

**Comments of Powerex Corp. on
Maximum Import Capability Stabilization and Multi-Year Allocation
Straw Proposal**

Submitted by	Company	Date Submitted
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Powerex appreciates the opportunity to submit comments on CAISO’s January 22, 2020 Maximum Import Capability Stabilization and Multi-Year Allocation Straw Proposal (“Straw Proposal”). Obtaining an allocation of Import Capability is a necessary element for California load-serving entities (“LSE”) to satisfy their Resource Adequacy (“RA”) obligations by contracts with supply located outside of the CAISO balancing authority area (“BAA”). As contracting for RA-eligible external supply extends beyond a single year—as is increasingly recognized as necessary—it also becomes beneficial to enable Import Capability to be secured beyond a single year. Powerex therefore supports developing enhancements to the Import Capability allocation framework to enable multi-year certainty, as this will support multi-year contracting to meet California’s RA needs.

I. Enhancements Are Needed To Eliminate Inefficient Stranding Of Import Capability

The Straw Proposal focuses primarily on technical aspects to determining how much of the Maximum Import Capability the CAISO will make available to allocate under a 3-year process. Unfortunately, the Straw Proposal does not address the chronic “stranding” of Import Capability that occurs when California LSEs receive an allocation but do not use it to support an RA arrangement. Powerex has raised and documented this problem in the past.¹ Without meaningful steps to eliminate stranding of Import Capability, the desirable benefits of a multi-year allocation will not be realized. It would be highly detrimental to California ratepayers, as well as to reliability, for the multi-year *allocation* of import capability to simply result in multi-year *stranding* of import capability.

The allocation of Import Capability has a single purpose: to ensure that total import RA commitments delivered to an intertie do not exceed the Import Capability of that intertie. That is, the need to allocate Import Capability arises *only if and when* the intertie capability is fully used under RA contracts. It is only then that some sort of allocation framework is needed to decide which RA contracts are accepted and which RA contracts are rejected, in a manner consistent with equity among the entities and customers that fund the import facilities.

Critically, however, ***when total RA contracts at a given intertie are less than that intertie’s Import Capability, there is no need for any allocation whatsoever***, as all RA contracts can be accepted without raising any concerns regarding deliverability or equity. It is precisely under

¹ See Comments of Powerex Corp. on RA Enhancements Straw Proposal – Part 2, *available at* <http://www.caiso.com/Documents/PowerexComments-ResourceAdequacyEnhancements-StrawProposalPart2.pdf>.

these circumstances of under-utilization that the current allocation process has been so harmful, as it has blocked access to Import Capability that is not scarce in the first place.

Access to Import Capability must balance two objectives:

- Achieving maximum economic **utilization** of available Import Capability; and
- When the demand to use Import Capability exceeds the Import Capability of an intertie, ensuring that access is allocated **equitably** among the entities seeking to use it.

Currently, the Import Capability allocation prioritizes the second objective over the first. That is, the utilization of Import Capability is sacrificed in order to ensure that the *potential use* of Import Capability is perceived to be equitable. An LSE that desires to procure year-ahead import RA but does not have sufficient Import Capability will be denied additional Import Capability—even on an intertie where *no other LSE* seeks to import RA supply—simply to ensure that the LSEs that did receive an allocation of Import Capability can retain the option to use it in the month-ahead RA showing, or to choose to not use it at all.

The current allocation mechanism is thus highly inefficient, as it artificially limits the options of California LSEs to meet their RA requirements, ultimately increasing the costs paid by California ratepayers. Moreover, the equity concern that drives the current framework—that the value of Import Capability should be allocated to the entities that fund the underlying facilities—does not even arise if an intertie is not fully subscribed under RA contracts (since, by definition, Import Capability only has positive value if it is fully subscribed). Thus, in many instances, addressing a concern that does not even exist is leading to actual and material harm by artificially limiting the quantity of import RA contracts that California LSEs can use to meet their RA requirements.

