate determination.¹⁵ The Commission also directed that the CAISO specify that it will file all MEEAs with the Commission under section 205 of the Federal Power Act and on that basis eliminated the CAISO's proposed stakeholder process requirement for developing an individual MEEA.¹⁶ Finally, the Commission determined that the CAISO should delete proposed tariff language that would allow the CAISO under an MEEA to enforce network constraints on other transmission systems.¹⁷

¹⁵ September 19 Order at P 185.

¹⁶ *Id.* at PP 188-189.

¹⁷ *Id.* at P 192.

In the proposed tariff compliance language, the CAISO has removed from the definition of a MEEA the requirement that it provide a demonstrable benefit to the CAISO Markets and has specified that such an agreement is subject to the Commission's review and approval.¹⁸ Section 27.5.3.3 states that the CAISO shall file any executed MEEA with the Commission for review and approval under Section 205 of the Federal Power Act. Consistent with the Commission's Order, the CAISO has deleted the requirement hold a stakeholder process prior to entering an MEEA. The CAISO has also deleted the tariff provision to provide the CAISO the opportunity to enforce a network constraint on another transmission system pursuant to the terms of an MEEA.¹⁹

The CAISO received few comments concerning these issues during the stakeholder process addressing compliance with the September 19 Order. Participants questioned why the CAISO would file an MEEA with the Commission and also expressed concerns with the durability of an MEEA whose terms and conditions are subject to modification at the discretion of the Commission. The CAISO believes such a concern can be addressed through the negotiation of MEEA provisions that provide an MEEA signatory with assurances that neither party will unilaterally seek to change an MEEA and provide termination rights for both parties if third parties obtain changes to an MEEA to which the contracting parties do not agree. However, for purposes of this compliance filing, the CAISO has adhered to the September 19, 2008 Order, which requires the CAISO to file an MEEA with the Commission under Section 205 of the Federal Power Act.

III. Stakeholder Process for Tariff Revisions

The CAISO issued draft tariff language intended to comply with the September 19 Order for review and comment by means of a market notice. The CAISO received written comments from eleven parties and held a conference call with stakeholders to discuss the proposed tariff language. On November 17, 2008, the CAISO issued revised draft tariff compliance language and subsequently held another conference call with stakeholders to describe its proposed tariff revisions. As described herein, the CAISO has attempted to address concerns with the proposed tariff language and has adopted stakeholder suggestions where appropriate and consistent with the Commission's Order.

IV. Materials Provided in the Instant Compliance Filing

The following documents, in addition to this transmittal letter, support the instant filing:

Attachment A Clean MRTU Tariff sheets incorporating the red-lined changes

¹⁸ MRTU Tariff Appendix A Master Definitions Supplement – Market Efficiency Enhancement Agreement.

¹⁹ See, proposed tariff Section 27.5.3.

Attachment B Red-lined changes to the MRTU Tariff to implement the Commission's Order.

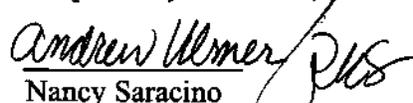
V. Effective Date and Request for Waiver

Consistent with a decision rendered by the CAISO Governing Board on November 24, 2008, the CAISO also requests that the Commission approve the proposed changes in this Amendment to the MRTU Tariff effective as of February 28, 2009, i.e., one day prior to the anticipated implementation date of MRTU, March 1, 2009. However, in the unanticipated event that MRTU is implemented more than 120 days after the submittal of this Amendment, the CAISO requests waiver, pursuant to Section 35.11 of the Commission's regulations (18 C.F.R. § 35.11), of Section 35.3 of the Commission's regulations (18 C.F.R. § 35.3), in order to permit the changes to the MRTU Tariff proposed herein to become effective as of that implementation date. Granting a waiver in this instance would be consistent with the similar waivers of Section 35.3 that the Commission has granted for other MRTU-related filings.

VI. Conclusion

The CAISO respectfully requests that the Commission accept the enclosed tariff revisions as complying with the directives of the September 19, 2008 Order. Please contact the undersigned with any questions concerning this filing.

Respectfully submitted,



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Attachment A – Clean Sheets

Integrated Balancing Authority Area Modeling and Pricing Compliance Filing

4th Replacement CAISO Tariff (MRTU)

November 25, 2008

CAISO's FNM. If overloads are observed in the forward markets, are internal to the MSS or at the MSS boundaries, and are attributable to MSS operations, the CAISO shall communicate such events to the Scheduling Coordinator for the MSS and coordinate any manual Re-dispatch required in Real-Time. If, independent of the CAISO, the Scheduling Coordinator for the MSS is unable to resolve Congestion internal to the MSS or at the MSS boundaries in Real-Time, the CAISO will use Exceptional Dispatch Instructions on resources that have been bid into the HASP and RTM to resolve the Congestion. The costs of such Exceptional Dispatch will be allocated to the responsible MSS Operator. Consistent with Section 4.9, the CAISO and MSS Operator shall develop specific procedures for each MSS to determine how network Constraints will be handled.

27.5.3 Integrated Balancing Authority Areas.

To the extent sufficient data are available or adequate estimates can be made for an IBAA, the FNM used by the CAISO for the CAISO Markets Processes will include a model of the IBAA's network topology. The CAISO monitors but does not enforce the network Constraints for an IBAA in running the CAISO Markets Processes. Similarly, the CAISO models the resistive component for transmission losses on an IBAA but does not allow such losses to determine LMPs that apply for pricing transactions to and from an IBAA and the CAISO Balancing Authority Area, unless allowed under a Market Efficiency Enhancement Agreement. For Bids and Schedules between the CAISO Balancing Authority Area and the IBAA, the CAISO will model the associated sources and sinks that are external to the CAISO Balancing Authority Area using individual or aggregated injections and withdrawals at locations in the FNM that allow the impact of such injections and withdrawals on the CAISO Balancing Authority Area to be reflected in the CAISO Markets Processes as accurately as possible given the information available to the CAISO.

