

Comments on Maximum Import Capability Enhancements Revised Straw Proposal

Department of Market Monitoring

August 25, 2021

I. Summary

The ISO Department of Market Monitoring (DMM) appreciates the opportunity to comment on the Maximum Import Capability (MIC) Enhancements Revised Straw Proposal.¹

II. Comments

Given that MIC is necessary to support resource adequacy from external sources, it is important to ensure that MIC can be expanded to support future resource adequacy needs and that available MIC can be allocated among entities in a way that does not unnecessarily restrict load serving entities' ability to contract for external capacity.

Under the ISO's resource adequacy framework, MIC is required for a load serving entity (LSE) to count external capacity as resource adequacy. MIC is required for all external capacity including pseudo-tie and dynamically scheduled resources. In recent years, system capacity has become scarce in summer months and some LSEs have found it increasingly difficult and expensive to contract for additional system capacity. The ISO has also issued several Significant Event CPMs at the CPM soft offer cap to resources in July and August, and continues to seek additional capacity for September and October on a rolling basis, indicating the ISO's ongoing demand for additional system capacity.²

To the extent that an unavailability of MIC could be preventing LSEs from contracting for additional import capacity to meet system capacity needs, then there is value to enhancing MIC processes to free up unused MIC. To better facilitate contracting for capacity that the CAISO, CPUC and other LRAs are looking for, the ISO should continue to enhance MIC processes to better ensure that entities that need MIC to support resource adequacy contracts can obtain MIC to the extent it is available.

As noted in prior comments, DMM has observed that during August and September 2019 and 2020 there were with non-zero bilateral prices for MIC at certain branch groups on which there

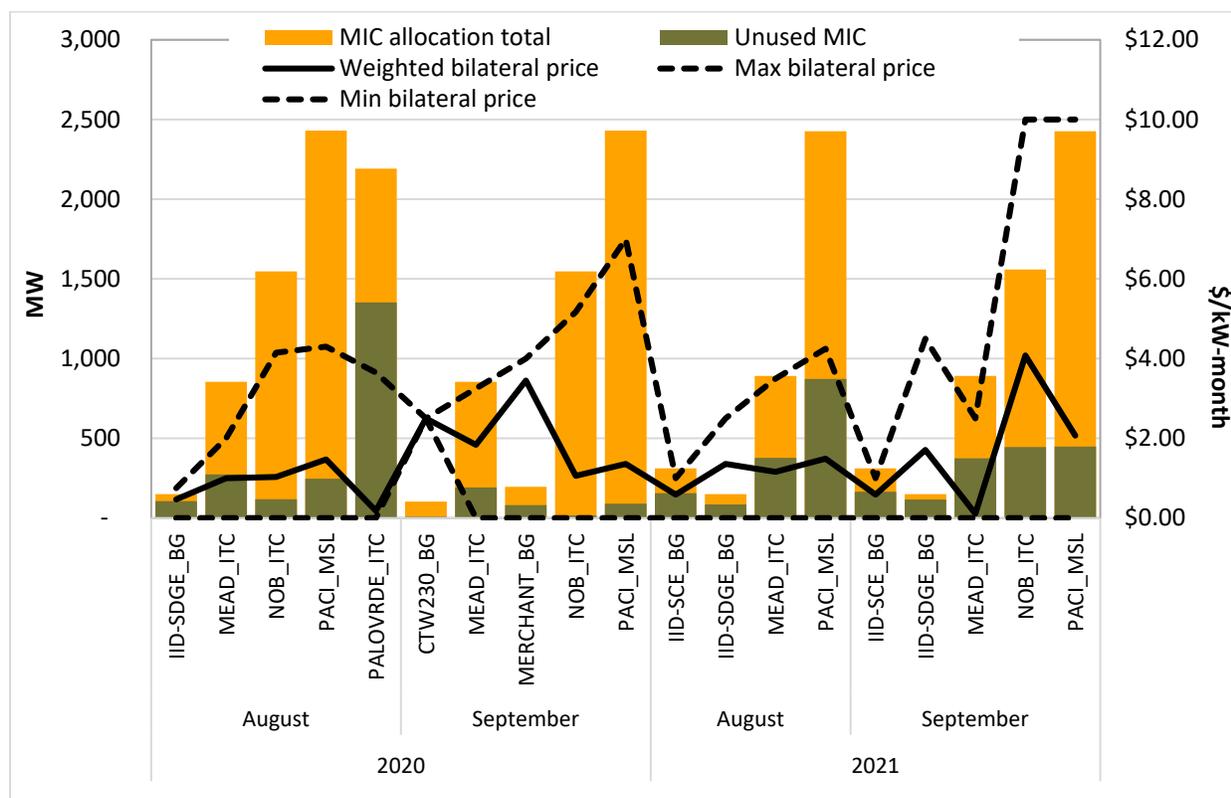
¹ *Maximum Import Capability Enhancements – Revised Straw Proposal*, California ISO, August 4, 2021:
<http://www.caiso.com/InitiativeDocuments/RevisedStrawProposal-MaximumImportCapabilityEnhancements.pdf>

