

**JOINT COMMENTS OF THE SACRAMENTO MUNICIPAL UTILITY DISTRICT,
TRANSMISSION AGENCY OF NORTHERN CALIFORNIA, THE MODESTO
IRRIGATION DISTRICT, AND THE TURLOCK IRRIGATION DISTRICT ON THE
ISO'S JUNE 12, 2009 CATALOGUE OF MARKET DESIGN INITIATIVES**

The Sacramento Municipal Utility District (SMUD), the Transmission Agency of Northern California (TANC), the Modesto Irrigation District (MID), and the Turlock Irrigation District (TID) appreciate the opportunity to provide these joint comments on the California Independent System Operator Corporation's (CAISO) June 12, 2009, "Catalogue of Market Design Initiatives." Rather than provide comments on the broader set of initiatives outlined by the CAISO, however, SMUD, TANC, MID, and TID instead wish focus on what we believe to be a substantially incomplete, and therefore inaccurate, portrayal of the status of the so-called "Integrated Balancing Authority Areas" (IBAA) initiative, described in section 12.1.20.

The CAISO represents that the IBAA was "successfully implemented on April 1, 2009." This statement is incomplete and inaccurate in two fundamental and interrelated respects.

First, the CAISO states in its Catalogue that the objective of its IBAA mechanism was "to accurately model and capture the power flow or network effects of [the SMUD and TID] BAAs in the CAISO's market systems, specifically, to integrate detailed models of these BAAs into the FNM for MRTU." On this score, while it is correct to say that the CAISO *implemented* its IBAA tariff provisions on April 1, 2009, it has not "*successfully* implemented" those tariff provisions. Indeed, by the CAISO's own measure, the implementation has been an abject failure. Under the IBAA mechanism implemented by the CAISO on April 1st, it obtains *no* additional data by which it can further model the SMUD and TID BAAs unless entities within those BAAs enter into Market Efficiency Enhancement Agreements (MEEAs). But not a single MEEA has been executed since implementation of the IBAA tariff provisions. In other words, the ISO's modeling of adjacent BAAs has not improved one iota. By definition, then, the CAISO's implementation of its IBAA tariff provisions has been decidedly *unsuccessful*.

Second, and at least as important, the CAISO is nowhere near achieving the IBAA goals stated in its Catalogue. Still pending before the Federal Energy Regulatory Commission (FERC) (docket ER08-1113) is a compliance filing regarding the opportunity for IBAA entities to enter into MEEAs. To date, the CAISO has failed to address to FERC's satisfaction the essential MEEA component of the IBAA, which provides the IBAA entities with the ability, under clear and specific rules, to enter into agreements (MEEAs) to avoid punitive default IBAA pricing. FERC has already issued *two* compliance orders based on deficiencies in the MEEA provisions of the CAISO tariff. The CAISO's first compliance filing was already ruled deficient. And the CAISO's second compliance filing has not resulted in any modeling advances either. Like the first compliance filing it was also protested as non-compliant by every single IBAA entity because they believe that, even if they execute an MEEA and provide all the data requested, they will still be subject to default pricing. It is clear that since the FERC found the MEEA to be an essential component of the IBAA, without this necessary component it cannot be accurate to claim a successful implementation of IBAA.

At a minimum, the ISO should clarify its description in section 12.1.20 to more accurately reflect the on-going and yet-to-be-resolved elements of IBAA. Much has changed since this section appears to have been written, so a more balanced representation of the issue is necessary.