

**COMMENTS FROM THE CITY OF REDDING ELECTRIC UTILITY REGARDING
THE INTEGRATED BALANCING AUTHORITY AREA PROPOSAL**

February 20, 2008

The Redding Electric Utility appreciates the opportunity to comment and submit questions regarding the CAISO's proposed Integrated Balancing Authority Area ("IBAA") tariff language. Redding provides the following additional comments in response to the CAISO's February 14th Market Notice. The comments stated herein supplement Redding's prior comments.

Redding is not opposed the CAISO efforts in trying to achieve an accurate Full Network Model by modeling neighboring control areas with non-proprietary data. Redding does oppose, however, the current proposal to alter the price paid for imports and exports to something other than the LMP at the physical intertie node. Redding is also in opposition to incorporating practices, such as compensating injections, that can manipulate the LMP at an intertie or other points. When such practices are done, or when LMP pricing is aggregated from more than one node, the LMP prices paid by (or to) some subsidize others.

CAISO has not justified its proposal to develop any nodal pricing beyond CAISO borders, and doing so only serves to distort the LMP price signals the CAISO claimed as justification for implementing an LMP model. In particular, the CAISO's proposal to price imports scheduled over the California Oregon Transmission project ("COTP") into Tracy at Captain Jack is an attempt to push charges associated with the ISO's system on to a neighboring control area's facility. The entities operating the COTP do so in accordance with all applicable reliability standards, and in accordance with the agreements governing the facility. The CAISO's attempted encroachment over that facility is unwelcome, unjustified, unjust and unnecessary. The proposal to price COTP deliveries at an LMP developed for Captain Jack outside the CAISO Balancing Authority increases costs (such as losses), and devalues the line to a CAISO determined price that does not take into account the physical connection of that line at Tracy, and the value it provides to market participants, and the CAISO market itself.

Redding adopts the comments being submitted today by TANC and SMUD. The following paragraphs contain more specific comments on the proposed tariff language. These comments are not an indication of Redding's agreement to CAISO's proposals.

1. Section G.1 gives the CAISO the ability to establish PNodes at the Scheduling Points they inappropriately defined "through both consultation with the IBAA's and examination of their systems." The "consultation" that the SMUD/Western IBAA parties received regarding pricing of the proposed IBAA was a conference call advising the parties the CAISO had decided to price beyond its borders after CAISO failed to cover that topic at their in-person meeting. Redding believes this discussion was simply a token to meet the loose tariff language. It was not true "consultation". It was merely the CAISO unilaterally implementing the result it predetermined. The SMUD IBAA parties are not in agreement at all with the CAISO. The proposed Tariff language provides too much discretion for the CAISO to do whatever it wants under a claimed consultation in which the CAISO tells the IBAA what it wants, and if the IBAA does not agree the CAISO does what it decided to do anyway.
2. Section 27.5.5 reads in part "the FNM will include a full model of IBAA's used for power flow calculations and congestion management in the CAISO Markets Processes... *Additional detail regarding the modeling specifications for specific IBAA's is provided in the Business Practice Manuals.*" The attempt by the CAISO to exclude the modeling specifications from the tariff, and leave them in the unfiled BPMs is troubling. The modeling specifications, in the CAISO proposal, could greatly affect the importing and exporting parties costs. FERC needs to know what modeling authority they are providing to the CAISO, and the market participants and neighboring utilities need to have any changes to the modeling specifications be subject to FERC process and procedures. Certainly there is common modeling language that can be included in the tariff.
3. Sections 27.5.3.1 and 27.5.3.3 give the CAISO unilateral ability to define Resource Identifiers, Distribution Factors, associated with Scheduling Points. First of all, this data should be associated with the physical intertie points. But more importantly, the proposed tariff language gives the CAISO unilateral discretion and market power to

determine what prices IBAs would be paid. There should be a thorough process with the potential IBAs where all parties have equal influence and agreement on this data, and on changes to the data. The suggestion on the last call that the CAISO will exercise its discretion reasonably does not provide much comfort, particularly given the course it has taken in creating the proposal to price beyond its borders, in particular with regard to the COTP.

4. Section G of Appendix C allows Scheduling Points to be defined that are beyond the CAISO Balancing Authority Area. Again, this gives the CAISO unjust market power to determine costs for imports and exports due to how these points are defined. LMP prices should be set physical interties only to prevent unwelcome “creep” of the CAISO’s LMP market design beyond its control area.

The most troubling aspect of the proposed tariff language however, is the CAISO’s willingness to forsake the alleged benefits of LMP by establishing tariffs, policies, practices and procedures that provide it with unilateral ability to manipulate prices through the establishment of Scheduling Points, PNodes, Aggregations of Nodes, and Distribution Factors. This invalidates the need or purported benefits of the LMP design. CAISO must withdraw their proposal to price imports and exports at anything other than the LMP at the physical interconnection with their neighboring Balancing Authorities.