

# Memorandum

**To:** ISO Board of Governors

**From:** Keith Johnson, Senior Market and Product Developer  
Phil Pettingill, Manager, Infrastructure Policy and Contracts Negotiation

**cc:** ISO Officers

**Date:** March 1, 2007

**Re:** *Decision on MRTU Resource Adequacy Import Capacity Tariff Filing*

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**This memorandum requires Board action.**

## Executive Summary

Over the past two months, CAISO staff has collaborated with Federal Energy Regulatory Commission ("FERC") staff and stakeholders to refine how import capacity into the ISO Control Area will be assigned for resource adequacy ("RA") reporting purposes under the CAISO's Market Redesign and Technology Update ("MRTU") project. Management recommends that the Board of Governors approve the policy elements underlying the proposed methodology as described in this memorandum and attachments, and authorize Management to file the conforming tariff provisions necessary to implement the new methodology. The proposed methodology achieves the following:

- Provides a methodology for accounting for import capacity that is consistent with current deliverability standards, builds upon the current methodology in the ISO Tariff, and adds refinements based on stakeholder comments, input received from members of the Market Surveillance Committee and experience gained by the CAISO in allocating import capacity for 2006 and 2007.
- Can be implemented prior to MRTU "go live" without impacting the CAISO's ability to deliver MRTU.
- Can be filed at FERC shortly after Board approval to meet the expedited tariff filing schedule that FERC staff and the stakeholders agree is needed to meet the procurement deadlines for 2008.
- Establishes a methodology that reasonably balances the interests of entities that have existing long-term contracts and resource commitments with the interests of entities that desire flexibility and the ability to enter into short-term resource commitments.
- Continues to recognize existing contracts and resource commitments executed as of March 10, 2006, but provides a priority going forward only during the initial term of such existing arrangements.
- Eliminates the risk of ISO Tariff provisions getting ahead of efforts of the Californian Public Utilities Commission ("CPUC") and other Local Regulatory Authorities ("LRAs") that are considering multi-year RA obligation.

## **Background**

The CAISO has accounted for import capacity among LSEs for RA “counting” purposes for 2006 and 2007 under the Interim Reliability Requirements Program (“IRRP”) Tariff. This authority is approved for RA reports covering periods up through calendar year 2007. The CAISO needs FERC approval of additional tariff language that will be effective for RA reports covering periods starting January 1, 2008. The proposed tariff amendment described in this memorandum and attachments meets that need.

The CAISO initially filed an import accounting methodology in its proposed MRTU Tariff on February 9, 2006. However, on March 13, 2006, the CAISO filed its IRRP Tariff, which included a methodology for accounting for import capacity that built upon and was, in critical ways, superior to the language that was included in the February 9, 2006 MRTU Tariff filing. On May 12, 2006, FERC approved the IRRP filing and found the CAISO’s proposal for accounting of import capacity for 2007 to be equitable.

In response to a request from the CAISO, in its September 21, 2006 MRTU Order the FERC directed its staff to convene a technical conference to address the accounting of import capacity. On December 1, 2006, the CAISO filed a motion stating that the tariff language currently in effect in the CAISO’s IRRP compliance filing constitutes a preferred and more equitable framework to use to refine the import provisions of the MRTU Tariff, and that these provisions should replace the provisions that were included in the MRTU filing. The CAISO also noted that certain open questions remain, and put those open issues before stakeholders in an informational filing that was made on December 11, 2006. The December 11, 2006 informational filing is considered to be the CAISO’s “initial proposal” for accounting for import capacity under MRTU.

FERC held a Technical Conference on February 1, 2007, wherein parties discussed the CAISO’s initial proposal and offered suggested changes. At the conclusion of the conference, FERC staff stated they heard that: (1) parties generally agree with the IRRP methodology proposed by the CAISO, subject to the CAISO responding to a few requests for information, and (2) stakeholders and FERC staff support an expedited filing process in order to meet the procurement deadlines for 2008.<sup>1</sup> FERC staff directed parties to submit written comments no later than February 9, 2007 to the CAISO regarding the CAISO’s revised “proposal” that was based on the discussions held at the Technical Conference.

## **Proposed Tariff Amendment**

As noted above, the CAISO has used the existing IRRP Tariff language as a foundation for the MRTU Tariff language. Changes were made to the IRRP language based on the following sources of changes: (1) stakeholder comments, (2) input received from members of the Market Surveillance Committee, (3) the January 22, 2007 FERC Order on Rehearing, Clarification and Compliance

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<sup>1</sup> Stakeholders desire to have their allocations as early in summer 2007 as possible, hoping for as early as June 2007, so that they can have up to 90 days to procure resources in advance of the September 30, 2007 due date for the RA “showings” that they must submit to the CPUC or other LRAs.

Filing regarding the IRRP, and (4) CAISO experience in conducting allocations for 2006 and 2007 under the IRRP.

