

IID Comments on the CAISO's December 14, 2007 Integrated Balancing Authority Area Modeling and Pricing Proposal

I. Introduction

The Imperial Irrigation District appreciates the opportunity to provide comments to the California Independent System Operator Corporation's (CAISO) two December 14 Discussion Papers – “MRTU Release 1 Implementation of Preferred Integrated Balancing Authority Area Modeling and Pricing Options” and “Modeling and Pricing Integrated Balancing Authority Areas Under the California ISO's Market Redesign and Technology Upgrade Program” (IBAA Proposal). Subsequent to the CAISO's December 20 stakeholder call to discuss the IBAA Proposal, the CAISO also released a third document on January 2, 2008, titled, “Implementation of ‘Partial Loop’ Intertie Network Configuration for MRTU” (Partial Loop Proposal) which appears to expand some of the rationale of the IBAA Proposal to additional BAs; perhaps including IID. Unlike the Sacramento Municipal Utility District (SMUD)/Western Area Power Administration (Western) and Turlock Irrigation District (TID) Balancing Authorities (BAs), IID has not had the benefit of discussions, outside of the December 20 stakeholder call, with the CAISO. Thus, we are still in the process of understanding the proposal. These comments, therefore, are somewhat preliminary in nature.

I. Process Concerns

a) Timing of the Proposal.

In December 2006, IID, along with the CAISO, attended the FERC Technical Conference on Seams, held in Phoenix, Arizona (Seams Conference). As the CAISO is aware, IID was a member of the Control Area Coalition (CAC), which raised the issue of possible seams related to the CAISO's implementation of a nodal market structure through its Market Redesign and Technology Upgrade (MRTU) project. During the discussions that arose due to the Seams Conference, the CAISO informed both the Federal Energy Regulatory Commission (FERC) and conference participants that it would “pursue discussions with so-called embedded and adjacent control areas” to discuss the CAISO's modeling of those control areas. Based upon the discussions on the December 20, 2007 stakeholder call, however, it became immediately apparent that the CAISO had waited for over seven months before it engaged SMUD, the Western and other northern municipal entities regarding the modeling (not pricing) of their systems--hardly a timeframe that implies urgency. Moreover, it was over one year after the Seams Conference that the CAISO presented IID and other stakeholders with an actual proposal. Thus, the CAISO's apparent urgency and concerns seem a bit hollow. Indeed, IID must wonder whether the CAISO would have ever met and held discussion with its neighboring BAs at all had these concerns never been raised by the CAC and others in their MRTU protest filings. In any event, considering MRTU, in some form or another, has been in design for over seven years, the late timing of the IBAA Proposal should give pause to any stakeholder concerned with process.

b) The CAISO Should Reconsider its Stated Intent to Not File the IBAA Proposal with the FERC

But of more concern is the CAISO's announcement on the December 20 stakeholder call that it did not believe its proposal, which includes a pricing component, requires prior FERC filing or approval. It recited section 27.5.3 and Appendix C of its MRTU Tariff as its authority. While the CAISO might argue that it left itself room for some form of modeling discussions, it appears to be stretching the provisions beyond reason.

IID believes these potentially significant pricing changes must be filed with the FERC, and the failure of the CAISO to do so would appear to violate the Federal Power Act. In fact, the CAISO's Partial Loop Proposal indicates that its proposed partial loop model will have a significant impact on the LMP prices at Mead, Palo Verde (PV), Westwing and Moenkopi, as indicated in Figures 10 and 11. IID and other parties should not be deprived of their opportunity to raise substantive concerns about the changes with the FERC. Based upon the CAISO's stated intentions to further expand the IBAA Proposal to other BAs, possibly including IID, we cannot allow a proposal that has not been fully vetted, to be implemented outside of the protections afforded under federal law.

II. General Concerns with the IBAA Proposal

a) The CAISO's IBAA Proposal appears overly intrusive.

IID cannot help but note that the CAISO IBAA Proposal would rely on what was historically recognized as reliability data, shared between adjacent BAs for reliability purposes and convert that data over to a market purpose. This is troublesome to IID. Moreover, in its January 2 Paper, the CAISO states: "The CAISO's ultimate goal is to use a "closed loop" network model for purposes of managing and pricing congestion on the CAISO Controlled grid. However, at present, a lack of Day-Ahead information about conditions in other Balancing Authority Areas is an obstacle to using a closed loop model for MRTU's *initial* implementation . . ." Partial Loop Proposal at 1. This implies far more than a coordination effort on the part of neighboring systems. This is both a practical burden on a neighboring BA, as well as a violation of its right and obligation to maintain the confidentiality of some of its system data. Indeed, IID had no say in the CAISO's choice of its market structure. As an independent BA, however, it should have a say in the intrusiveness of an adjacent BA into its own operations. This is not to say IID is unwilling to try to gain a greater understanding of the issues and problems created by the CAISO's choice of market design, but its initial impression is one of concern. That concern is further exacerbated by the CAISO's desire to impose these proposals without an extensive stakeholder process with the involvement of all the affected entities and an appropriate filing with the FERC.

b) The CAISO's IBAA Proposal appears discriminatory.