27.5.3.1 Currently Established Integrated Balancing Authority Areas.

The FNM includes the established IBAA's listed below. Additional details regarding the modeling specifications for these IBAA's are provided in the Business Practice Manuals.

- (1) The Sacramento Municipal Utility District (SMUD) IBAA including the transmission facilities of the following entities:
 - (a) Western Area Power Administration – Sierra Nevada Region
 - (b) Modesto Irrigation District
 - (c) City of Redding
 - (d) City of Roseville
- (2) Turlock Irrigation District IBAA

27.5.3.2 Information Required to Develop and Obtain Pricing under a Market Efficiency Enhancement Agreement.

The CAISO shall enter into an MEEA with an entity controlling supply resources within an IBAA to provide modeling and pricing for imports or exports between the IBAA and the CAISO Balancing Authority Area if the entity agrees to provide the required information as specified herein.

27.5.3.2.1 Information Required to Develop a Market Efficiency Enhancement Agreement.

During the process of establishing an MEEA, the CAISO will request from the entity seeking to negotiate an MEEA historical hourly metered generation data for the entity's supply resources within the IBAA and the entity's metered load data within the IBAA in a standard electronic format. This data will be used to determine the following details of the specific MEEA:

- (a) the injection and withdrawal points to model the IBAA for the purposes of the MEEA entity's imports and exports with the CAISO Balancing Authority Area under the MEEA;

- (b) the list of external supply resources and loads within the IBAA over which the MEEA signatory has control or serves (for these purposes control includes ownership or any contractual arrangements that provide authority to schedule and/or receive the financial benefits of a resource);
- (c) the appropriate Resource IDs that apply for the MEEA transactions; and
- (d) how the LMPs for transactions under the MEEA will be calculated.

Unless the parties otherwise agree, after the establishment of an MEEA, the CAISO or MEEA signatory may request updates of this historical data to update the modeling and pricing details under the MEEA.

27.5.3.2.2 Information Required to for Application of Pricing Under a Market Efficiency Enhancement Agreement.

The MEEA signatory controlling supply resources or serving load under the MEEA must provide the following historical hourly information in order for the MEEA pricing rules as further specified below and in the MEEA to take effect:

- (a) total metered generation owned or under the control of the MEEA signatory within the IBAA;
- (b) total gross Energy scheduled by the MEEA signatory into the IBAA from other Balancing Authority Areas (excluding the CAISO Balancing Authority Area);
- (c) total gross Energy purchases made by the MEEA signatory at delivery points within the IBAA, including:
 - (i) purchases from third parties, and
 - (ii) exchanges acquiring Energy from third parties;
- (d) total metered load served by the MEEA signatory within the IBAA;
- (e) total gross Energy scheduled by the MEEA signatory out of the IBAA into other Balancing Authority Areas (excluding the CAISO Balancing Authority Area); and

- (f) total gross Energy sales made by the MEEA signatory for delivery points within the IBAA, including:
 - (i) sales to third parties, and
 - (ii) exchanges providing Energy to third parties.

This information is necessary for the purposes of verifying the location and operation of the supply resources within an IBAA dispatched to implement an import Interchange transaction into the CAISO Balancing Authority Area or reduced as the result of an export Interchange transaction from the CAISO Balancing Authority Area. This hourly data shall include the data for the MEEA signatory itself and any of its Affiliates or any other organization under its control. Data shall be provided in standard electronic format in a manner and timeline that is consistent with the rules for the submission of meter data submissions timeline specified in Section 10.3.6. In addition, in the event that there is a Dynamic Resource-Specific System Resource in the IBAA, the MEEA may further provide that the MEEA signatory in control of such resource may also obtain pricing under the MEEA for imports to the CAISO Balancing Authority Area from the Dynamic Resource-Specific System Resource. Based on the historical hourly data identified above, if during any Trading Hour in which the CAISO has determined that an MEEA signatory (or any of its Affiliates or any other organization under its control) imports to and exports from the CAISO Balancing Authority Area, all of the MEEA signatory's imports to and exports from the CAISO Balancing Authority Area will be settled using the default IBAA price specified in Appendix C, Section G.1.1 for the corresponding volume and time period.

27.5.3.2.3 Imports into the CAISO Balancing Authority Area.

Under the MEEA, eligible imports into the CAISO Balancing Authority Area at Scheduling Points that are part of an IBAA will be paid pursuant to the MEEA price as opposed to the IBAA default pricing specified in Appendix C, Section G.1.1, subject to the following requirements:

- (a) During each Trading Hour, the volume of imports from the IBAA into the CAISO Balancing Authority Area by the MEEA signatory that would be eligible for MEEA pricing each Trading Hour is limited to the MEEA maximum eligible imports to CAISO Balancing Authority Area.
- (b) The MEEA maximum eligible imports to the CAISO Balancing Authority Area is determined as the MEEA metered generation within the IBAA less (i) the MEEA metered load, (ii) MEEA gross exports from the IBAA to other Balancing Authority Areas other than the CAISO Balancing Authority Area, (iii) and the MEEA gross sales within the IBAA.
- (c) The MEEA metered generation is the total metered output of the generating resources within the IBAA under the control of the MEEA signatory.
- (d) The MEEA metered load is the total metered load served by the MEEA signatory in the IBAA.
- (e) The MEEA gross exports from the IBAA to other Balancing Authority Areas includes all Energy exports scheduled and delivered (as identified in the e-tags) by the MEEA signatory on interchanges between the IBAA and other Balancing Authority Areas (excluding the CAISO Balancing Authority Area).
- (f) MEEA gross sales within the IBAA include all Energy sales or exchanges made by the MEEA signatory at delivery points within the IBAA.
- (g) For any Energy imports into the CAISO Balancing Authority Area in excess of this maximum limit, the MEEA signatory will be paid the default IBAA price specified in Appendix C, Section G.1.1 for the corresponding volume and time period.

27.5.3.2.4 Exports from the CAISO Balancing Authority Area into the IBAA.

Under the MEEA, eligible exports from the CAISO Balancing Authority Area into the IBAA at Scheduling Points that are part of an IBAA will be charged pursuant to the MEEA price as opposed to the IBAA default pricing specified in Appendix C, Section G.1.1, subject to the following requirements.

