



CALIFORNIA MUNICIPAL UTILITIES ASSOCIATION

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May 20, 2008

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

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

Dear Mr. Mansour:

This letter follows on earlier correspondence to express the California Municipal Utilities Association's ("CMUA") continuing concerns regarding the California Independent System Operator Corporation's ("CAISO") IBAA proposal.

As previously stated, CMUA recognizes the CAISO's desire to improve the accuracy of its Full Network Model. In fact, CMUA and its members have themselves raised model accuracy concerns at the CAISO stakeholder meetings. With members both inside and outside the CAISO Balancing Authority, we have a vested interest in assuring that CAISO market pricing is done fairly and accurately, in a manner understood by all in the marketplace, and with recognition that the wholesale market is much broader than the portion of the Western Electricity Coordinating Council administered by the CAISO.

Based on our review, CMUA remains concerned that the proposals before the CAISO Board of Governors for decision on May 21, 2008 meet few of the above-stated goals. Indeed, the pricing proposals appear to move away from efforts to more accurately model neighboring systems, toward aggregation of prices in broad hubs. This proposal moves away from efforts to better match power flows and prices, and undercuts the very rationale that has been the foundation of the IBAA efforts from the beginning. This proposal also penalizes CMUA members that are participants in the California Oregon Transmission Project ("COTP") and are also load-serving entities in the CAISO. It does so by violating existing contracts which govern operation and cost allocation of the three-line California-Oregon Intertie ("COI") system. Further, the proposal does not account for losses already paid by those COTP participants, and does not reflect realistic flows over the COI. In the search for the appropriate solution to the issues raised by the CAISO when it initiated the IBAA stakeholder process, the goal was to reflect flows in prices consistent with the MRTU market theory;

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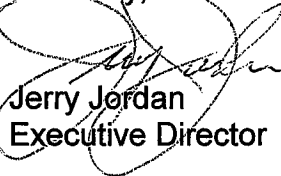
the CAISO appears to have departed from this policy goal in its latest proposals.

Despite the above-stated concerns, several CMUA members and a federal agency put together a proposal for consideration by the CAISO. It is no small feat for this number of entities to coalesce around such a proposal. CMUA also understands that CAISO staff has noted certain advantages to the proposal proffered by CMUA members. Nevertheless, the CAISO is now asking its Board to authorize a Federal Energy Regulatory Commission (FERC) filing which is tantamount to beginning a litigious process at the FERC. While CMUA acknowledges that settlement may be possible after the CAISO filing, the act of moving forward with the FERC litigation process will not be viewed by the municipal community as an act consistent with a sincere desire to reach a consensus resolution of this matter.

CMUA asks the CAISO to delay action by the Board on the current IBAA proposal and continue discussions on the proposal put forth by several CMUA members. The IBAA issue represents an opportunity to solve our disagreements in California, and to build a more solid working relationship between the CAISO and the municipal community. This opportunity should not be wasted by a precipitous move toward litigation as reflected in the proposals before the CAISO Board at this time.

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

Sincerely,



Jerry Jordan
Executive Director

cc: CAISO Board of Governors