SVP Follow Up Questions to
Joint SVP/SMUD/TID IBAA Questions
February 29, 2008

SVP appreciates the CAISO responding to the joint SMUD/TID/SVP questions. While the CAISO did answer many of the questions, it did not respond to others, or its responses were not complete. To further stakeholder understanding of the issues, SVP is summarizing its understanding of the CAISO's response(s) to some of the questions (either from written responses or from the stakeholder conference calls), and is clarifying some of the questions. The original questions are shown in black type, while the summaries and the follow-up questions are shown in blue type. Please indicate if SVP is correctly describing the CAISO's responses and please respond to the questions below. If possible, please provide your response to these questions prior to the March 6 meeting.

3) The CAISO announced at the January 24, 2008 conference call how it will treat certain injections under the IBAA proposal.

a. Are all injections at Tracy 500 kV (Tracy 500), including those of non-IBAAs, modeled as injections at Captain Jack (COTP)?

[Summary of SVP understanding of CAISO response. If an SC identifies an Import Schedule at Tracy 500 kV as originating from COTP by using the TRACY5_5_CAPJAK or TRACY5_5_COTP Resource ID, that Import will be modeled and priced as an injection at Captain Jack. If an SC identifies an Import Schedule at Tracy 500 kV as originating from the Western system by using the Tracy5_5_PGAE Resource ID, that Import will be modeled and priced as an injection at the Western Hub (using the weights for Cottonwood-76%, Tracy Pumps-7% and Folsom-17%).

COTP schedules that sink to either the Western system or the SMUD system (i.e., are not imported into the CAISO) will not be priced/settled between the IBAA and CAISO. If energy that originates on COTP is scheduled to the CAISO via the SMUD Hub, that transaction would be mapped back to Captain Jack and the CAISO would model and price the energy at Captain Jack.

Please indicate whether the CAISO agrees with this assessment, and if not, please explain why not.

Follow up questions: If there are net exports to the CAISO from the SMUD or Western systems, during periods when Western or SMUD are importing energy from the Northwest using COTP, how does the CAISO propose to differentiate the source of the Import to the CAISO (Captain Jack vs. Western Hub/SMUD Hub)? Would it propose to use a fixed decision rule (e.g., Imports to CAISO come first from the SMUD Hub/Western Hub or vice-versa) or would the Importing SC make the determination and specify the source via the Resource ID?

Will the CAISO model COTP scheduled flows that are not scheduled as Imports to the CAISO and COTP actual flows (to improve the FNM solution within the CAISO)? If so, please explain how the CAISO intends to do so (e.g., timing and source(s) of information)?]

b. If so, how will the CAISO distinguish between injections at Tracy 500 which originate from Captain Jack or elsewhere within the SMUD/Western BA?

[See SVP summary and follow up questions above]

c. How will CRRs using Tracy 500 hedge injections at Captain Jack?

[Summary of SVP understanding of CAISO response. If the CRR holder specified either Tracy5_5_CAPJAK or TRACY5_5_COTP as the Resource ID in its CRR request, the awarded CRR will hedge Tracy transactions that have been mapped to Captain Jack as the source.

Please indicate whether the CAISO agrees with this assessment, and if not, please explain why not.]

d. The CAISO indicated on the January 24 call that parties, such as DOE, should have used Captain Jack rather than Tracy 500 as a source for CRRs. At what point had the CAISO finalized its proposal to the extent that a stakeholder should have relied upon it for CRRs? How were stakeholders notified of the mapping of each Intertie point to a particular source, and of changes to the mapping? If the notification was via the Full Network Model data tables, how were entities that did not receive the Full Network Model data tables notified of the mapping?

[Summary of SVP understanding of CAISO response. The CAISO's CRR FNM included detail that enabled market participants to select a point (Tracy) that was mapped back to a potential source (Captain Jack, SMUD hub, Western hub)…. That model was made available to Market Participants through the CRR process in the July 2007, timeframe.

Please indicate whether the CAISO agrees with this assessment, and if not, please explain why not.