Under the CAISO proposal, the CAISO will continue to account for available import capacity on the various individual transmission lines (referred to as "branch groups") into the ISO Control Area first to the holders of Existing Transmission Contracts and other Transmission Ownership Rights ("TORs"). Once those Existing Transmission Contracts and TORs have been reserved, the CAISO will next account for contractual resource commitments in place as of March 10, 2006 ("grandfathered resource commitments"). All import capacity remaining after accounting for Existing Transmission Contracts, TORs, and grandfathered and resource commitments will be allocated to Load Serving Entities ("LSEs") on a "load ratio share" ("LRS") basis (a LRS is a measure of that LSE's load in relation to the total coincident peak load of the ISO Control Area.) However, in a change from the current practice, the CAISO will "cap" the accounting of this capacity at the greater of the capacity received through Existing Contracts, TORs, and grandfathered resource commitments or the respective LRS of the LSE seeking an allocation. A LSE, therefore, can have an amount of capacity greater than its LRS for an interim period up through the expiration of its Existing Contracts, TORs, and grandfathered resource commitments. LSEs can then assign the capacity received under this step to desired branch groups.

In instances where a branch group is over-requested, whether at the contract/rights/commitments stage or later remainder capacity accounting stage, the available capacity will be accounted for based on LRS. The accounting will be performed on an annual basis, and will be valid for a one-year term. The capacity is effective for a calendar year, starting in calendar year 2008, with the first implementation in mid-2007 for RA showings for calendar year 2008.

A number of parties, including Pacific Gas & Electric Company, Southern California Edison Company, and The Utility Reform Network, have raised the need for longer-term certainty in the allocation process to promote resource development. The CAISO agrees that a multi-year RA obligation has merit and appropriate actions should be taken to integrate such longer-term obligations into the RA program. However, the CAISO believes doing so through the present import capacity accounting methodology is premature in that all other elements of the California Public Utilities Commission's ("CPUC") current RA program are implemented on an annual cycle. The CPUC is currently reviewing this issue in its pending RA docket. Accordingly, as the CPUC examines multi-year RA obligations, the CAISO expects to reconsider the need to refine its import capacity accounting methodology to conform to the outcome of the CPUC's deliberations.

The CAISO will further set up a system to record trades of import capacity and will post final calendar year accountings, which will include the results of the executed trades, to the CAISO web site. In this regard, several parties from the municipal utility community objected to reliance on bilateral trades to efficiently reallocate import capacity. The CAISO believes that alternative methods of ensuring import capacity is available to those entities that most value the capacity are impractical under the implementation timelines necessary to permit 2008 RA procurement to proceed. Nevertheless, the CAISO is sensitive to parties concerns and will be prepared to modify its current approach as experience is gained and state decision-makers evaluate the potential development of a capacity market.

Two of the key criteria that the CAISO considered in developing this proposal are provided below:

- The solution must be able to be implemented prior to Phase 1 of MRTU with minimal impacts to CAISO resources, legacy systems or new MRTU systems, and sustainable after MRTU. It must not impact the CAISO's ability to timely implement MRTU.
- It is appropriate to honor, to the maximum extent possible, existing resource contracts and commitments executed as of March 10, 2006.

Attachment 1 provides a detailed description of the CAISO proposal that was developed with input from stakeholders. Implementation details may be subject to non-material change as the tariff language reflecting the proposal is further developed.

### **Stakeholder Process**

Attachment 2 provides a list of the stakeholder engagements, the people and organizations that participated, the parties that support the proposal, and the issues that were addressed to develop the final proposal. At the conference call on February 21, 2007, a broad range of stakeholders voiced support for many of the provisions in the proposal described in this memorandum and attachments. Key dates and milestones of the stakeholder process are listed below.

Sep 21	FERC issues order announcing technical conference to be scheduled
Dec 1	CAISO files motion requesting use of IRRP allocation process for MRTU
Dec 11	CAISO files its initial proposal (to use IRRP process as the foundation)
Dec 27	FERC issues notice announcing technical conference on February 1
Feb 1	FERC holds technical conference
Feb 9	10 stakeholders submitted written comments to CAISO
Feb 12	CAISO posts written stakeholder comments received
Feb 13	Discuss tariff filing with members of Market Surveillance Committee
Feb 16	Post draft tariff sheets and presentation for February 21 conference call
Feb 21	Conference call with stakeholders
Feb 28	Post draft tariff sheets for review of tariff language, not policy
Feb 28	Distribute market notice for review of tariff language, not policy
Feb 28	Stakeholder comment period starts for tariff language
Mar 1	Board documents sent to Board of Governors
Mar 7	Brief Board of Governors and request Board approval to make filing
Mar 9	Stakeholder comment period ends on tariff language, not policy
Mar 12	Conference call with stakeholders on tariff language, not policy
Mar 19	Proposed date for filing

## **Conclusion of Management and Recommendation**

Management recommends that the ISO Board of Governors approve the policies summarized in this memorandum and offers the following motion:

**MOVED,**

**That the ISO Board of Governors approve the Market Redesign and Technology Upgrade resource adequacy import capacity policy proposals, as described in this memorandum dated March 1, 2007, and related attachments; and**

**That the ISO Board of Governors authorize management to make all appropriate and necessary filings with FERC in support of tariff provisions to implement the Market Redesign and Technology Upgrade resource adequacy import capacity policy proposals, as described in this memorandum dated March 1, 2007.**

Attachments