**Business Practice Manual 1282**

**Comments of the Imperial Irrigation District**

The Imperial Irrigation District (“IID”) thanks the CAISO for the opportunity to comment regarding Business Practice Manual (“BPM”) Proposed Revision Request (“PRR”) 1282.

While IID understands the challenges surrounding the capacity deficiencies CAISO endured these past few months and the need to balance supply with demands, the newly implemented BMP changes addressing the scheduling priority of exports impose significant and persistent challenges for IID. Also, while IID appreciates that the CAISO is holding the present dialogue and comment period, the manner in which the BPM changes were instituted was not transparent and was inconsistent with the practice and procedure established by the CAISO for BPM change management. Accordingly, IID is requesting that the CAISO reverse its implementation of BPM PRR and instead develop practices to address exports during system emergencies through the CAISO’s standard, non-BPM stakeholder process.

The result of the BPM change and sudden manner in which it was instituted left IID no time to respond sufficiently in the real-time market on September 5, 2020, resulting in a curtailment to IID of 300 MW, which in turn resulted in a load shed event and the declaration of an EEA#3 event.  Impacts to IID’s system caused by the BPM change have continued since the September 5 event. More troublingly, IID has observed that it is not receiving export awards in late afternoon hours even though the excessive heat condition is not as extreme. This decline in awards demonstrates the extent to which IID’s export priority diminished with BMP change.

The consequences of the change in BPM are serious, particularly during heat waves. In analyzing these events, IID makes several observations:

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1. The BMP change to using schedules from Day-ahead Residual Unit Commitment (“RUC”) process for the final schedules instead of schedules from the pricing run effectively changes the priority that exports are served by CAISO.

The BPM revision impacts the consistency of the RUC and pricing run processes. The change leads to the issuance of pricing and settlement implications for awards different than the final day-ahead schedule.

IID understands the CAISO’s needs to balance the system in the day ahead, which typically is accomplished with committing of additional supply in RUC.  The changes to Sections 6.6.6, 6.7.4.1, and 7.1.6 of the Market Operations BPM consider curtailment of the awarded exports in Integrated Forward Market (“IFM”) process as a means to accomplish the balance. These changes effectively make RUC schedules the final basis for the E-Tag submittal in the day ahead market. Such practice may lead to deficient final self-schedule exports. The BPM change also effectively removes the day ahead schedule priority from the curtailed part of the awarded schedule in the pricing run.

For schedules curtailed in such a manner, the CAISO existing settlements process enforces its day ahead treatment, including pricing and inherent market characteristics. In this circumstance, the CAISO is issuing financially binding day ahead market awards for exports that it is not serving, or under the new procedure, not planning to serve, with day ahead priority.  If curtailed schedules are resubmitted and are awarded in real time as part of the lower market priority, those settlements receive the lower market priority associated with that market.

2.       Declined export priority increases the potential for deficient self-schedule exports.

Declining the export priority imposes an operational challenge on IID related to a lack of options to displace lost awards with alternative market options. The lateness in the CAISO’s market timeline process for declining exports under the new procedure creates serious obstacles for IID in obtaining alternative supply. Managing a 600 MW intertie, the shift from focusing on the IFM to the RUC imposes higher risk on IID.

At the time of the day when RUC awards are published for the day ahead horizon, the timelines for obtaining equivalent, day-ahead products in Western markets outside of the CAISO markets are formally closed. At that point, those day-ahead markets cannot be utilized as an option to satisfy deficient schedules.

Prior to the BMP change, the CAISO self-schedule option effectively provided market participants located outside of the CAISO’s footprint the assurance that awards will be issued at the highest priority. This priority encouraged optimization and resource scheduling with the CAISO. The new procedure under PRR 1282 creates a disincentive for participation in the Day-Ahead Market if self-scheduled exports are at risk of not receiving the award.  A market participant’s premium paid for the priority for those self-scheduled exports is lost under the new procedure. In addition, the new procedure also increases pressure and reliance on the real-time market.

IID understands from the September 9, 2020 Market Performance and Planning forum (Presentation at 7) that the CAISO had been using logic derived from the Price Inconsistency Market Enhancements (“PIME”) policy to base schedules and prices from the pricing run. What is not apparent from the discussion is whether use of the PIME policy is inconsistent with Section 31.8.1 of the CAISO Tariff. That section states that “Through this RUC constraint the CAISO determines what Day-Ahead Schedules can have an E-Tag submitted Day-Ahead.” Section 31.8.1 does not preclude the CAISO from providing E-Tags based on the pricing run. Nor do Section 31.8.1 or Section 34.1.1 of the Tariff (both cited in the proposed revisions to BPM Section 7.1.6) require the CAISO to curtail self schedules exceeding the RUC constraint. The CAISO’s BPM changes are not required by the CAISO Tariff.

IID does not have alternatives to provide it with reasonable certainty for its exports from the CAISO Balancing Authority Area. Access to capacity/summer products to serve load are not necessarily available. IID is testing wheel-through transitions to determine if IID can import energy from the east through Mirage. While this workaround may provide short-term assistance in the daily market, such workaround is costly, and may not be workable as a long-term solution. IID is also exploring purchasing transmission to wheel-through the CAISO system.

Nevertheless, at the October 12, 2020 legislative hearing of the California State Assembly Standing Committee on Utilities & Energy, IID understands former CAISO CEO and President Steve Berberich to have observed that when in a net import position, it is not a good practice to cut at least non-Resource Adequacy exports as a regular solution to the types of problems faced by the CAISO in the recent outages. IID also believes that cuts to CAISO exports, as contemplated by the CAISO BPM change, are not a good practice nor should be a solution to the present challenges.