Follow up questions: SVP submitted a data request on February 27 requesting information related to the mapping of transactions at Tracy to potential sources. In addition to the information the CAISO will make available responsive to the February 27 data request, did the CAISO provide any other notification of the Tracy source mapping change to market participants (other than in the CRR FNM model released to parties that had signed the Non-Disclosure Agreement)? If so, please identify that notification. How were entities that did not receive the Full Network Model notified of the mapping? What percentage of CRR allocation/auction participants had signed the NDA as of the date the FNM with the changed Tracy mapping was released? What percentage of TANC/SMUD/Western/TID CRR allocation/auction participants had signed the NDA as of the date the FNM with the changed Tracy mapping was released?]

e. Will N-S schedules on COTP under the current market model that are scheduled with the CAISO as Imports at Tracy be settled at the Captain Jack LMP congestion and loss components under the IBAA proposal?

[SVP Understanding of CAISO response. Yes.

Please indicate whether the CAISO agrees with this assessment, and if not, please explain why not.]

Will N-S schedules on COTP that under the current market model are scheduled as imports to the SMUD/Western Balancing Authority Area, be modeled and priced in the CAISO's MRTU market model using the Captain Jack congestion and loss components as the "source" prices? If so, what will be used as the "sink" prices?

[SVP understanding of CAISO response. COTP imports into the SMUD/Western Balancing Authority Area will not be priced by the CAISO, unless that import is the source for an Import into the CAISO.

Please indicate whether the CAISO agrees with this assessment, and if not, please explain why not.

Follow up questions. See follow up questions to 3.a. above]

f. If the congestion and loss components at Captain Jack are used to settle COTP Imports at Tracy, will the prices of those components reflect the marginal cost of congestion, and the marginal cost of losses, respectively, on the CAISO Controlled Grid?

[Summary of SVP understanding of CAISO response. Yes.

Please indicate whether the CAISO agrees with this assessment, and if not, please explain why not.]

If the answer to this question is yes, does that mean that COTP Imports at Tracy will be assessed CAISO congestion and loss charges?

[Summary of SVP understanding of CAISO response. Yes, based on the Captain Jack congestion and loss components.

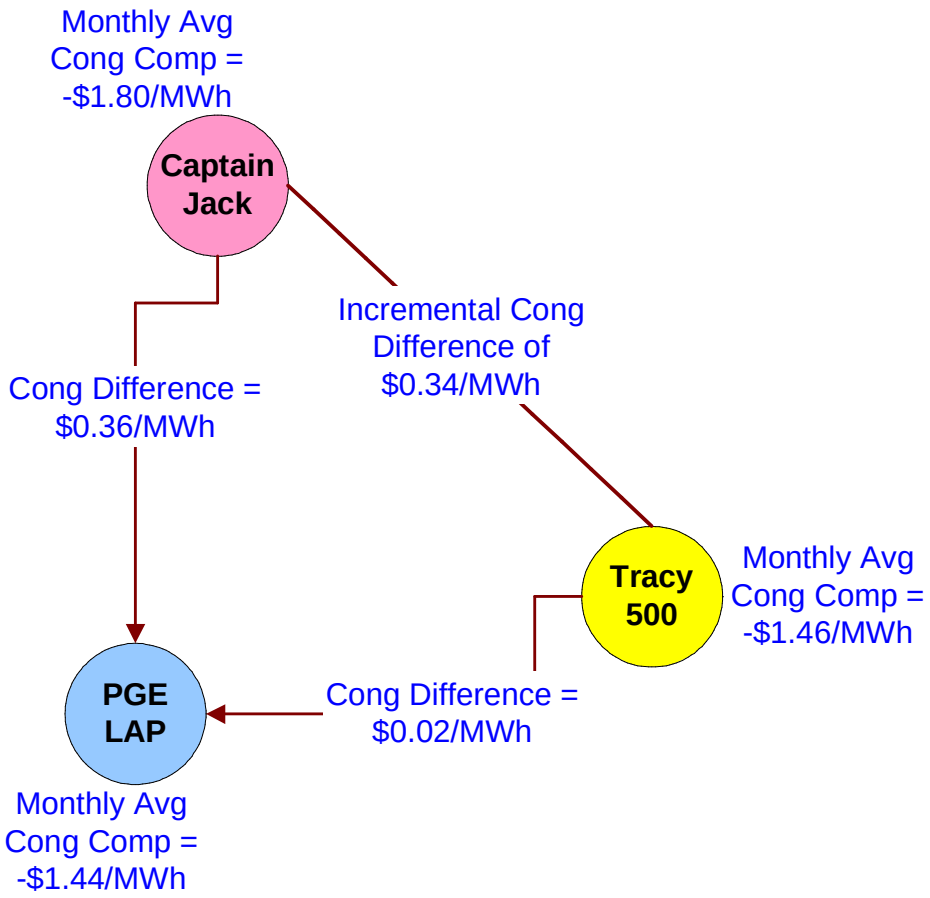
Please indicate whether the CAISO agrees with this assessment, and if not, please explain why not.]