- (a) During any other Trading Hour in which an MEEA signatory exports from the CAISO Balancing Authority Area into the IBAA, the MEEA signatory will be charged the MEEA price for any exports from the CAISO Balancing Authority Area into the IBAA up to the MEEA maximum eligible exports from the CAISO Balancing Authority Area.
- (b) The MEEA maximum eligible exports from the CAISO Balancing Authority Area is the MEEA metered load less the (i) MEEA metered generation, (ii) MEEA gross imports into the IBAA, and (iii) MEEA gross purchases within IBAA.
- (c) MEEA metered generation includes the total metered output of generating resources within the IBAA under the control of the MEEA signatory.
- (d) MEEA metered load includes the total metered load served by the MEEA signatory in the IBAA.
- (e) MEEA gross imports into the IBAA from other Balancing Authority Areas include all Energy imports by the MEEA signatory into the IBAA scheduled and delivered on interchanges as identified in the e-tags between the IBAA and other Balancing Authority Areas (excluding the CAISO Balancing Authority Area).
- (f) MEEA gross purchases within the IBAA include all Energy purchases or exchanges made by the MEEA signatory at delivery points within the IBAA.
- (g) For any Energy exports from the CAISO Balancing Authority Area in excess of this maximum limit, the MEEA signatory will be charged the default IBAA price specified in Appendix C, Section G.1.1 for the corresponding volume and time period.

27.5.3.3 Process for Establishing a Market Efficiency Enhancement Agreement.

Any entity seeking to negotiate an MEEA with the CAISO may submit a written request to the CAISO.

The CAISO and the requesting entity shall negotiate in good faith the terms and conditions of the MEEA.

The CAISO shall file any executed MEEA with FERC for review and approval under Section 205 of the Federal Power Act. In the event an MEEA is not executed within 180 days of the initial written request for an MEEA, a requesting entity may invoke the CAISO ADR Procedures under Section 13.

27.5.3.4 Use of Data Provided to CAISO under a Market Efficiency Enhancement Agreement.

Data provided to the CAISO pursuant to an MEEA shall be used for purposes of modeling and pricing Interchange transactions between the CAISO Balancing Authority Area and the relevant IBAA at Scheduling Points specified in the MEEA. The data concerning hourly transactions shall be used solely for pricing MEEA transactions and for the determination of the eligible amounts as specified in the sections above. The configuration of the pricing points for the MEEA, which may include specific distribution factors for the represented resources, established through the negotiation of the MEEA will also be used for the purposes of modeling the resources in the IBAA subject to the MEEA. The CAISO and the MEEA signatory may agree to changes to these configurations over time that do not require the renegotiation of the terms of the MEEA or may agree to static terms until such time the parties re-execute a new MEEA. Such modeling information regarding the location of the resources will be incorporated into the Full Network Model, including the CRR FNM, which is used for all CAISO Markets as further described in Section 27.3. The FNM and the CRR FNM will not include the hourly transactional data provided pursuant to Section 27.5.3.2, except in such cases where the CAISO and the MEEA signatory have agreed to dynamic changes to the configuration of the modeling of the MEEA resources during the life of the agreement as further provided by the MEEA.

27.5.3.5 Measures to Preserve Confidentiality of Data under a Market Efficiency Enhancement Agreement.

Subject to the provisions of Section 27.5.3.4, data provided to the CAISO by any entity under an MEEA or in connection with negotiations to develop an MEEA shall be treated as confidential data under Section 20.

27.5.3.6 Dispute Resolution under Market Efficiency Enhancement Agreements.

Any disputes arising out of or in connection with an MEEA shall be subject to the CAISO ADR Procedures of Section 13.

27.5.3.7 Audit Rights under Market Efficiency Enhancement Agreements.

The CAISO reserves the right to audit data supplied under an MEEA by giving written notice at least 10 Business Days in advance of the date that the CAISO wishes to initiate such audit, with completion of the audit occurring within 180 days of such notice. The audit shall be for the limited purposes of verifying that the MEEA signatory has accurately represented available resources and has met the maximum requirements specified for MEEA pricing. Upon request of the CAISO as part of such audit, any signatory to an MEEA shall provide information to support the hourly information provided under Section 27.5.3.2. An MEEA signatory may audit the price for any transaction entered into under an MEEA through the CAISO's Settlement and billing process set forth in Section 11 and through data provided to the MEEA signatory as a Market Participant under the CAISO Tariff. Each party will be responsible for its own expenses related to any audit.

27.5.3.8 Process for Establishing a New IBAA or Modifying an Existing IBAA.

Except under exigent circumstances, the CAISO must follow a consultative process with the applicable Balancing Authority and CAISO Market Participants pursuant to the process further defined in the Business Practice Manuals, to establish a new IBAA or modify an existing IBAA. Changes to an existing IBAA may include among others changes to the modeling of the IBAA's network topology, the specification of the default Resource IDs or the default pricing points. Upon completion of this process and having determined it necessary to establish a new IBAA or modify an existing IBAA, the CAISO will seek FERC approval under Section 205 of the Federal Power Act of the proposed new IBAA or changes to the existing IBAA requirements, at which time the CAISO shall also provide its supportive findings for the establishment of the new IBAA or modification to an existing IBAA.

27.5.3.8.1 Factors to Be Considered in Establishing a New Integrated Balancing Authority Area or Modifying an Existing Integrated Balancing Authority Area.

In establishing a new IBAA or modifying an existing IBAA, the factors that the CAISO will consider shall include, but are not limited to, the following:

- (1) The number of Interties between the potential or existing IBAA and the CAISO Balancing Authority Area and the distance between them;
- (2) Whether the transmission system(s) within the other Balancing Authority Area runs in parallel to major parts of the CAISO Controlled Grid;
- (3) The frequency and magnitude of unscheduled power flows at applicable Interties;
- (4) The number of hours where the actual direction of power flows was reversed from scheduled directions;
- (5) The availability of information to the CAISO for modeling accuracy; and
- (6) The estimated improvement to the CAISO's power flow modeling and Congestion Management processes to be achieved through more accurate modeling of the Balancing Authority Area.

