



Department of Energy
Western Area Power Administration
Sierra Nevada Customer Service Region
114 Parkshore Drive
Folsom, California 95630-4710

FEB - 1 2008

Mr. Stephen Greenleaf
Director of Regional Market Initiatives
California Independent System Operator
151 Blue Ravine Road
Folsom, CA 95630

Dear Mr. Greenleaf:

The Western Area Power Administration (Western) is providing the California Independent System Operator (CAISO) with the following comments on the CAISO's proposal to model energy transactions (i.e., prices, schedules, and settlements) between the Western-Sacramento Municipal Utility District (SMUD) and the Turlock Irrigation District balancing areas. Many of Western's concerns were expressed previously in our November 14, 2007, and January 7, 2008, letters to Mr. Charles King, Vice President of Market Development and Program Management.

Our principal concerns and points of disagreement as articulated in those letters are summarized below:

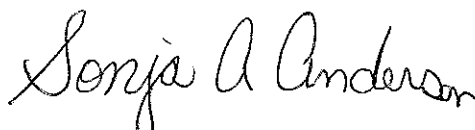
1. The CAISO's proposal is untimely, piecemeal, and incomplete and lacks supporting analyses.
2. Piecemeal as opposed to a comprehensive implementation of the CAISO's proposal would result in the discriminatory treatment of the Western-SMUD balancing area.
3. The CAISO has not demonstrated why the Western-SMUD balancing area is different from other neighboring balancing areas and, thus, in need of being treated in a different and special manner.
4. The proposal devalues the existing investment made by Western and other Integrated Balancing Authority Areas (IBAA) balancing area members, especially with the recent revelation (at the January 24, 2008, stakeholder conference call) by the CAISO that it intends to use Captain Jack, which is within the SMUD-Western balancing area boundary as a pricing point for CAISO transactions associated with the California-Oregon Transmission Project.
5. The untimely proposed implementation of the proposal after the CAISO completed its nomination and allocation process for Congestion Revenue Rights may materially impact Western's nominations.

Our specific comments on the proposed tariff language follow:

1. In Section 27.5.3, the details for any modeling specifications should be included in the tariff and not in Business Practice Models. Unless the language is included in the tariff, the CAISO can unilaterally change the modeling specifications. This provides too much discretion to the CAISO.
2. The CAISO should strike the new additions in Section 27.5.3.1, 27.5.3.2, and 27.5.3.3. The CAISO should collaboratively implement modeling and pricing proposals with Western and other IBAs. These sections have not been implemented collaboratively. As described in the November 14 and January 4 letters, the CAISO's unilateral modeling and pricing proposal has numerous flaws and raises numerous concerns for Western.
3. The changes in Section G1 that allow the CAISO to "examine" IBAA systems are unclear and vague. The CAISO has limited authority to examine Western's system. Further, in this section, the CAISO unilaterally intends to impose a single hub price on IBAs. This pricing proposal is different than it is for any other Balancing Authorities (BA). It does not take into account any of the impacts that such a pricing proposal may have on Western's sub-BA. Western has raised concerns regarding the CAISO's scheduling and pricing proposal in its November 14 and January 4 letters. The pricing methodology between Western and the CAISO's system should be established through mutual consent. As a result, the changes in Section G.1 should be deleted.

In light of our concerns, we recommend that the CAISO reconsider its present course of action and work through the issues raised by ourselves as well as a number of other affected stakeholders first, before attempting to implement a piecemeal solution. Western believes that by waiting and working collaboratively through the issues will not only assure that a comprehensive approach will be implemented, but also will assure that the disparate treatment of certain market participants such as ourselves will not be the end result.

Sincerely,



Sonja A. Anderson
Power Marketing Manager

cc:

Mr. Charles King
Vice-President of Market Development and Program Development
California Independent System Operator
151 Blue Ravine Road
Folsom, CA 95630