Submitted by	Organization	Date Submitted
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Energy Division staff ("staff") appreciates the opportunity to comment on CAISO's Maximum Import Capability Stabilization and Multi-Year Allocation Straw Proposal. Please find a summary of staff's comments below, followed by the comments in detail.

- General Comments
    - Staff reiterates its request for certain analyses described in staff's comments on the Issue Paper.
- Comments on Maximum Import Capability (MIC) Stabilization
    - If the stakeholder process determines that calculating MIC based on historical flows is still appropriate, then CAISO's proposal to use four hours across the past five years seems reasonable.
    - However, CAISO should explore calculating MIC based on intertie capacity instead of on historical use only, particularly if it is difficult to transact for RA imports at certain branch groups.
- Comments on Multiyear Allocation
    - Allocation of MIC to Load Serving Entities (LSE) is appropriate and should be maintained.
    - The new Remaining Import Capability (RIC) allocation method seems reasonable.
    - Staff believes that many existing RA import contracts are not structured to enhance reliability in California. Staff is concerned that the process outlined in the Straw Proposal would enable LSEs to sign multi-year contracts that do not enhance reliability and to report the associated import resources against their RA requirements for up to two years before they need to show the contracts to CAISO (in order to lock in a three-year-ahead MIC allocation).
    - Staff cannot fully support a multi-year MIC allocation until CPUC proceeding R.19-11-009 clarifies import RA rules. However, based on staff's understanding of current CPUC rules, an LSE should not be able to use a multi-year import RA contract – or to secure any portion of a multi-year MIC allocation using such a contract – unless the associated import resource is a pseudo-tied resource or a resource-specific dynamically scheduled system resource.

- Staff strongly believes that basing allocations on load ratio shares is the most equitable process because it provides LSEs the opportunity to meet their system RA requirements with imports in proportion to the amount that their customers pay for access to the transmission system. LSEs should be provided the choice of whether to make use of that allocation or to sell it. Consequently, staff does not believe that CAISO should tie multi-year MIC allocations to contracts and strongly opposes CAISO's proposal to "lock in" MIC allocations. Doing so would result in some LSEs having proportionally greater access to imports than others, and this issue would be exacerbated if locked allocations were associated with resources that do not enhance reliability in California. LSEs should lose MIC in excess of the value implied by the year-ahead load ratio share and should determine the branch groups on which they will forfeit MIC.
- As long as the capacity of signed contracts is below the level implied by the year-ahead load ratio share, LSEs should be able to secure MIC on the associated branch groups. Any portion of a contract should count.

1. General Comments

In our comments on the Issue Paper, staff recommended analyses of (1) whether (and how much of) unused MIC is associated with interties at which it is more difficult to contract, (2) the portion of real-time imports represented by RA import resources during the hours used to calculate MIC over the past few years, and (3) whether the hours used to calculate MIC coincided with the peak hours for real time RA imports (as opposed to real time imports overall) in those years.[1] These analyses would be helpful in determining whether aspects of the current MIC calculation process that CAISO proposes to retain under the Straw Proposal (for example, calculating MIC primarily based off of historical flows) are still appropriate. Staff requests that CAISO include them in future iterations of the proposal under this stakeholder initiative.

2. Comments on MIC Stabilization

Presuming that the current stakeholder process determines that it is still appropriate to calculate MIC using historical flow data – while preserving existing ETCs, TORs, and pre-RA commitments – then CAISO's proposal to include more years in the annual MIC calculation process seems reasonable and likely to increase stability of the MIC year over year. As noted in our comments on the Issue Paper,[2] staff would find it useful to see how the overall MIC might have changed over the past few years if CAISO had instead used its proposed (four hours over five years) calculation method instead of the current (four hours over two years) method.

[1] Comments of CPUC Staff on the MIC Stabilization and Multi-year Allocation Issue Paper at 1.
[2] Comments of CPUC Staff at 1.

Staff is concerned, however, that there are some interties where transacting is more difficult and that MIC may therefore be left unused at these interties. (A recent Energy Division staff report identifies multiple interties with unused MIC during September of 2019,[3] and it is unclear that this was the result of simple economic decision making in all cases. The requested analyses in our general comments above would help address this question.) Staff agrees with Southern California Edison[4] that it would be useful to explore calculating MIC – or distributing it among interties – based on the physical capacity available at more easily transactable interties (trading hubs) rather than based on average net imports at all interties. Before staff can fully support the MIC stabilization proposal, staff requests that CAISO consider this option for MIC calculation at individual interties.