27.5.3.9 Default Designation of External Resource Locations for Modeling Transactions Between the CAISO Balancing Authority Area and an IBAA.

Prior to the establishment of a new IBAA or a change to an existing IBAA, the CAISO will define and publish default Resource IDs to be used for submitting import and export Bids and for settling import and export Schedules between the CAISO Balancing Authority Area and the potential or existing IBAA. These default Resource IDs will specify in the Master File the default associations of Intertie Scheduling Point Bids and Schedules to supporting individual or aggregate injection or withdrawal locations in the FNM. The CAISO will determine the supporting injection and withdrawal locations to allow the impact of the associated Intertie Scheduling Point Bids and Schedules to be reflected in the CAISO Markets Processes as accurately as possible given the information available to the CAISO. The CAISO's methodology for determining such default Resource IDs, as well as the specific default Resource IDs that have been adopted for the currently established IBAAs, are provided in the Business Practice Manuals. Alternative Resource IDs to be used instead of the default Resource IDs will be created and adopted for use in conjunction with Intertie Scheduling Point Bids and Schedules between the CAISO Balancing Authority Area and the IBAA based on a Market Efficiency Enhancement Agreement.

27.5.4 Accounting for Changes in Topology in FNM.

The CAISO will incorporate into the FNM information received pursuant to Section 24 for transmission expansion and Section 25 for generation interconnection to account for changes to the CAISO Controlled Grid and other facilities located within the CAISO Balancing Authority Area. This information will be incorporated into the network model data base in which the electrical network model is maintained for use by the State Estimator and which forms the basis for the FNM used by the CAISO Markets. The updated

Manual RMR Dispatch	An RMR Dispatch Notice issued by the CAISO other than as a result of the MPM-RRD process.
Marginal Cost of Congestion (MCC)	The component of LMP at a PNode that accounts for the cost of congestion, as measured between that Node and a Reference Bus.
Marginal Cost of Losses (MCL)	The component of LMP at a PNode that accounts for the marginal real power losses, as measured between that Node and a Reference Bus.
Marginal Losses	The transmission system marginal real power losses that arise from changes in demand at a Node which are served by changes in generation at a Reference Bus.
Market Behavior Rules	Those rules established by FERC under Docket No. EL01-118.
Market Clearing	The act of conducting any of the process used by the CAISO to determine LMPs, Day-Ahead Schedules, RUC Awards or AS Awards, HASP Intertie Schedules and Dispatch Instructions based on Supply Bids and Demand Bids or CAISO Demand Forecast.
Market Clearing Price	The price in a market at which supply equals demand. All demand prepared to pay at least this price has been satisfied and all supply prepared to operate at or below this price has been purchased.
Market Close	The time after which the CAISO is no longer accepting Bids for its CAISO Markets which: 1) for the DAM is 10:00 A.M. Pacific Time of the Day-Ahead; and 2) for the HASP and the RTM is approximately seventy-five minutes prior to the Operating Hour.
Market Disruption	An action or event that causes a failure of the normal operation of any of the CAISO Markets.
Market Efficiency Enhancement Agreement (MEEA)	An agreement between the CAISO and the Balancing Authority of an IBAA, or any entity or group of entities that use the transmission system of an IBAA, which provides for an alternative modeling and pricing arrangement to the default IBAA modeling and pricing provisions provided in Section 27.5.3. The CAISO may enter into such an agreement subject to FERC review and acceptance. Creation and modification of such an agreement will be pursuant to the process set forth in Section 27.5.3 and will be posted on the CAISO Website.

Each LAP includes only the buses of Market Participants who are in the LAP and who have Load that is represented by that LAP's definition. Market Participants that have metered Load must either be settled at a Default LAP or a Custom LAP created for each Load point of the Market Participant (nodal Settlement).

G. Intertie Scheduling Point Price Calculation

The CAISO calculates LMPs for Scheduling Points, which are represented in the FNM as PNodes or aggregations of PNodes, external to the CAISO Balancing Authority Area, through the same process that is used to calculate LMPs within the CAISO Balancing Authority Area. In some cases, facilities that are part of the CAISO Controlled Grid but are external to the CAISO Balancing Authority Area connect some Intertie Scheduling Points to the CAISO Balancing Authority Area, and in these cases the Scheduling Points are within external Balancing Authority Areas. In both of these cases, the Scheduling Points are represented in the FNM. The CAISO places injections and withdrawals at the Scheduling Point PNodes to represent Bids and Schedules whose supporting physical injection and withdrawal locations may be unknown, and the LMPs for Settlement of accepted Bids are established at the Scheduling Point PNodes.

G.1 Intertie Scheduling Point Price Calculation for IBAA

G.1.1 Scheduling Point Prices

As described in Section 27.5.3, the CAISO's FNM includes a full model of the network topology of each IBAA. The CAISO will specify Resource IDs that associate Intertie Scheduling Point Bids and Schedules with supporting injection and withdrawal locations on the FNM. These Resource IDs may be specified by the CAISO based on the information available to it, or developed pursuant to a Market Efficiency Enhancement Agreement. Once these Resource IDs are established, the CAISO will determine Intertie Scheduling Point LMPs based on the injection and withdrawal locations associated with each Intertie Scheduling Point Bid and Schedule by the appropriate Resource ID. In calculating these LMPs the CAISO follows the provisions specified in Section 27.5.3 regarding the treatment of transmission Constraints and losses on the IBAA network facilities. Unless otherwise required pursuant to an

effective MEEA, the default pricing for all imports from the IBAA(s) to the CAISO Balancing Authority Area will be based on the SMUD/TID IBAA Import LMP and all exports to the IBAA(s) from the CAISO Balancing Authority Area will be based on the SMUD/TID IBAA Export LMP. The SMUD/TID IBAA Import LMP will be calculated based on modeling of supply resources that assumes all supply is from the Captain Jack substation as defined by WECC. The SMUD/TID IBAA Export LMP will be calculated based on the Sacramento Municipal Utility District hub that reflects Intertie distribution factors developed from a seasonal power flow base case study of the WECC region using an equivalencing technique that requires the Sacramento Municipal Utility District hub to be equivalenced to only the buses that comprise the aggregated set of load resources in the IBAA, with all generation also being retained at its buses within the IBAA. The resulting load distribution within each aggregated set of load resources within the IBAA defines the Intertie distribution factors for exports from the CAISO Balancing Authority Area.

