

COMMENTS OF THE IMPERIAL IRRIGATION DISTRICT ON DRAFT FINAL CAISO IBAA PROPOSAL

INTRODUCTION

The Imperial Irrigation District (IID) hereby submits its comments on what the California Independent System Operator (CAISO) describes as its “*Draft Final CAISO Integrated Balancing Authority Area (IBAA) Proposal*” (Draft Final), dated April 18, 2008. IID is not at present considered to be included into the universe of IBAA’s, but it is likely that it may in the future be included with SMUD and TID as an IBAA and as such, affected similarly to SMUD and TID.

As IID noted in its earlier comments, and is a concern shared by other commenters as well, perhaps the most concerning aspect of the IBAA proposal is the stakeholder process, or lack thereof. It is true that the CAISO has recently engaged stakeholders regarding its IBAA proposal. This engagement, however, relative to the apparent magnitude and impact of what is being proposed and the amount of time MRTU has been in development, is procedurally deficient--to say the least. Indeed, the CAISO has said of the Draft Final that the inaccuracies may be of such “severity and frequency” that it will need to revise its IBAA mechanism only months after MRTU is implemented. Draft Final at 8. This evinces the importance of a proper vetting and a consensus approach.

For the last few months, IID and others have been laboring under an assumption that the CAISO was proposing certain changes to help it more accurately model the flows on neighboring Balancing Authority (BA) areas. This was obviously incorrect. It is now aimed, primarily, at addressing market issues, such as the potential for gaming, created by its LMP design. IID observes that the IBAA proposal is therefore a moving target. Moreover, the changes recently

proposed are not in response to the comments or concerns of stakeholders. Instead, the move from its earlier multi-hub proposal to a new single-hub design appears to have been driven by very recent CAISO discussions with the Market Surveillance Committee and outside economists. The result is that instead of seeing revisions addressing their objections, stakeholders face a constantly changing proposal, both as to substance and purpose.

Thus, although the CAISO has discussed the IBAA concept with stakeholders over the last few months, the Draft Final is quite different, having only recently been introduced to those involved in the IBAA process.¹ What therefore began as an effort to improve the modeling of neighboring BAs and to improve the CAISO's ability to manage congestion has now shifted to speculative concerns over market gaming. This "shift" is not trivial. Indeed, when the CAISO continues to significantly change the substance of its proposal, as well as to redefine the problem it is attempting to resolve and its rationale for doing so, it is difficult for stakeholders to assess the impacts on its customers and to offer alternatives. From past experience with poorly designed market fixes, particularly when applied to intertie-based resources, IID suggests that the CAISO take the time necessary to find a collaborative solution, not a unilateral one.

The CAISO's "Single Hub Default Pricing Rule" Appears Discriminatory

The key feature of the CAISO's proposal is its decision to establish a "single-hub" default pricing rule for pricing intertie transactions between the CAISO and external IBAA's (in this instance the IBAA is identified as SMUD)." Draft Final at 2. Under that proposal, "all imports to the CAISO from the IBAA will be priced based at the Locational Marginal Price (LMP) calculated at the Captain Jack Sub-Hub or Proxy Bus, while all exports from the CAISO

¹ The CAISO introduced its single-hub IBAA concept at a technical meeting on April 9, 2008 and further at the Market Surveillance Committee on April 11, 2008.

to the SMUD and TID IBAAAs will be priced at the LMP calculated at the SMUD Sub-Hub or proxy bus.” Id. Yet, as IID understands it, TANC-owners, including SMUD and others, own the transmission line, known as the California/Oregon Transmission Project (COTP), from Captain Jack (in Oregon) to the Tracy 500kV substation, hundreds of miles away. Additionally, the COTP (around 1600 MW of capacity), except for thirty or so megawatts, is entirely in the SMUD BA. Thus, it appears that the CAISO is taking the value of the COTP transmission for the benefit of its own ratepayers. This is wrong and appears discriminatory.² Indeed, from IID’s perspective, the CAISO’s single hub pricing methodology is plainly designed to favor its own market at the expense of its neighbors. Such discriminatory actions by the CAISO illustrate why neighboring balancing authorities may be skeptical about the CAISO’s IBAA approach.

Process for establishing New, or Modifying Existing, IBAAAs

Section 5 of the CAISO’s Draft Final suggests its need for an IBAA process to address stakeholder concerns when it contemplates the addition of a new IBAA or the modification of an existing one. IID certainly supports the CAISO’s adoption of a stakeholder process. As noted earlier, however, this is a bit late. The CAISO implies that by simply tacking on a process after-the-fact that others should be at ease. The problem is that much of what the CAISO is trying to accomplish will be resolved through this process, not later. Once a tariff is filed, future processes will be limited. The CAISO should ensure this is done correctly from the outset. To IID, this means a consensus approach where neighboring BAs are part of the solution, not unilaterally informed of the outcome. IID submits that the CAISO future ability to gain the confidence and collaboration of its other neighboring BAs will be largely informed by how it

² IID notes that both earlier IBAA proposal, as well as the Draft Final, proposes this same inequitable treatment of ownership rights regarding the COTP.

acts towards the initial IBAs. Given what IID has witnessed both through its participation in the stakeholder process and in reviewing the written comments of the so-called IBAs, it does not appear that the process is viewed as thorough, collaborative or fair. No amount of future process, without gaining a consensus from those initially involved, can change this. The CAISO still has an opportunity before MRTU goes live to reach a collaborative solution. The CAISO, however, needs to be more clear about exactly what its objectives are.