

**SUPPLEMENTAL SUMMARY OF COMMENTS OF THE
TRANSMISSION AGENCY OF NORTHERN CALIFORNIA
ON THE APRIL 18, 2008 DRAFT FINAL CAISO IBAA PROPOSAL**

On April 28, 2008 the Transmission Agency of Northern California (“TANC”) submitted its comments on the April 18, 2008 Draft Final CAISO Integrated Balancing Authority Area (“IBAA”) Proposal (“April 18 Proposal”). Nevertheless, TANC has been asked to prepare a summary of its comments, to fit in with the CAISO preferred “template” for comments. TANC believes the questions proposed by the CAISO in its template are leading questions, and responding only to the questions posed in the template would result in an incomplete picture of the nature of TANC’s opposition to the April 18 Proposal. Therefore, TANC provides this supplemental summary with cross references to the appropriate section of the IBAA template at the CAISO’s request, and refers the CAISO to TANC’s full comments for a complete statement of its position.

- Let there be no confusion on these points: TANC opposes the implementation of the Proposal; TANC believes the Proposal is discriminatory; TANC believes that the Proposal results in less accurate modeling and pricing than the current practice of modeling transactions at the points of interconnection with the neighboring Balancing Authority Areas (BAA); and TANC believes that the CAISO has NO right to unilaterally impose ANYTHING on ANY independent, neighboring BA – whether it is Sacramento Municipal Utility District (“SMUD”), Bonneville Power Administration (“BPA”), Turlock Irrigation District (“TID”), Western Area Power Administration (“Western”), Los Angeles Department of Water and Power (“LADWP”), Imperial Irrigation District (“IID”), PacifiCorp, Sierra Pacific

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Power (“SPP”), Nevada Power Company (“NPC”), or Arizona Public Service (“APS”). *Reference IBAA Template sections 2.0, 3.0, 4.0 and 5.0.*

- For the following reasons, TANC does not support implementation of the CAISO’s April 18 Proposal: *Reference IBAA Template sections 2.0, 3.0, 4.0 and 5.0.*

- TANC opposes the implementation of the Proposal and its modeling approach, and does not believe it will accomplish the results described because the CAISO has not demonstrated a need for the IBAA proposal, nor for its imposition of that proposal solely on the SMUD/Western and TID BAAs. The CAISO concedes that its April 18 Proposal will not be particularly effective at improving congestion management and will be no more effective than other alternatives that are less invasive of the interests of the IBAAAs. It sacrifices accurate price signals, fails to properly model IBAA transactions, and has not been shown to be necessary or effective in addressing concerns with gaming opportunities. The CAISO concedes deficiencies with its proposal, *April 18 Proposal at 8*, and has not demonstrated that implementation of an IBAA proposal is necessary at or for the start-up of MRTU. *Reference IBAA Template section 2.0.*

- TANC opposes the implementation of the proposed modeling and pricing methodologies because the April 18 Proposal, does not improve modeling accuracy and results in incorrect price signals. In fact, the CAISO recently rated the single proxy bus proposal “Low” in its ability to provide effective congestion management. *See April 11, 2008 CAISO Presentation on Modeling and Pricing*

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of IBAA's at Slide 3. The CAISO has not established that pricing California-Oregon Transmission Project ("COTP") imports at Tracy 500 kV (the boundary point between itself and SMUD/Western BAA) rather than at Captain Jack (which is outside the CAISO's system) would cause inappropriate scheduling incentives. Improper scheduling incentives are not a legitimate concern for the entities subject to the first IBAA. In addition, the amounts those entities import into the CAISO are so small in the extreme that any perceived market impact could not be significant. In fact, the Single Hub IBAA pricing proposal inappropriately prices virtually every affected schedule. By aggregating all imports from the North in a single price, the price signal for every transaction is, at best, muted, and at worst badly distorted. Moreover, this practice and approach provides disincentive for the development of new transmission infrastructure. Thus, the CAISO is adopting a new pricing policy that is unwarranted and adversely impacts neighboring BAAs by applying inappropriate pricing schemes to schedules on non-CAISO facilities. TANC believes that existing modeling and pricing approaches are more accurate than the Proposal. *Reference IBAA Template section 2.0.*

- TANC opposes the proposed modeling and pricing methodologies because the April 18 Proposal inappropriately prices schedules sinking in the CAISO based on estimated parallel flows from schedules on non-CAISO facilities. The IBAA proposal impairs and diminishes TANC's Congressionally authorized rights to the COTP and abrogates numerous FERC accepted contracts which, among other things, prohibit charging based on parallel flows over the California-Oregon Intertie ("COI"). The PACI and COTP are operated pursuant to the Amended

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Owners Coordinated Operation Agreement (“OCOA”), which provides for a coordinated three-line transmission system with no charges based on unscheduled flow. The April 18 Proposal upsets the balance achieved in the Amended OCOA for the coordinated operation of the COI, improperly proposes to charge based on parallel flows, raises reliability concerns and otherwise fails to account for the benefits of the OCOA and related agreements. Entering into new agreements with the CAISO in this environment might be fraught with issues, but TANC believes mutually agreeable, reciprocal data exchanges might be attainable. *Reference IBAA Template sections 2.0 and 3.0.*

- TANC opposes the implementation of the pricing methodology because the April 18 Proposal fails to accommodate the numerous concerns with the IBAA proposal expressed by TANC and TANC Members, Western and the Department of Energy. The failure to develop a proposal that **does not** develop prices based on parallel flows ignores essential concerns of TANC regarding congestion and losses charges assigned to schedules using the COTP. Among other things, it fails to take into account the fact that Western assumes responsibility for losses on the COTP within the SMUD/Western BAA by delivering to the CAISO the full amount scheduled. It is likely possible to reach agreement on what is an acceptable, mutually agreeable, and reciprocal exchange of data and information necessary to resolve mutually understood issues. *Reference IBAA Template section 3.0.*

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- TANC opposes the implementation of the modeling and pricing methodologies because the CAISO IBAA proposal must be a negotiated agreement between the CAISO and the affected BAAs. A serious flaw in the April 18 Proposal is the failure to incorporate mutual agreement as the basis for addressing resolution of CAISO concerns with modeling flows from external sources. This is a matter for mutual agreement with neighboring BAAs, not unilateral action that will adversely affect resources not connected to the CAISO grid and not under CAISO control. *Reference IBAA Template section 2.0, 3.0, and 5.0.*

- TANC concurs in the comments of its Members, Western and DOE, and looks forward to further meetings with the CAISO to resolve these issues. *Reference IBAA Template sections 2.0, 3.0, 4.0 and 5.0.*