G.1.2 Applicable Marginal Losses Adjustment

For import Schedules to the CAISO Balancing Authority Area at the southern terminus of the California-Oregon Transmission Project at the Tracy substation that (a) use the California-Oregon Transmission Project, and (b) pay the Western Area Power Administration or Transmission Agency of Northern California for losses for the use of the California-Oregon Transmission Project, the CAISO will replace the Marginal Cost of Losses at the otherwise applicable source for such Schedules with the Marginal Cost of Losses at the Tracy substation. The CAISO will establish Resource IDs that are to be used only to submit Bids, including Self-Schedules, for the purpose of establishing Schedules that are eligible for this loss adjustment. Prior to obtaining such Resource IDs, the relevant Scheduling Coordinator shall certify that it will only use this established Resource ID for Bids, including Self-Schedules, that originate from transactions that (a) use the California-Oregon Transmission Project,

and (b) pay the Western Area Power Administration or Transmission Agency of Northern California for losses for the use of the California-Oregon Transmission Project. Further, by actually using such Resource ID, the Scheduling Coordinator represents that such Bids, including Self-Schedules, originate from transactions that (a) use the California-Oregon Transmission Project and (b) pay the Western Area Power Administration or Transmission Agency of Northern California for losses for the use of the California-Oregon Transmission Project. Schedules and Dispatches settled under such Resource IDs shall be subject to an LMP which has accounted for the Marginal Cost of Losses as if there is an actual physical generation facility at the Tracy Scheduling Point as opposed to the Marginal Cost of Losses under the IBAA LMPs specified in Section G.1.1 of this Appendix. The CAISO may from time-to-time request information from such Scheduling Coordinators to verify the legitimate use of such Resource IDs. The CAISO will calculate a re-adjustment of the Marginal Cost of Losses at the Tracy substation to reflect the otherwise applicable source for such Schedules for any Settlement Interval in which the CAISO has determined that the Scheduling Coordinator's payments did not reflect transactions that (a) use the California-Oregon Transmission Project, and (b) pay the Western Area Power Administration or Transmission Agency of Northern California for losses for the use of the California-Oregon Transmission Project. Any amounts owed to the CAISO for such Marginal Cost of Losses re-adjustments will be recovered by the CAISO from the affected Scheduling Coordinator by netting the amounts owed from payments due in subsequent Settlements Statements until the outstanding amounts are fully recovered.

Attachment B – Blacklines

Integrated Balancing Authority Area Modeling and Pricing Compliance Filing

4th Replacement CAISO Tariff (MRTU)

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27.5.3 Integrated Balancing Authority Areas.

To the extent sufficient data ~~are~~ available or adequate estimates can be made for an IBAA, the FNM used by the CAISO for the CAISO Markets Processes will include a model of the IBAA's network topology. The CAISO monitors but does not enforce the network Constraints for an IBAA in running the CAISO Markets Processes, ~~unless enforcement of such Constraints is allowed under a Market Efficiency Enhancement Agreement~~. Similarly, the CAISO models the resistive component for transmission losses on an IBAA but does not allow such losses to determine LMPs that apply for pricing transactions to and from an IBAA and the CAISO Balancing Authority Area, unless allowed under a Market Efficiency Enhancement Agreement. ~~As described in Section 27.5.3.4, f~~For Bids and Schedules between the CAISO Balancing Authority Area and the IBAA, the CAISO will model the associated sources and sinks that are external to the CAISO Balancing Authority Area using individual or aggregated ~~System Resource~~ injections and withdrawals at locations in the FNM that allow the impact of such injections and withdrawals on the CAISO Balancing Authority Area to be reflected in the CAISO Markets Processes as accurately as possible given the information available to the CAISO.

* * *

27.5.3.2 Information Required to Develop and Obtain Pricing under a Market Efficiency Enhancement Agreement.

The CAISO shall enter into an MEEA with an entity controlling supply resources within an IBAA to provide modeling and pricing for imports or exports between the IBAA and the CAISO Balancing Authority Area if the entity agrees to provide the required information as specified herein.

27.5.3.2.1 Information Required to Develop a Market Efficiency Enhancement Agreement.

During the process of establishing an MEEA, the CAISO will request from the entity seeking to negotiate an MEEA historical hourly metered generation data for the entity's supply resources within the IBAA and the entity's metered load data within the IBAA in a standard electronic format. This data will be used to determine the following details of the specific MEEA:

- (a) the injection and withdrawal points to model the IBAA for the purposes of the MEEA
entity's imports and exports with the CAISO Balancing Authority Area under the MEEA;

- (b) the list of external supply resources and loads within the IBAA over which the MEEA signatory has control or serves (for these purposes control includes ownership or any contractual arrangements that provide authority to schedule and/or receive the financial benefits of a resource);
- (c) the appropriate Resource IDs that apply for the MEEA transactions; and
- (d) how the LMPs for transactions under the MEEA will be calculated.

Unless the parties otherwise agree, after the establishment of an MEEA, the CAISO or MEEA signatory may request updates of this historical data to update the modeling and pricing details under the MEEA.