g. Under the current market structure, COTP Imports at Tracy do not require FTRs to hedge congestion costs between Captain Jack and Tracy. Under the IBAA proposal CRRs

would be required to hedge congestion between Captain Jack and Tracy, even though the COTP project is not part of the CAISO Balancing Authority Area or the CAISO Controlled Grid. Please explain how a Tracy CRR obligation mapped back to Captain Jack does not place additional burdens on COTP owners that do not exist under the current market structure.

[SVP believes that the CAISO has not responded to this question. SVP hopes the example below helps illustrate the issue and will enable the CAISO to respond to the question above.

Consider the average congestion components at Tracy 500, Captain Jack and PG&E Default LAP for April 2005 (from LMP Study 3C). The figure below shows that the average congestion between Tracy 500 and the PG&E Default LAP for April 2005 was $0.02/MWh. The average congestion between Captain Jack and the PG&E Default LAP was $0.36/MWh. If a party scheduling COTP Imports at Tracy does not hold a CRR mapped to Captain Jack, it would be exposed to $0.34/MWh more congestion than it would have been if the injections were priced at Tracy. While the CAISO would make available CRRs mapped to Captain Jack to provide a Day Ahead hedge for the entire $0.36/MWh congestion exposure, this CRR is an obligation, rather than an option. Holding the Captain Jack – PG&E Default LAP CRR is inherently more risky than holding the Tracy – PG&E LAP CRR. COTP participants previously had the option to schedule injections at Tracy, but once they hold the CRR, it becomes an obligation (since they risk paying counter-flow congestion). Also, once they hold the Captain Jack – PG&E LAP CRR, they no longer have the ability to capture the South – North value of the COTP line for the periods covered by the CRR. SVP believes this reduces the value of the COTP line to it and other COTP participants. With this explanation, please respond to the question previously posed in 3.g.]



Source: Hourly Congestion Components of LMP in April 2005 in the LMP Study 3C

h. As a non-CAISO transmission facility, COTP interchange transactions can be made "post-Day Ahead". Please explain how post-Day Ahead COTP schedule changes (for Tracy Imports) will be protected from CAISO congestion charges under the IBAA proposal.

[SVP believes that the CAISO has not responded to this question. SVP believes that the CAISO has provided no mechanism to protect entities that previously had no post-Day Ahead congestion exposure between Captain Jack and Tracy, from such exposure under the IBAA proposal.

Please indicate whether the CAISO agrees with this assessment, and if not, please explain why not.]

i. Will Imports at Malin be settled using the congestion and loss components at Malin?

[Summary of SVP understanding of CAISO response. Yes.

Please indicate whether the CAISO agrees with this assessment, and if not, please explain why not.]

Given that Captain Jack and Malin are directly connected to each other by 500 kV facilities, is it reasonable to assume that the congestion and loss components at Malin and Captain Jack will be similar?

[SVP believes that the CAISO has not responded to this question, but SVP believes the answer to this question is yes. Does the CAISO agree with this assessment? If not, please explain why the congestion and loss components at Malin and Captain Jack would not be similar and provide any information the CAISO has that supports its conclusion.]