² <http://www.caiso.com/Documents/JulyandAugust2021SignificantEventandExceptionalDispatchCPMReport.pdf>
<http://www.caiso.com/Documents/CPMSignificantEvent-Intent-Solicit-DesignateCapacity-ContinuedEffort-Reminder.html>
<http://www.caiso.com/Documents/CPMSignificantEvent-Intent-Solicit-DesignateCapacity-ContinuedEffort-Reminder-082321.html>

appeared to be MIC that was not used by LSEs to support resource adequacy contracts on those branch groups based on monthly supply plan showings.³

As shown in Figure 1, DMM ran these same metrics for August and September 2021. Results for September 2021 show that at NOB and Malin MIC traded at prices up to \$10/kW-month, while there appeared to be unused MIC remaining at these branch groups.⁴ While DMM cannot determine whether this excess MIC was in fact offered for sale bilaterally (and perhaps did not transact), these findings indicate that there could be room to enhance the allocation and trading of MIC so that MIC at highly valued branch groups does not go unused, potentially preventing additional resource adequacy contracting.

Figure 1: Branch groups with non-zero bilateral prices and unused MIC – 2020 and 2021



To meet future capacity needs and carbon reduction goals, it will also be important to ensure that MIC can be expanded to support long term contracts from out of state resources. Uncertainty about the availability of MIC or ability to secure MIC can introduce risk in engaging in long term contracts for external capacity if off-takers do not have certainty that they will be able to count the external capacity towards resource adequacy obligations for the duration of the contract.

³ Comments on MIC Enhancements Straw Proposal, DMM, May 27, 2021, p. 2: <http://www.caiso.com/Documents/DMM-Comments-on-MIC-Enhancements-Straw-Proposal-May-27-2021.pdf>

⁴ This chart includes branch groups with non-zero bilateral prices and unused MIC based on monthly resource adequacy supply plans, where more than two entities ultimately held MIC at the branch group.

If uncertainty about the ability to secure MIC to support long-term contracts exists, then this could discourage LSEs from engaging in long term contracts for external capacity that are needed to support system reliability and state carbon reduction goals. This uncertainty could also limit competition for external capacity, diverting supply from California and limiting the pool of capacity eligible to serve California load. In order to facilitate long-term contracting for new capacity that the CPUC and CAISO is looking for, the ISO should continue to consider enhancements to processes for expanding and securing MIC.

The ISO's proposed changes in the Revised Straw Proposal represent incremental enhancements to the current MIC framework.

The ISO proposes four main enhancements to the current MIC framework in its revised straw proposal. The ISO proposes to: 1) Improve transparency regarding MIC allocations and usage to enhance trading, 2) Adopt enhancements to MIC expansion study processes, 3) Adopt Six Cities' proposal to give LSEs with existing resource adequacy contracts priority to unallocated Remaining Import Capability in step 13 of the MIC allocation process, and 4) Update Tariff and BPM language to be consistent with using two decimal places for resource adequacy requirements.

The ISO is also willing to take up additional topics that that received stakeholder support, but require further discussion. These changes include enhancing options for MIC expansion requests and potential changes to MIC calculations to account for differences in utilization of different branch groups for resource adequacy purposes.

As explained below, DMM generally supports the four main enhancements proposed in the revised straw proposal.

1. Improving transparency on MIC allocations and usage

DMM supports the ISO's proposal to provide market participants with additional data on MIC allocations and usage in order to better facilitate trading of MIC. DMM believes that releasing additional information about what entities hold MIC and how much MIC remains available for sale in yearly and monthly timeframes should provide value to help facilitate additional trading of MIC compared to today.

2. Enhancements to MIC expansion study processes

The ISO proposes to ensure that the contractual data of non-CPUC jurisdictional LSEs is also reflected in the resource portfolio used in MIC expansion studies. This process enhancement appears necessary to improve the accuracy of the ISO's MIC expansion studies, helping to ensure that MIC can be increased when needed.

3. Enhancements to step 13 of the MIC allocation process

DMM also supports the ISO's proposal to adopt Six Cities' proposed enhancements to step 13 of the MIC allocation process. These changes could help ensure that MIC is allocated to entities that already have resource adequacy contracts lined up, mitigating to some extent the chance

that resource adequacy already under contract could be stranded because the LSE was not able to obtain MIC.