27.5.3.2.2 Information Required to for Application of Pricing Under a Market Efficiency Enhancement Agreement.

The MEEA signatory controlling supply resources or serving load under the MEEA must provide the following historical hourly information in order for the MEEA pricing rules as further specified below and in the MEEA to take effect:

- (a) total metered generation owned or under the control of the MEEA signatory within the IBAA;
- (b) total gross Energy scheduled by the MEEA signatory into the IBAA from other Balancing Authority Areas (excluding the CAISO Balancing Authority Area);
- (c) total gross Energy purchases made by the MEEA signatory at delivery points within the IBAA, including:
 - (i) purchases from third parties, and
 - (ii) exchanges acquiring Energy from third parties;
- (d) total metered load served by the MEEA signatory within the IBAA;
- (e) total gross Energy scheduled by the MEEA signatory out of the IBAA into other Balancing Authority Areas (excluding the CAISO Balancing Authority Area); and
- (f) total gross Energy sales made by the MEEA signatory for delivery points within the IBAA, including:
 - (i) sales to third parties, and
 - (ii) exchanges providing Energy to third parties.

This information is necessary for the purposes of verifying the location and operation of the supply resources within an IBAA dispatched to implement an import Interchange transaction into the CAISO Balancing Authority Area or reduced as the result of an export Interchange transaction from the CAISO Balancing Authority Area. This hourly data shall include the data for the MEEA signatory itself and any of its Affiliates or any other organization under its control. Data shall be provided in standard electronic format in a manner and timeline that is consistent with the rules for the submission of meter data submissions timeline specified in Section 10.3.6. In addition, in the event that there is a Dynamic Resource-Specific System Resource in the IBAA, the MEEA may further provide that the MEEA signatory in control of such resource may also obtain pricing under the MEEA for imports to the CAISO Balancing Authority Area from the Dynamic Resource-Specific System Resource. Based on the historical hourly data identified above, if during any Trading Hour in which the CAISO has determined that an MEEA signatory (or any of its Affiliates or any other organization under its control) imports to and exports from the CAISO Balancing Authority Area, all of the MEEA signatory's imports to and exports from the CAISO Balancing Authority Area will be settled using the default IBAA price specified in Appendix C, Section G.1.1 for the corresponding volume and time period.

27.5.3.2.3 Imports into the CAISO Balancing Authority Area.

Under the MEEA, eligible imports into the CAISO Balancing Authority Area at Scheduling Points that are part of an IBAA will be paid pursuant to the MEEA price as opposed to the IBAA default pricing specified in Appendix C, Section G.1.1, subject to the following requirements:

- (a) During each Trading Hour, the volume of imports from the IBAA into the CAISO Balancing Authority Area by the MEEA signatory that would be eligible for MEEA pricing each Trading Hour is limited to the MEEA maximum eligible imports to CAISO Balancing Authority Area.
- (b) The MEEA maximum eligible imports to the CAISO Balancing Authority Area is determined as the MEEA metered generation within the IBAA less (i) the MEEA metered load, (ii) MEEA gross exports from the IBAA to other Balancing Authority Areas other than the CAISO Balancing Authority Area, (iii) and the MEEA gross sales within the IBAA.

- (c) The MEEA metered generation is the total metered output of the generating resources within the IBAA under the control of the MEEA signatory.
- (d) The MEEA metered load is the total metered load served by the MEEA signatory in the IBAA.
- (e) The MEEA gross exports from the IBAA to other Balancing Authority Areas includes all Energy exports scheduled and delivered (as identified in the e-tags) by the MEEA signatory on interchanges between the IBAA and other Balancing Authority Areas (excluding the CAISO Balancing Authority Area).
- (f) MEEA gross sales within the IBAA include all Energy sales or exchanges made by the MEEA signatory at delivery points within the IBAA.
- (g) For any Energy imports into the CAISO Balancing Authority Area in excess of this maximum limit, the MEEA signatory will be paid the default IBAA price specified in Appendix C, Section G.1.1 for the corresponding volume and time period.

27.5.3.2.4 Exports from the CAISO Balancing Authority Area into the IBAA.

Under the MEEA, eligible exports from the CAISO Balancing Authority Area into the IBAA at Scheduling Points that are part of an IBAA will be charged pursuant to the MEEA price as opposed to the IBAA default pricing specified in Appendix C, Section G.1.1, subject to the following requirements.

- (a) During any other Trading Hour in which an MEEA signatory exports from the CAISO Balancing Authority Area into the IBAA, the MEEA signatory will be charged the MEEA price for any exports from the CAISO Balancing Authority Area into the IBAA up to the MEEA maximum eligible exports from the CAISO Balancing Authority Area.
- (b) The MEEA maximum eligible exports from the CAISO Balancing Authority Area is the MEEA metered load less the (i) MEEA metered generation, (ii) MEEA gross imports into the IBAA, and (iii) MEEA gross purchases within IBAA.
- (c) MEEA metered generation includes the total metered output of generating resources within the IBAA under the control of the MEEA signatory.
- (d) MEEA metered load includes the total metered load served by the MEEA signatory in the IBAA.

- (e) MEEA gross imports into the IBAA from other Balancing Authority Areas include all Energy imports by the MEEA signatory into the IBAA scheduled and delivered on interchanges as identified in the e-tags between the IBAA and other Balancing Authority Areas (excluding the CAISO Balancing Authority Area).
- (f) MEEA gross purchases within the IBAA include all Energy purchases or exchanges made by the MEEA signatory at delivery points within the IBAA.
- (g) For any Energy exports from the CAISO Balancing Authority Area in excess of this maximum limit, the MEEA signatory will be charged the default IBAA price specified in Appendix C, Section G.1.1 for the corresponding volume and time period.

27.5.3.32 Process for Establishing a ~~New Integrated Balancing Authority Area or Market Efficiency Enhancement Agreement or Modifying an Existing Integrated Balancing Authority Area or Market Efficiency Enhancement Agreement.~~

Any entity seeking to negotiate an MEEA with the CAISO may submit a written request to the CAISO. The CAISO and the requesting entity shall negotiate in good faith the terms and conditions of the MEEA. The CAISO shall file any executed MEEA with FERC for review and approval under Section 205 of the Federal Power Act. In the event an MEEA is not executed within 180 days of the initial written request for an MEEA, a requesting entity may invoke the CAISO ADR Procedures under Section 13.