Powerex believes that significantly more efficient use of Import Capability can be achieved by ensuring that it is *never* withheld from an LSE seeking to use it to enable an RA contract simply because it has been allocated to a different LSE that has not entered into an RA contract on that intertie. In the event that such an approach raises actual equity concerns—such as if *scarce* Import Capability is allocated in a manner that diverges from the underlying funding of the facilities—then Powerex supports CAISO working with stakeholders to explore avenues to address such outcomes. But Powerex does not believe that the mere *possibility* of such outcomes should preclude efficient utilization of Import Capability.

II. Potential Mechanisms To Ensure Efficient Utilization Of Import Capability

Powerex believes that the allocation process needs to be reformed to apply two core principles:

1. Award Import Capability on an intertie only to the extent that an RA contract at that intertie is actually executed. This is necessary to avoid stranding, and thus make the full amount of Import Capability at each intertie available to support RA contracts; and
2. Apply a rationing or allocation mechanism *only if* the total quantity of submitted RA contracts at a given intertie *actually exceeds* the Import Capability of that intertie.

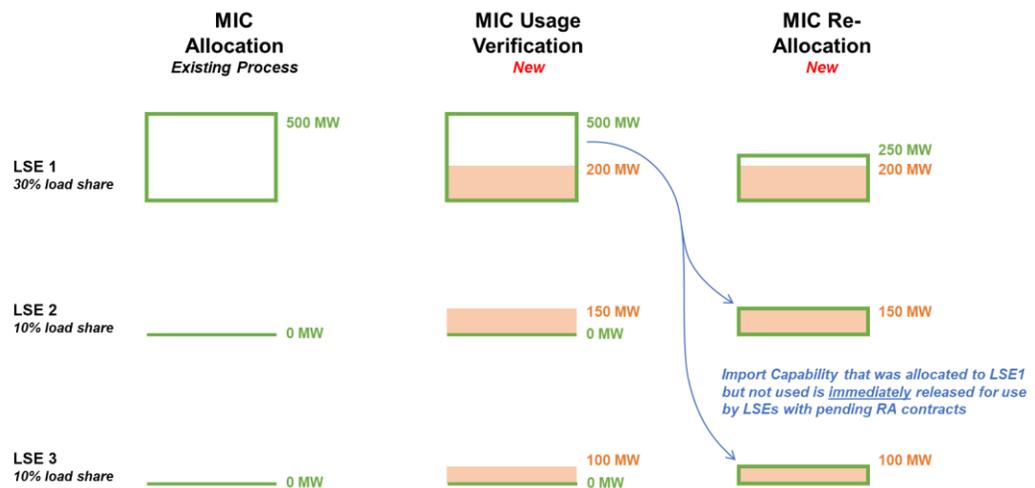
These principles can be successfully implemented through at least two distinct but equivalent mechanisms:

Option 1: Allocation With Release Deadline. The current allocation framework would be enhanced by requiring LSEs to demonstrate executed RA contracts using the allocated

Import Capability by a certain date. LSEs may also submit executed “pending” RA contracts² for which they do not hold an allocation of Import Capability. After the deadline for submission of RA contracts, any Import Capability that was previously allocated to an LSE in excess of that LSE’s executed RA contracts would be immediately re-allocated to the pending RA contracts submitted at that intertie.

The figure below illustrates how this could work. LSE 1 is allocated 500 MW of Import Capability under the current mechanism, and enters into 200 MW of RA contracts at that intertie. Whereas the present mechanism allows the 300 MW of unused Import Capability to become stranded, a new mechanism could be introduced that automatically releases unused Import Capability and allocates it to entities that submit pending RA contracts. Such an approach requires a deadline for submission of executed or pending RA contracts.³