Given that the COTP terminus at Tracy is directly connected to the Pacific AC Intertie terminus at Tesla by 500 kV facilities is it reasonable to assume that the congestion and loss components at Tesla and Tracy would be similar to one another (assuming that Tracy is not mapped backed to the Western Hub as contemplated in the IBAA proposal)?

[SVP believes that the CAISO has not responded to this question, but SVP believes the answer to this question is yes. Does the CAISO agree with this assessment? If not, please explain why the congestion and loss components at Tracy and Tesla would not be similar and provide any information the CAISO has that supports its conclusion.]

Would one expect that congestion and loss differentials between Malin and Tesla and between Captain Jack and Tracy to be similar?

[SVP believes that the CAISO has not responded to this question, but SVP believes the answer to this question is yes. Does the CAISO agree with this assessment? If not, please explain why the congestion and loss differentials between Malin and Tesla and between Captain Jack and Tracy would not be similar and provide any information the CAISO has that supports its conclusion.]

j. Given that COTP schedules are assessed transmission losses by Western (based on actual losses), please explain why assessing CAISO losses for COTP Imports at Tracy does not result in COTP Imports being "double" charged for losses.

[SVP believes that the CAISO has not responded to this question, but SVP believes that by assessing CAISO losses for COTP Imports at Tracy by applying the Captain Jack loss component, that COTP Imports would be charged twice for losses: Once by the entity responsible for managing losses on the COTP line (Western), and once by the CAISO (even though the CAISO does not incur COTP losses). SVP does not believe the CAISO has considered all of the relevant factors affecting CAISO losses associated with IBAA transactions and would like to discuss this issue further during the March 6 IBAA stakeholder meeting.]

Will COTP schedules that are not imported to the CAISO be assessed CAISO losses?

[Summary of SVP understanding of CAISO response. No.

Please indicate whether the CAISO agrees with this assessment, and if not, please explain why not.]

Are the actual loss impacts on the CAISO Controlled Grid from COTP schedules that are imported to the CAISO Controlled Grid at Tracy the same as the loss impacts on the CAISO controlled Grid from COTP schedules that are not imported to the CAISO Controlled Grid?

[SVP believes that the CAISO has not responded to this question, but SVP believes the answer to this question is yes. Energy that flows over COTP, whether it is associated with CAISO's 154 MW of COTP rights or a COTP participant in the CAISO's rights or a COTP participant in the SMUD Balancing Authority Area's rights has the same LMP loss component impact on the CAISO. But, since Western – and not CAISO – is responsible for managing COTP losses, Western mitigates the loss impacts associated with COTP flows (no matter what is the source of those flows).

Please indicate whether the CAISO agrees with this assessment, and if not, please explain why not.]

Are the loss impacts on the CAISO Controlled Grid from Malin Imports essentially the same as COTP imports at Tracy?

[SVP believes that the CAISO has not responded to this question, but SVP believes the answer to this question is No. For Malin Imports, the CAISO is responsible for managing the losses and thus must provide extra generation to cover the losses associated with Pacific AC Intertie (Malin) flows. In contrast, the CAISO is not responsible for losses associated with COTP flows, and thus does not incur the cost of the extra generation go cover the COTP losses.

Please indicate whether the CAISO agrees with this assessment, and if not, please explain why not.]

k. Regarding the proposed Western Hub pricing, will the Western Hub loss component be a different price than the loss component at Tracy (absent the proposed IBAA Western Hub aggregation)?

[SVP believes that the CAISO has not responded to this question, but SVP believes the answer to this question is Yes, since the Western Hub price will be weighted 76% Cottonwood, 7% Folsom and 17% Tracy Pumps, rather than 100% Tracy 500 kV.

Please indicate whether the CAISO agrees with this assessment, and if not, please explain why not.]

Given that Western customers take delivery of their Western allocations at Tracy, how can Western customers within the CAISO Balancing Authority Area maintain the current responsibility for losses and congestion from the Tracy delivery point?

[SVP believes that the CAISO has not responded to this question. Please provide a response.]