

Comments of the California Department of Water Resources'
State Water Project on the California Independent System Operator's
Draft Proposal "California ISO Near-Final Proposal for Location Constrained
Resource Interconnection" September 14, 2007

The California Department of Water Resources' State Water Project (SWP) appreciates the California Independent System Operator (CAISO) providing the opportunity to provide comments on the CAISO's September 14, 2007 draft proposal. CAISO efforts to incorporate parties' comments are appreciated.

| The SWP's comments to the September 14th proposal reiterates concerns stated in its earlier September 5, 2007 comments which focused on reducing financial risk and burden to Load. The comments further centered on the appropriateness of the 15% price cap and possible manipulation by generators and transmission providers in ways not intended under proposal.

SWP encouraged CAISO to re-consider the size of the cap. If transmission project to serve remotely located renewable generation is properly planned, the capital cost of the project will only be in the queue for no more than a few years before the transmission line is fully subscribed resulting in costs being removed from the Third Category type transmission. Whether the benefit of the cap is to reduce the risk of escalating transmission rates (rate shock) or to minimize the risk of an excessive financial burden to Load, the question of what is an appropriate cap needs to be answered.

The benefit of developing an appropriate revenue stream will be to provide sufficient money to finance transmission projects and create an environment of financial accountability, reducing the chance of transmission projects being poorly planned and not becoming fully subscribed. As pointed out in SWP's September 5th comments, large capital expenditures in high voltage transmission facilities is forecasted over the next seven years resulting in **billions of dollars** being available for Third Category type transmission projects under the CAISO's proposed cap. Revenue for the Third Category type transmission projects if planned correctly will only be needed for a short period of time (less than three years). Therefore, the price cap should be set at a level which will encourage financial accountability and minimizes possible manipulation.

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