Option 1: Allocation With Release Deadline – Intertie Not Fully Subscribed

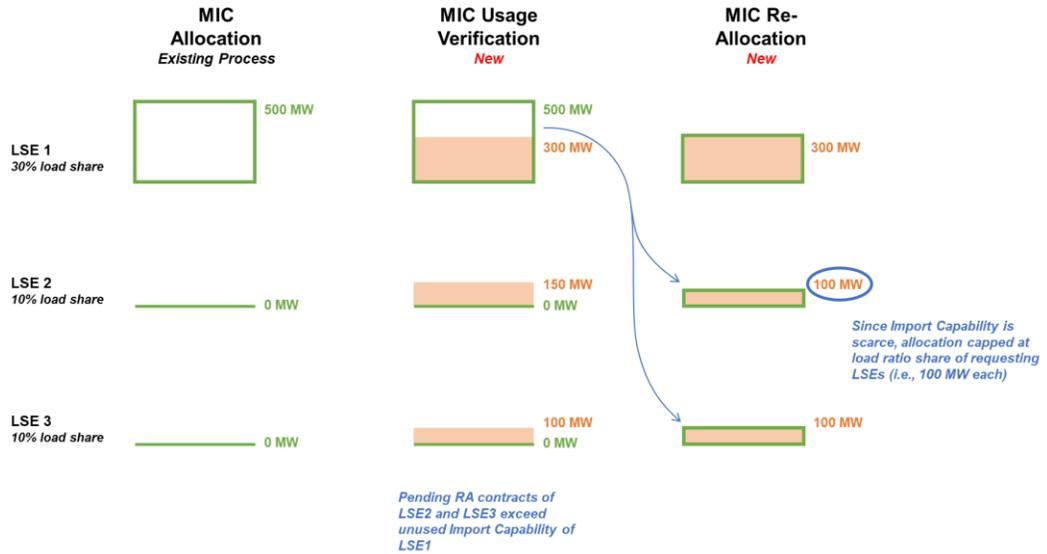


If—and only if—the quantity of pending RA contracts for the annual showing exceeds the amount of unused 1-year Import Capability that had been allocated, then a mechanism will be needed to determine how much (or which) of the pending RA contracts receive Import Capability. In this scenario, the allocation could occur based on the load-ratio share of the entities with pending RA contracts, applying the same concept as today. The figure below is identical to the prior example, except LSE 1 enters into 300 MW of RA contracts; there is thus 200 MW of unused Import Capability while other LSEs have still submitted a total of 250 MW of pending RA contracts. Since the load ratio shares of the two LSEs submitting pending RA contracts is the same, the unused Import Capability is allocated equally in this example.

² In these comments, the term “pending RA contract” refers to an RA contract that has been executed by all parties, and that will go into effect upon an allocation of necessary Import Capability.

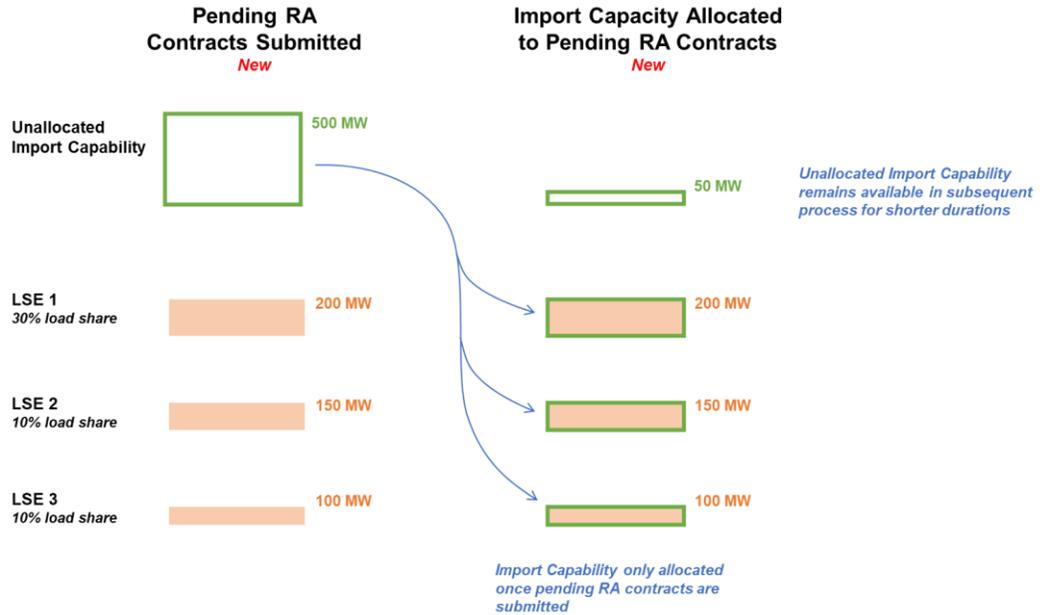
³ It may be beneficial for such a deadline to be before the RA showing deadline, as this would provide entities that do not receive Import Capability an opportunity to enter into alternative arrangements in time to comply with the RA showing requirements.