IID is not included in the first phase of the intended implementation of the IBAA Proposal; however, it notes its discriminatory nature. IID does not believe a proposal

such as this should be carried out upon selective entities without a demonstrated need to do so. We do not believe that the CAISO has made its case. The data cited appears selective and unpersuasive. For example, the CAISO's use of data from a *single* pricing run comparing the LMPs produced during a single hour in 2005 -- Hour 16 on June 30, 2005 -- for a small sampling of BAs, yet it ignored the broader view and potentially larger impact of BAs located in other parts of the state. The appearance of a discriminatory application of the proposal is all the more reason for the proposal to be filed with the FERC.

c) The CAISO IBAA Proposal *Presupposes* Unethical Gaming

One of the reasons given by the CAISO in support of the proposal is its asserted concern about the potential for gaming at the interties. The concern is wholly unfounded and cannot justify the disparate treatment of the selected BAs. The concern is predicated on the alleged threat of gaming by these BAs, even though there is no historical or other basis for such an expectation. The CAISO has other avenues to address its concerns about unlawful market manipulation, such as reporting alleged incidents to the FERC. IID believes that the CAISO should allow the market to run before it makes such a judgment, which is now based on mere speculation. Without the benefit of a real market situation it is unclear whether the CAISO is merely addressing one problem and creating several more in the process.

III. General Questions and Observations Regarding the Partial Loop Proposal

There appears to be some anomalies in the various Day Ahead (DA) and Real Time (RT) modeling scenarios in the CAISO's Partial Loop Proposal. In reviewing the examples, it would appear that some of the proposed modeling might artificially increase, or simply shift, congestion from one branch group to another.

For example, comparing the net flow into the CAISO BA from Figure 7 (actual flows for 5/4/05 hour 19) to Figures 8 and 9, IID observes the following:

1) The total flows from El Dorado – Lugo, Mead Marketplace, PV-Devers and PV- N. Gila appears to be 3251 MW in Figure 9, which reflects the DA schedule flows, and the 2357 MW in Figure 7, which reflects the RT flows. Although IID understands the “Partial Loop” modeling in Figure 9 produces better results on the PV branch group (1631 MW schedule on the PV branch group in the DA under Figure 9 and 1538 MW RT flow), the scheduled flows on Mead -Marketplace and El Dorado – Lugo went from 194 MW and 532 MW in Figure 8 to 661 MW and 654 MW in Figures 8 and 9 respectively. While the RT flows on these two lines, according to Figure 6, are 242 MW and 577 MW. This shows that the divergence in line schedules between the DA represented in Figure 9 shifted from PV to Mead and El Dorado. It therefore appears that the accuracy in DA modeling gained on one branch group is lost on another.

2) Your examples precisely demonstrate IID's long-standing concerns regarding the impact of the CAISO's DA market on IID. For instance, Figures 8 or 9 show that the

calculated flows in DA from N. Gila to IV goes from 653 MW to 543 MW. Figure 7, which depicts the *actual* RT flows, however, shows that the flow is 279 MW. The actual flow is considerably less than the calculated flow in the DA and thus, the LMP prices between DA and RT will not converge. In this example, IID purchases in DA at IV will be “artificially high” due to a higher calculated flow in DA. Such artificially high prices in the DA are the opposite of what the CAISO intends to accomplish through MRTU.

3) Modeling of the new PTO loop may have resulted in better flows on PV, but the flows through Nevada into the CAISO at Mead/ Marketplace have apparently gone up more than three-fold (from 194 MW in Figure 8 to 661 MW in Figure 9). This translates that the new addition of modeling the PTO will “artificially” increase the LMP price at Mead in the DA. The actual flows on Mead/Marketplace in Figure 7 is 242 MW which is much lower than the calculated flow of 661 MW under the new propose modeling in Figure 9. This same phenomenon will be visible at Mead / Marketplace, where the DA calculated flows in Figures 8 and 9 were 194 MW and 661 MW respectively.

4) It would helpful to make available to the stakeholders all flows and LMP prices for the cases used in Figures 7, 8 and 9, in order to help them assess the impacts on their portions of the system as well. Equally helpful would be to include the RT flow and RT simulated LMP prices at Mead, El Dorado, IV, Lugo, Mead and El Dorado in Appendix A and not limiting the analyses to areas where the results may be more favorable. This is *also* a problem with the limited data provided supporting the IBAA proposal.

5) The example shows that the introduction of DA pricing under MRTU will create additional congestion costs. Does the CAISO anticipate that the congestion costs in the DA will tend to be higher than RT for the same operating conditions?

IID understands that this is an example of one hour, and it is difficult to draw too many conclusions with such a limited data set. IID therefore welcomes working with the CAISO in conducting a more comprehensive analysis, along with the rest of the adjacent BAs, to better understand the implications of the modeling changes. Indeed, the CAISO’s observations in the Partial Loop Proposal are consistent with the results published in the CCA white paper in 2006, which was discussed at the Phoenix Seams Conference. Again, IID believes that the most efficient approach to resolving the problem is to have all the BAs work collaboratively. The CAISO should consider a joint study with the rest of the neighboring BAs to find an optimal and acceptable solution.

IV. Conclusion

IID is willing to participate in the discussions regarding both the CAISO IBAA Proposal and the Partial Loop Proposal. We do have numerous process and substantive concerns. Moreover, given the suddenness of the proposals, IID will need more time to understand its implications on our ratepayers and its BA responsibilities. Due to the MRTU implementation schedule, IID does suggest that CAISO continue to treat the so-called IBAAAs in a manner consistent with the CAISO’s radial modeling treatment of other BAs until it has fully considered, and allowed others to consider, the full impact of its proposal

and its necessity. At this time, the CAISO has not done so. IID believes that any treatment imposed upon IID, which deviates from treatment of other BAs, must include “hold harmless” provisions to protect the IID ratepayers. Although this concept has been raised before and resisted by the CAISO, the direction the CAISO now appears to be moving in reinforces the need for such protections. Finally, should the CAISO nevertheless decide to proceed, it should do so by formally filing its proposal with the FERC.

Respectfully Submitted, January 6, 2008