[Note –Part of the following language is being moved to section 27.5.3.8.]

~~Except under exigent circumstances, the CAISO must follow a consultative process with the applicable Balancing Authority and CAISO Market Participants pursuant to the process further defined in the Business Practice Manuals, to establish a new IBAA or enter into a new MEEA or modify an existing IBAA or MEEA. Changes to an existing IBAA may include changes to the modeling of the IBAA's network topology or to the specification of the default Resource IDs described in Section 27.5.3.4. Upon completion of this process and having determined it necessary to establish a new IBAA or enter into a new MEEA or modify an existing IBAA or MEEA, the CAISO will make any necessary filings with FERC to amend this CAISO Tariff and to submit for FERC acceptance any related MEEA as appropriate, at which time the CAISO shall also provide its supportive findings for the establishment of the new IBAA or execution of the new MEEA or modification to an existing IBAA or MEEA.~~

27.5.3.4 Use of Data Provided to CAISO under a Market Efficiency Enhancement Agreement.

Data provided to the CAISO pursuant to an MEEA shall be used for purposes of modeling and pricing Interchange transactions between the CAISO Balancing Authority Area and the relevant IBAA at Scheduling Points specified in the MEEA. The data concerning hourly transactions shall be used solely for pricing MEEA transactions and for the determination of the eligible amounts as specified in the sections above. The configuration of the pricing points for the MEEA, which may include specific distribution factors for the represented resources, established through the negotiation of the MEEA will also be used for the purposes of modeling the resources in the IBAA subject to the MEEA. The CAISO and the MEEA signatory may agree to changes to these configurations over time that do not require the renegotiation of the terms of the MEEA or may agree to static terms until such time the parties re-execute a new MEEA. Such modeling information regarding the location of the resources will be incorporated into the Full Network Model, including the CRR FNM, which is used for all CAISO Markets as further described in Section 27.3. The FNM and the CRR FNM will not include the hourly transactional data provided pursuant to Section 27.5.3.2, except in such cases where the CAISO and the MEEA signatory have agreed to dynamic changes to the configuration of the modeling of the MEEA resources during the life of the agreement as further provided by the MEEA.

27.5.3.5 Measures to Preserve Confidentiality of Data under a Market Efficiency Enhancement Agreement.

Subject to the provisions of Section 27.5.3.4, data provided to the CAISO by any entity under an MEEA or in connection with negotiations to develop an MEEA shall be treated as confidential data under Section 20.

27.5.3.6 Dispute Resolution under Market Efficiency Enhancement Agreements.

Any disputes arising out of or in connection with an MEEA shall be subject to the CAISO ADR Procedures of Section 13.

27.5.3.7 Audit Rights under Market Efficiency Enhancement Agreements.

The CAISO reserves the right to audit data supplied under an MEEA by giving written notice at least 10 Business Days in advance of the date that the CAISO wishes to initiate such audit, with completion of the audit occurring within 180 days of such notice. The audit shall be for the limited purposes of verifying that

the MEEA signatory has accurately represented available resources and has met the maximum requirements specified for MEEA pricing. Upon request of the CAISO as part of such audit, any signatory to an MEEA shall provide information to support the hourly information provided under Section 27.5.3.2. An MEEA signatory may audit the price for any transaction entered into under an MEEA through the CAISO's Settlement and billing process set forth in Section 11 and through data provided to the MEEA signatory as a Market Participant under the CAISO Tariff. Each party will be responsible for its own expenses related to any audit.

27.5.3.8 Process for Establishing a New IBAA or Modifying an Existing IBAA.

[Note –This section reflects language from Section 27.5.3.3 as previously filed. This language now appears in this section with additional changes. The original language moved from Section 27.5.3.3 is not shown in redline format, only new changes.]

Except under exigent circumstances, the CAISO must follow a consultative process with the applicable Balancing Authority and CAISO Market Participants pursuant to the process further defined in the Business Practice Manuals, to establish a new IBAA ~~or enter into a new MEEA~~ or modify an existing IBAA ~~or MEEA~~. Changes to an existing IBAA may include among others changes to the modeling of the IBAA's network topology, ~~or to the specification of the default Resource IDs described in Section 27.5.3.4 or the default pricing points~~. Upon completion of this process and having determined it necessary to establish a new IBAA ~~or enter into a new MEEA~~ or modify an existing IBAA ~~or MEEA~~, the CAISO will seek FERC approval under Section 205 of the Federal Power Act of the proposed new IBAA or changes to the existing IBAA requirements, the CAISO will make any necessary filings with FERC to amend this CAISO Tariff and to submit for FERC acceptance any related MEEA as appropriate, at which time the CAISO shall also provide its supportive findings for the establishment of the new IBAA ~~or execution of the new MEEA~~ or modification to an existing IBAA ~~or MEEA~~.

27.5.3.8.13 Factors to Be Considered in Establishing a New Integrated Balancing Authority Area or Modifying an Existing Integrated Balancing Authority Area.

In establishing a new IBAA or modifying an existing IBAA, the factors that the CAISO will consider shall include, but are not limited to, the following:

- (1) The number of Interties between the potential or existing IBAA and the CAISO Balancing Authority Area and the distance between them;

- (2) Whether the transmission system(s) within the other Balancing Authority Area runs in parallel to major parts of the CAISO Controlled Grid;
- (3) The frequency and magnitude of unscheduled power flows at applicable Interties;
- (4) The number of hours where the actual direction of power flows was reversed from scheduled directions;
- (5) The availability of information to the CAISO for modeling accuracy; and
- (6) The estimated improvement to the CAISO's power flow modeling and Congestion Management processes to be achieved through more accurate modeling of the Balancing Authority Area.

27.5.3.94 Default Designation of External Resource Locations for Modeling Transactions Between the CAISO Balancing Authority Area and an IBAA.

Prior to the establishment of a new IBAA or a change to an existing IBAA, the CAISO will define and publish default Resource IDs to be used for submitting import and export Bids and for settling import and export Schedules between the CAISO Balancing Authority Area and the potential or existing IBAA.