3.   In the CAISO BPM change process referenced as an emergency, IID was not allowed to properly understand the change and adapt to it.

The CAISO instituted no stakeholder process to establish this BPM change before it went into effect. As the CAISO reports in its “Preliminary Root Cause Analysis, Mid-August 2020 Heat Storm” at 64 (Oct. 6, 2020) (“Root Cause Analysis”): “Following the mid-August events, the CAISO took immediate actions to adjust market processes, which improved the CAISO’s ability to limit market export schedules to what is physically feasible based on system conditions and intertie constraints. These measures alleviated pressures during the Labor Day weekend heat wave.” IID has significant concerns with the way the CAISO implemented this BPM change.

The PRR is dated September 3, 2020 and was announced on September 4, 2020, to go into effect September 5, 2020. The timing of the announcement impacted planning for the day ahead of operation of the Saturday on a holiday weekend, September 5, 2020, which as described above, resulted in load shed. While CAISO subsequently informed participants about the changes during Market Performance and Planning Forum held on September 9 meeting, the process was too late to help IID prepare and respond to the change.

The BPM Change Management process contemplates a specific process for processing PRRs, from initial comments to recommendation comments to a conclusion. While the CAISO BPM for BPM Change Management, at Section 2.6, provides for a mechanism to make unilateral BPM changes in emergency circumstances, the two conditions which the CAISO must meet under the Change Management BPM to implement such a change were not present here. Those conditions are:

1. Failure to implement a change or clarification to a BPMon an expedited basis would substantially and adversely affect System Reliability or security or thecompetitiveness or efficiency of the CAISO Market, and
2. There is insufficient time to comply with the BPM PRR procedures set forth in Section 2.4.

Here, even if there were an immediate circumstance for the CAISO to address over the days just following the CAISO’s initiation of the BPM change, there is no reason for the CAISO to have implemented the BPM change on an ongoing basis. The CAISO could have, and should have, refrained from implementing the BPM change until the comment periods set forth in the CAISO’s BPM Change Management process concluded.

While IID has reached out to the CAISO to better understand the implemented changes, responses to IID’s queries have been subject to delay.

IID observes that many of the recommendations of the Root Cause Analysis contemplate development and vetting through stakeholder processes. For example, in stating that it would commit to pursue market enhancements, the CAISO states that it would do so through stakeholder processes for the following (at 66):

• redesign of CAISO Resource Adequacy market rules “to ensure planned outages do not create unnecessary reliability risk and that performance penalties are sufficient to ensure compliance.”

• development of a process to evaluate monthly Resource Adequacy supply plans and to include backstops, if found necessary.

• refinement of counting rules for various types of resources.

While the CAISO includes among its stakeholder activity, evaluation of the rules of scheduling priorities and protection of internal and external schedules and curtailing “lower priority exports” (at 66), that process was not, in fact, subject to a stakeholder process before implementation and supposes a conclusion (curtailing certain exports) before conducting a stakeholder process. The CAISO should follow a stakeholder process such as those presented in the examples above in considering the issue of export priority. The issue’s consequential impacts are widespread and significant, and conducting a stakeholder process the right way is important to maintaining confidence in an increasingly integrated, Western market.

Moving forward, it is not clear how often and what specific conditions may lead CAISO to consider reductions in self-schedule exports in RUC. A transparent process and coordination further in advance of the changes may inform market participants about such a possibility at the time when other markets are still active. IID encourages the CAISO to engage in such transparency and coordination to address future issues of the kind confronted here.

4. The BPM distorts price signals.

The BPM changes mask deficiencies in the IMF and push procurement into the real-time market. The locational marginal prices (“LMP”) under the process adopted by the BPM change do not reflect the need for resources, and obfuscate the signal required to show that generation needs to be built near the nodes/locations in question. The CAISO should reverse the impacts to the economic signals caused by the BPM change.

5. The CAISO should be transparent with regard to the impacts of the BPM change.

The BPM change presents significant challenges and consequences for IID. For market participants to better understand the change, and whether or not the change is sustainable, IID requests that the CAISO make as much information possible available to market participants regarding the impacts of the change. One area of data that IID requests be disseminated to market participants includes the total amount of exports have not been accepted as a result of implementation of BPM PRR 1282. IID also requests that the data the CAISO provides:

• be organized to reflect both the quantity of exports not accepted over the Labor Day weekend (September 4-7, 2020), as well as from BPM PRR 1282’s implementation to the present day.

• be presented on an hourly basis, as opposed to daily totals from the Day-Ahead Market.

• distinguish between economic export cuts and cuts to higher priority self-schedules.

In other words, IID requests that the CAISO provide continuing data in the level of detail presented on Figure B.25 of the Root Cause Analysis (page 100). IID understands that the resources and efforts required to assemble the type of data presented in Figure B.25 is substantial. However, for market participants, understanding the dynamics surrounding the Labor Day implementation of BPM PRR 1282, as well as subsequent days, is important, as the impacts are significant and continue to affect market participants.

6. The BPM change creates long-term, planning challenges.

The effect of the BPM change is to create additional costs to IID for serving load. Particularly, these changes create uncertainty, hindering IID from making decisions to plan for capacity procurement across IID’s owned transmission lines. In order to be able to rely on a more predictable state than the Real-Time Market in order to serve load, IID will require many additional and costly actions and investments.