The ISO proposes to make the unallocated remaining import capability in step 13 available with priority to entities with resource adequacy contracts on a first-come, first-serve basis, instead of allocating any requests beyond the available MIC based on the amount of MIC requested as proposed by Six Cities. DMM supports Six Cities' proposal to allocate requests in excess of available MIC under this proposal based on volume of MIC requested instead of on a first-come, first-serve basis. An allocation based on MIC requested would allow for a more equitable distribution of limited MIC (since requesting entities would all have RA contracts lined up). This approach could also allow the ISO to gain insight into the actual demand for MIC at a certain tie and help the ISO identify highly requested branch groups.

4. Tariff and BPM updates

DMM supports the ISO's proposed Tariff and BPM changes to maintain consistency with the current practice of using two decimal places for RA requirements and showings. Current tariff language pertaining to bilateral MIC trades could create some confusion about what increments MIC can be traded in today.

DMM supports the ISO continuing to consider approaches to modifying the MIC calculation to potentially increase MIC on branch groups which are highly demanded or highly utilized to support resource adequacy contracts.

DMM agrees with stakeholder suggestions that there could be benefits to understanding whether reducing MIC on under-utilized branch groups could increase capacity on more highly traded interties and thus support additional resource adequacy contracting.

As discussed in DMM's May 27 comments, MIC on some branch groups has gone unused between 2019 and September 2021 to support import resource adequacy. In 2021, the total MIC on these unutilized branch groups was about 430 MW. Additionally, there are branch groups where less than 50 percent of MIC has been used to support import resource adequacy throughout 2019 and 2021, amounting to about 975 MW of unused MIC (average of unused MIC on these branch groups in summer months between 2019 and 2021). This MIC was not used to support resource adequacy imports and was not traded bilaterally, suggesting that MIC on certain branch groups provided little value to LSEs in terms of meeting their resource adequacy requirements.

The ISO suggests that stakeholders provide ideas on how the ISO would measure "liquidity" at a branch group to determine which branch groups could be increased or decreased. DMM suggests that the ISO could develop metrics on requests for MIC at certain branch groups in various steps in the MIC process to identify branch groups that are consistently over or under-requested.

If bilateral trading of MIC is not improved by providing additional transparency alone, then the ISO could consider further enhancements.

While DMM believes that providing additional transparency regarding MIC allocations and usage could help facilitate more bilateral trading of MIC, LSEs may continue to hold MIC or not offer MIC for sale. If trading and utilization of MIC is not improved by increasing transparency alone, then the ISO could consider further enhancements that could better facilitate MIC trading.

The ISO has confirmed that external capacity can only be used for resource adequacy substitution for forced outages of external capacity.⁵ An external resource shown for resource adequacy that goes on outage would also already have had MIC associated which could be used for substitute capacity for the resource. DMM has also observed that use of external resources for substitution purposes has not occurred in the past three years, so it does not appear that LSEs are regularly holding back MIC for substitution purposes. It appears that there may be other more significant reasons that entities are not offering excess MIC for sale. It could be helpful for the ISO to investigate further what barriers LSEs face that may prevent them from releasing excess MIC, and try to address those barriers directly.

If trading of excess MIC is not improved by adding transparency alone, then the ISO could give further consideration to proposals that would require entities to release unused MIC, given there appears to be little benefit in holding MIC for substitution as the ISO originally posited. The ISO could give further consideration to developing a process by which LSEs with excess MIC are required to release unused MIC. The process could guarantee the LSE would be compensated at or above a specific price floor if another LSE procured the MIC. This could help ensure that other entries seeking MIC can have access to the excess capacity on the system.

There could also be benefit in the ISO playing a larger role in facilitating trading of excess MIC to match counterparties. For example, under the current framework an LSE with demand for MIC at a specific branch group may have to transact and contract with several different LSEs for their small excess MIC positions. In this case, there are potentially significant transaction costs which could present barriers to trading excess MIC. These barriers and costs may be reduced by the ISO matching counterparties instead.

Potential enhancements to MIC allocation

As an alternative to enhancing processes for trading MIC after allocations take place, the ISO could further consider enhancing MIC allocation processes up front to give more

⁵ ISO responses to stakeholder comments on MIC Enhancements straw proposal, May 13, 2021, p. 12: <http://www.caiso.com/InitiativeDocuments/ISOResponsestoComments-MaximumImportCapabilityEnhancementsStrawProposal.pdf>

priority access to MIC to entities with resource adequacy contracts in the year-ahead timeframe.

Currently, LSEs with existing resource adequacy contracts can lock MIC for years forward but they are generally limited to how much MIC they can reserve by their load share of total MIC. DMM understands that load share restrictions could still be limiting in terms of reserving MIC for LSEs that rely heavily on pseudo-tied or dynamically scheduled capacity to meet resource adequacy requirements, particularly for small LSEs whose share of total MIC may be very small.

The ISO could give further consideration to allowing LSEs to nominate MIC in excess of load share in the year-ahead timeframe, and potentially transferring MIC above an LSEs' load share between parties (i.e. LSEs with high load share to LSEs with lower load share) at a TAC-based rate.