These default Resource IDs will specify in the Master File the default associations of Intertie Scheduling Point Bids and Schedules to supporting individual or aggregate ~~System Resource~~ injection or withdrawal locations in the FNM. The CAISO will determine the supporting injection and withdrawal locations ~~will be determined by the CAISO~~ to allow the impact of the associated Intertie Scheduling Point Bids and Schedules ~~on the CAISO IBAA~~ to be reflected in the CAISO Markets Processes as accurately as possible given the information available to the CAISO. The CAISO's methodology for determining such default Resource IDs, as well as the specific default Resource IDs that have been adopted for the currently established IBAAs, are provided in the Business Practice Manuals. Alternative Resource IDs to be used instead of the default Resource IDs ~~may will~~ be created and adopted for use in conjunction with Intertie Scheduling Point Bids and Schedules between the CAISO Balancing Authority Area and the IBAA based on a Market Efficiency Enhancement Agreement.

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Master Definitions Supplement

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Market Efficiency Enhancement Agreement (MEEA)

An agreement between the CAISO and the Balancing Authority of an IBAA, or any entity or group of entities that use the transmission system of an IBAA, which provides for an alternative modeling and pricing arrangement to the default IBAA modeling and pricing provisions provided in Section 27.5.3. The CAISO may enter into such an agreement ~~subject to FERC review and acceptance provided that there is a demonstrable benefit to the CAISO Markets resulting from such alternative arrangements.~~ Creation and modification of such an agreement will be pursuant to the process set forth in Section 27.5.3.2 and will be posted on the CAISO Website.

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CAISO TARIFF APPENDIX C Locational Marginal Price

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G.1 Intertie Scheduling Point Price Calculation for IBAAs

G.1.1 Scheduling Point Prices

As described in Section 27.5.3, the CAISO's FNM includes a full model of the network topology of each IBAA. ~~Consistent with the provisions of Section 27.5.3.4, t~~The CAISO ~~Tariff~~ will specify Resource IDs that associate Intertie Scheduling Point Bids and Schedules with supporting injection and withdrawal locations on the FNM. ~~As provided in Section 27.5.3.4, such~~ These Resource IDs may be specified by the CAISO based on the information available to it, or developed pursuant to a Market Efficiency Enhancement Agreement. Once these Resource IDs are established, the CAISO will determine Intertie Scheduling Point LMPs based on the injection and withdrawal locations associated with each Intertie Scheduling Point Bid and Schedule by the appropriate Resource ID. In calculating these LMPs the CAISO follows the provisions specified in Section 27.5.3 regarding the treatment of transmission Constraints and losses on the IBAA network facilities. Unless otherwise required pursuant to an effective MEEA, the default pricing for all imports from the IBAA(s) to the CAISO Balancing Authority Area will be based on the SMUD/TID IBAA Import LMP and all exports to the IBAA(s) from the CAISO Balancing Authority Area will be based on the SMUD/TID IBAA Export LMP. The SMUD/TID IBAA Import LMP will be calculated

based on modeling of supply resources that assumes all supply is from the Captain Jack substation as defined by WECC. The SMUD/TID IBAA Export LMP will be calculated based on the Sacramento Municipal Utility District hub that reflects Intertie distribution factors developed from a seasonal power flow base case study of the WECC region using an equivalencing technique that requires the Sacramento Municipal Utility District hub to be equivalenced to only the buses that comprise the aggregated set of load resources in the IBAA, with all generation also being retained at its buses within the IBAA. The resulting load distribution within each aggregated set of load resources within the IBAA defines the Intertie distribution factors for exports from the CAISO Balancing Authority Area.

G.1.2 Applicable Marginal Losses Adjustment

For import Schedules to the CAISO Balancing Authority Area at the southern terminus of the California-Oregon Transmission Project at the Tracy substation that (a) use the California-Oregon Transmission Project, and (b) pay the Western Area Power Administration or Transmission Agency of Northern California for losses for the use of the California-Oregon Transmission Project, the CAISO will replace the Marginal Cost of Losses at the otherwise applicable source for such Schedules with the Marginal Cost of Losses at the Tracy substation. The CAISO will establish Resource IDs that are to be used only to submit Bids, including Self-Schedules, for the purpose of establishing Schedules that are eligible for this loss adjustment. Prior to obtaining such Resource IDs, the relevant Scheduling Coordinator shall certify that it will only use this established Resource ID for Bids, including Self-Schedules, that originate from transactions that (a) use the California-Oregon Transmission Project, and (b) pay the Western Area Power Administration or Transmission Agency of Northern California for losses for the use of the California-Oregon Transmission Project. Further, by actually using such Resource ID, the Scheduling Coordinator represents that such Bids, including Self-Schedules, originate from transactions that (a) use the California-Oregon Transmission Project and (b) pay the Western Area Power Administration or Transmission Agency of Northern California for losses for the use of the California-Oregon Transmission Project. Schedules and Dispatches settled under such Resource IDs shall be subject to an LMP which has accounted for the Marginal Cost of Losses as if there is an actual physical generation facility at the Tracy Scheduling Point as opposed to the Marginal Cost of Losses under the IBAA LMPs specified in Section G.1.1 of this Appendix. The CAISO may from time-to-time request information from such

Scheduling Coordinators to verify the legitimate use of such Resource IDs. The CAISO will calculate a re-adjustment of the Marginal Cost of Losses at the Tracy substation to reflect the otherwise applicable source for such Schedules for any Settlement Interval in which the CAISO has determined that the Scheduling Coordinator's payments did not reflect transactions that (a) use the California-Oregon Transmission Project, and (b) pay the Western Area Power Administration or Transmission Agency of Northern California for losses for the use of the California-Oregon Transmission Project. Any amounts owed to the CAISO for such Marginal Cost of Losses re-adjustments will be recovered by the CAISO from the affected Scheduling Coordinator by netting the amounts owed from payments due in subsequent Settlements Statements until the outstanding amounts are fully recovered.

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in the captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 25th day of November, 2008.

Susan L. Montana
/s/ Susan L. Montana