

Comments on Issue Paper/Straw Proposal  
Related to Congestion Revenue Rights (CRR) for  
Integrated Balancing Authority Areas (IBAA)  
Western Area Power Administration  
February 29, 2008

Based on our initial read of the issue paper and straw proposal posted by the California Independent System Operator (CAISO), Western was pleasantly surprised to see that the CAISO had appeared to acknowledge the possibility of Western and other IBAA entities in the Sacramento Municipal Utility District (SMUD) - Western and Turlock Irrigation District (TID) balancing areas were potentially inadvertently discriminated against since our initial CRR nominations were submitted and allocated by the CAISO based on individual scheduling points while the CAISO was simultaneously evolving towards a “hub” based approach. This approach would have supported the previous requests that Western had documented in its October 2007 and January 2008 joint seams report filings before the Federal Energy Regulatory Commission requesting that the CAISO recognize that Western might be unduly disadvantaged as a result of submitting requests for CRRs based on a source-to-sink approach while the CAISO was simultaneously “evolving” towards a “hub” based paradigm.

We were therefore dismayed to discover that at the February 25<sup>th</sup> conference call, that the CAISO’s proposed two policy options (to allow individual CRR recipients to have the option to either make a one-time election to modify their point-to-point CRR nominations to a “hub” approach or to have the CAISO automatically re-designate them) was not an option being extended or offered on a prospective basis to participants to the SMUD-Western and TID balancing areas. We are chagrined and do not understand why this proposed approach is being offered on a prospective basis only to “future” IBAA participants such as the Los Angeles Department of Water and Power, but not to existing participants in the SMUD-Western or TID balancing areas. At a minimum, Western believes that this is inequitable and inconsistent, and at worst represents a potentially discriminatory approach as it appears to penalize SMUD-Western and TID balancing areas and does not afford procedural or substantive due process.

Western wishes to point out for the record that at no time during the CRR nomination process were participants in the SMUD-Western and TID balancing areas ever provided any explicit representations from the CAISO that we indeed had a “choice” to elect a “hub” as opposed to a “point-to-point” (i.e., from source to sink) approach. In fact, Western was informed by CAISO staff during the CRR nomination process that our source and sink (i.e., scheduling points) had to tie to calendar year 2006 data. At no point were we even informed that we had the opportunity to select a “hub” in lieu of a specific source-to-sink scheduling point. Consequently, at this point, we’re not even sure what the basic ground rules governing CRRs nominations are.

Western does not concur with CAISO representations that SMUD-Western and TID balancing areas were on “notice” and therefore had the option to make “hub” selections during the CRR nomination process which has now closed. In fact, as Western noted earlier, in the past two joint reports (October 2007 and January 2008) to FERC, Western specifically asked for reconsideration as to its CRR allocations in the event that we were inadvertently prejudiced by requesting our allocations based on a different regulatory scheme (i.e., source to sink) than the ultimate modeling approach (i.e., hub) that the CAISO is now considering to go forward with.

Western believes that all market participants would want to aggressively test alternative business scenarios/strategies associated with selection of either a “hub” or remaining with a source-to-sink type CRR hedging approach especially during Integrated Market Simulation Update 2 testing before making a commitment which may have unknown or uncertain financial ramifications. This is not only prudent, but part of the process associated with making a fully informed business decision. Western notes that the CAISO is in the process of working through and testing the robustness of the new business processes and applications/systems associated with MRTU.

Western therefore respectfully requests that the CAISO allow SMUD-Western and TID balancing area participants to also be afforded the chance and opportunity to revisit their prior CRR nominations and not be arbitrarily excluded from this proposed new prospective process. We further request that CAISO ensure that any settlement changes resulting from new pricing locations in the IBAA will be applied in the same way to both the IFM energy settlement and the CRR settlement. Continuing with this line of reasoning, Western respectfully requests that it be allowed to exercise option 1 of the two options presented in the CAISO issue paper/straw proposal. If you should have any comments and/or questions, please do not hesitate to contact me directly. I can be reached at (916) 353-4531.

Sincerely,

David Tucker  
MRTU Program Manager