Option 1: Allocation With Release Deadline – Intertie Fully Subscribed

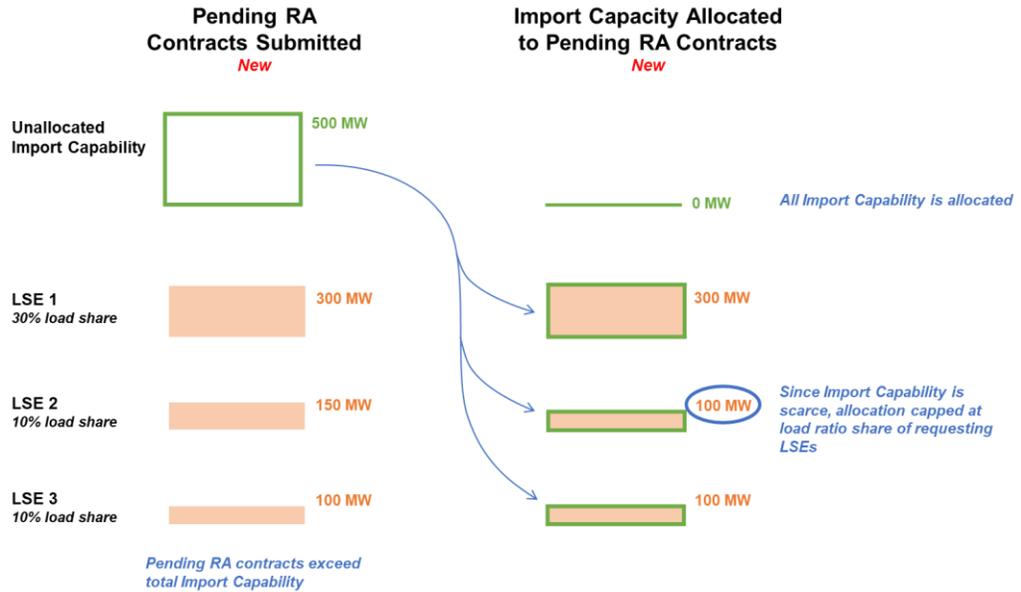


Option 2: Direct Allocation Only To Executed RA Contracts. This approach eliminates the current process whereby a California LSE requests an allocation of Import Capability, and instead performs the allocation only upon submission of an executed pending RA contract. In effect, the pending RA contract *becomes* the request for allocation of Import Capability. Consistent with the principles set out above, all pending RA contracts would be allocated Import Capability so long as the total quantity of submitted contracts does not exceed the total Import Capability at the specific intertie. If—and only if—the total quantity of submitted RA contracts exceeds this level would any rationing be necessary. In that case, a load-ratio share continue to be used as the basis for allocation *scarce* Import Capability on an over-subscribed intertie. The figures below show how this alternative mechanism would work under the same scenarios presented previously.

Option 2: Direct Allocation To Pending RA Contracts – Intertie Not Fully Subscribed



Option 2: Direct Allocation To Pending RA Contracts – Intertie Fully Subscribed



Regardless of which mechanism is employed, the key result is that **Import Capacity is allocated only to the extent that an RA contract is actually executed**. This avoids the critical flaw in the current approach, which allocates Import Capacity in advance, and has no provisions to release or otherwise make unused allocations available to other entities that would use it.

Powerex looks forward to working with CAISO and other stakeholders to identify changes to the Import Capability allocation process to eliminate the costly and inefficient stranding of Import Capability that occurs under the current design. Such enhancements are particularly important as CAISO seeks to enter into multi-year assignment of Import Capability, under which inefficiencies—and the associated harm to California ratepayers—may become “locked in” for an extended period of time.