For example, assume that there are two interties into the CAISO Balancing Authority Area (BAA): Tie A, with a path rating of 10,000 MW, and Tie B, with a path rating of 5,000 MW. Assume that for an upcoming year, CAISO calculates the MIC at Tie A as 7,000 MW and the MIC at Tie B as 2,000 MW, meaning the total MIC is 9,000 MW (less than the total physical capacity of 15,000 MW). Note that the MIC allocations at each tie represent average instantaneous historical flows but do not necessarily represent RA import capacity that was using a MIC allocation at the given intertie during peak hours. In other words, if it were difficult to transact at Tie B for some reason, it could be that very little MIC is being used at Tie B, even if energy is flowing. If it is physically possible for Tie A to sustain a power flow of 10,000 MW, why couldn't the total 9,000 MW MIC for both Tie A and Tie B be allocated to Tie A in this scenario? This would allow LSEs to sign contracts for energy delivered at Tie A, up to the average level of instantaneous historical energy flows into California and without exceeding the path rating of Tie A, even if some energy physically enters the CAISO Balancing Authority Area (BAA) at Tie B in real time.

Staff recognizes that this is a complex question that may involve additional power flow studies. However, it does not seem vastly different from the current process of preserving exiting contracts and transmission rights at certain interties above and beyond average instantaneous historical flows and running power flow studies afterwards to ensure the final calculated MIC is physically achievable.

3. Comments on Multiyear Allocation

As identified in our earlier comments,[5] staff continues to believe that allocation to Load Serving Entities (LSE) is an appropriate first principle of the MIC allocation process. Accordingly, staff appreciates that CAISO's Straw Proposal supports allocation to

[3] This report was served to the R.19-11-009 Service List on February 12, 2020.
[4] Comments of Southern California Edison on the MIC Stabilization and Multi-year Allocation Issue Paper at 1-2.
[5] Comments of CPUC Staff at 2.

LSEs[6] and characterizes an auction mechanism as out of scope for the current stakeholder initiative.[7] Staff also believes that CAISO's proposed change to the Remaining Import Capability allocation process[8] seems reasonable and should enable LSEs to receive a MIC allocation that is more fair (on the basis of load ratio shares) than the allocations produced under the current allocation method.

As outlined in Energy Division's recent staff report,[9] staff is concerned that many existing RA import contracts are not structured to provide reliable energy to California when needed. Staff believes that the allocation process outlined in the Straw Proposal may enable LSEs to sign multi-year contracts that do not enhance reliability and to use these contracts for up to two years before they need to show the contracts to CAISO (in order to "lock" a three-year-ahead MIC allocation). For example, if an LSE has a year-ahead MIC allocation of 100 MW (and thus a three-year-ahead MIC allocation of 80 MW), it could potentially sign a three-year, 80 MW contract before Year 1 begins and use this contact in Year 1 and Year 2 before having to show it to the CAISO to "lock" the Year 3 allocation. Furthermore, it appears that CAISO will only be checking *whether* the LSE has a contract before Year 3 but not *what type of resource* is behind the contract. This means that even if the LSE's intention was to secure a contract whose term starts in Year 3 (i.e. the LSE would not use the contract in the intervening years), CAISO would not necessarily vet the resource behind the contract.

Import RA is scoped into the current RA proceeding (R.19-11-009), so staff is unable to fully support a multi-year MIC allocation until the CPUC proceeding clarifies import RA rules. However, based on staff's understanding of current CPUC import rules, staff believes that an LSE should not be able to use a multi-year import RA contract – or to secure any portion of a multi-year MIC allocation using such a contract – unless the associated import resource is a pseudo-tied resource or a resource-specific dynamically scheduled system resource. Notably, these are the import resources anticipated in the Integrated Resource Plan short term procurement decision (D.19-11-016).[10] With regard to encouraging the development of new out-of-state resources, staff agrees with Pacific Gas and Electric Company that "[t]he CAISO should develop mechanisms that will ensure capacity built outside California to support CAISO load will be available and accessible to California on the same basis [as] RA capacity in the CAISO balancing area is available to the CAISO."[11]

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[6] Straw Proposal at 2.
[7] Straw Proposal at 6.
[8] Straw Proposal at 14-15.
[9] This report was served to the R.19-11-009 Service List on February 12, 2020.
[10] D.19-11-016 at 65, available at http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M319/K825/319825388.PDF.
[11] Pacific Gas and Electric Company Comments on the MIC Stabilization and Multi-year Allocation Issue Paper at 2.

