

November 14, 2007

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

RESPONSE TO CAISO DISCUSSION PAPERS

Dear Mr. King:

Thank you for the opportunity to review the discussion papers titled "Modeling and Treatment of Embedded and Adjacent Control Areas Under the California ISO's Market Redesign and Technology Upgrade Program". We appreciate the effort expended by the California Independent System Operator (CAISO) to develop its proposed pricing, settlement, and scheduling approach to modeling the transactions of the Interconnected Control Areas (ICAs) operated by the Sacramento Municipal Utility District (SMUD)/Western Area Power Administration (Western), and the Turlock Irrigation District (TID), as well as Western's internal sub-control area participants such as the Modesto Irrigation District, and the cities of Redding and Roseville.

However, the publicly owned and operated utilities within the SMUD and TID ICAs, including Western, are concerned that the CAISO's proposed approach for modeling prices, schedules, and settlements internal to our respective ICAs is not only inconsistent with other commonly accepted approaches used in the industry, it is also inconsistent with the way CAISO handles transactions between its other neighboring ICAs. From our perspective, the CAISO has not specifically demonstrated the need to treat the SMUD/Western and TID ICAs in a different manner than other similarly situated ICAs. Based on our discussions, the only justification provided by the CAISO is unrepresentative of actual operating conditions in that the CAISO has used an extremely small and constrained set of data on which to base its conclusions and justify its modeling proposal. The CAISO's underlying premise that it needs to model our internal flows because we are substantively different than other ICAs located in Southern California, the Southwestern United States and the Pacific Northwestern United States, is from our perspective inconsistent with the actual physical operation of the integrated electric transmission system. Although the operation of these other neighboring ICAs impact the operations of the CAISO, and CAISO operations impact these balancing authorities, the CAISO is not proposing to subject these ICAs to the disparate treatment that it proposes for the SMUD/Western and TID ICAs.

We believe the scope of the proposed CAISO MRTU regime should only apply at the boundaries or the physical interconnection points of all ICAs. This approach is consistent with our understanding of the standard business practices of other neighboring balancing authorities/control area operators within the Western Electricity Coordinating Council (WECC).

The CAISO's hub proposal unduly superimposes its jurisdictional regime and market power concerns upon the internal operations of the SMUD/Western and TID ICAs. The CAISO's proposal, by aggregating prices, likely may impact operations within our ICAs. Further, the CAISO's selective application of its proposal to the SMUD/Western and TID ICAs in attempting to solve one supposed problem may simply result in the creation of new ones or significantly disadvantage the affected ICAs in the power market in comparison to other ICAs. Additionally, the modeling, pricing, scheduling and settlement proposal is not only potentially unduly discriminatory and intrusive, but also results in overextending the CAISO's regulatory scheme into our internal business processes and operations. Activities internal to the operation of our ICAs are clearly matters that should be left to our respective member entities to manage.

We believe as public entities, and based upon many years of experience in operating our respective systems, adequate regulatory safeguards are already in place between the CAISO and SMUD/Western and TID ICAs to allow our business activities to be transacted exclusively at our physical points of interconnection, similar to what already occurs between ICAs within the WECC. That negates the need for the CAISO to acquire additional data for modeling our internal operations.

Additionally, the timing of this proposal is late in the context of MRTU adoption and implementation. The CAISO did not release a detailed proposal until just a few weeks ago. The late distribution of these discussion papers with this new proposal impact the ability of SMUD/Western and TID ICA members to acquire congestion revenue rights (CRR). In most instances, members of the SMUD/Western ICA have already nominated CRRs based on one model but are now in the position of uncertainty based on the new model. Similarly, the TID ICA consciously chose not to participate in the CRR allocation based on a set of assumptions that would be completely negated by the significantly revised market structure contemplated by the CAISO's proposal.

Finally, the proposal adds yet another level of complexity to an already highly technical and very complicated market structure that is already having difficulty getting up and running. At best, given that the CAISO models are still a work-in-progress, even if the CAISO can justify disparate treatment of the SMUD/Western and TID ICAs, any actions of this nature should only be considered for discussion after MRTU is implemented and shown to be operable and stable to assure that we are not negatively impacted.

We remain committed to working with the CAISO to develop and implement an approach that treats all ICAs fairly and equally. Please do not hesitate to contact us if you wish to discuss this matter further.

Sincerely,

Mr. Charles King
November 14, 2007
Page 3

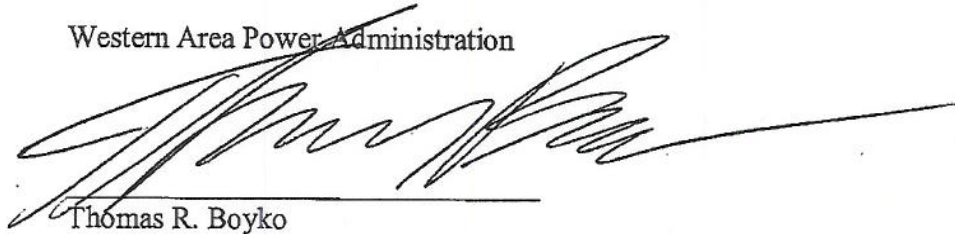
Sacramento Municipal Utility District



James R. Shetler
Assistant General Manager
Energy Supply

Mr. Charles King
November 14, 2007
Page 4

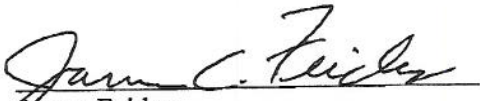
Western Area Power Administration

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Thomas R. Boyko
Sierra Nevada Regional Manager

Mr. Charles King
November 14, 2007
Page 5

City of Redding


James Feider
Utility Director

Mr. Charles King
November 14, 2007
Page 6

Modesto Irrigation District


Roger VanHoy
Assistant General Manager, Electric Resources

Mr. Charles King
November 14, 2007
Page 7

Turlock Irrigation District

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Randy C. Baysinger, P.E.
Assistant General Manager
Power Supply Administration

Mr. Charles King
November 14, 2007
Page 8

Department of Energy, Office of Science

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Hemant S. Patel
Electric Power Services Manager

Mr. Charles King
November 14, 2007
Page 9

City of Roseville

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Tom Habashi
Utility Director

Mr. Charles King
November 14, 2007
Page 10

cc: Mr. Yakout Mansour
Chief Executive Officer
California Independent System Operator
151 Blue Ravine Road
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Mr. Stephen Greenleaf
Director of Regional Market Initiatives
California Independent System Operator
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