Assuming RA import rules were resolved, staff does have comments on other aspects of the Straw Proposal. Staff could support CAISO allocating at most 75% of an LSE's year-ahead MIC in the three-year-ahead timeframe, on the branch group level. Based on CAISO's analysis,[12] this percentage (or whichever percentage were eventually selected) should enable LSEs to secure some longer-term contracts while providing berth to cover most swings in system RA requirements that do not involve losing load to a newly formed LSE.

Staff strongly believes that basing MIC allocations on load ratio shares is the most equitable process because it provides LSEs the opportunity to meet their system RA requirements with imports in proportion to the amount that their customers pay for access to the transmission system. LSEs should be provided the choice of whether to make use of that allocation or to sell it. Staff recognizes that one goal of the current stakeholder initiative is to enable longer-term contracting for imports[13] and that the current MIC allocation process protects existing transmission rights and pre-RA commitments. Nevertheless, staff believes that contracting should generally follow MIC allocation, not the other way around. Consequently, staff does not believe that CAISO should tie multi-year MIC allocations to contracts and strongly opposes CAISO's proposal to "lock in" MIC allocations.

CAISO's proposal would enable some LSEs to sign multi-year contracts that exceed their load ratio shares in later years and "lock in" disproportionately high levels of MIC, thereby denying other LSEs the opportunity to use or dispose of their proportional allocations as they choose. This would be an even greater problem if the RA import contracts locking MIC were associated with resources that do not enhance reliability in California. It is more appropriate for the MIC allocation process to mirror load ratio shares to the greatest extent possible up front and for LSEs to subsequently purchase additional MIC from other LSEs if the former would like to rely on proportionately higher levels of imports (assuming accordance with CPUC RA rules).

Accordingly, staff believes that if an LSE's year-ahead recalculated allocation falls beneath the three-year-ahead allocation, the LSE should forfeit the MIC above the year-ahead allocation. If the LSE has signed three-year-ahead (or multi-year) contracts in excess of its year-ahead allocation, it must choose which portions of which branch group allocations it will forfeit and communicate these choices to CAISO. Staff does not currently have an opinion on how much (if any) capacity should be available for contracts with terms up to twenty years[14] but suggests that such contracts also would not be able to lock MIC above a recalculated year-ahead allocation. In all cases, CAISO should only focus on MIC allocations and should not focus on requiring LSEs to renegotiate, terminate, or transfer contracts. LSEs and

[12] Straw Proposal at 10.
[13] Straw Proposal at 2.
[14] Straw Proposal at 13.

their counterparties should be able to structure contracts in ways that respond to CPUC and CAISO rules and that account for the risk of losing MIC allocations.

To the extent the capacity of three-year-ahead contracts signed by the time of the year-ahead allocation falls beneath the LSE's recalculated year-ahead allocation, staff does support allowing an LSE to automatically secure the capacity on the branch groups that were assigned earlier, in the associated three-year-ahead MIC allocation process. This would require a year-ahead MIC calculation process under which CAISO first calculates the MIC without protecting three-year-ahead contracts (as it would existing ETCs, TORs, or pre-RA commitments), communicates the "first-round" allocations to LSEs that have secured three-year-ahead contracts whose combined capacity exceeds the "first round" allocation, receives those LSEs' forfeit choices, and then locks all (unadjusted and re-adjusted) three-year-ahead allocations that are linked to contracts on their associated branch groups during Step 5.[15] Staff agrees with CAISO that any portion of a contract should be able to count towards a secured allocation,[16] which would enable LSEs greater flexibility in choosing which MIC to forfeit in situations where they must do so.

[15] See CAISO Tariff Section 40.4.6.2.1.
[16] Straw Proposal at 13.