

Comments on Maximum Import Capability Enhancements Draft Final Proposal

Department of Market Monitoring

October 4, 2021

I. Summary

The ISO Department of Market Monitoring (DMM) appreciates the opportunity to comment on the Maximum Import Capability (MIC) Enhancements Draft Final 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, 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. This year, ISO also issued several Significant Event CPM designations at the CPM soft offer cap between July and September, and continues to seek additional capacity for 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 potentially increase MIC or to better allocate MIC among LSEs.

As noted in prior comments, DMM observed that during August and September 2019 and 2021 there were often very high bilateral prices for MIC at certain branch groups while there 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 These findings indicate that there

¹ *Maximum Import Capability Enhancements – Draft Final Proposal*, California ISO, September 13, 2021:
<http://www.caiso.com/InitiativeDocuments/DraftFinalProposal-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>
<http://www.caiso.com/Documents/CPMSignificantEvent-Intent-Solicit-DesignateCapacity-ContinuedEffort-Reminder-092021.html>

³ *Comments on MIC Enhancements Revised Straw Proposal*, DMM, August 25, 2021, p. 2:
<http://www.caiso.com/Documents/DMM-Comments-on-Maximum-Import-Capability-Enhancements-Revised-Straw-Proposal-Aug-25-2021.pdf>

could be room to enhance the allocation and trading of MIC so that MIC at highly valued branch groups for resource adequacy contracting does not go unused. 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.

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

The ISO proposes five main enhancements to the current MIC framework in its draft final proposal. The ISO has also indicated that it is willing to take up additional topics that received stakeholder support in future policy initiatives. 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 supports the five main enhancements proposed in the draft final 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. 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. Allow entities to request MIC expansions

The ISO proposes to allow LSEs and other entities to request MIC expansions at branch groups under certain conditions. DMM supports the ISO developing a new process for entities to request MIC expansions as incremental MIC could help ensure that resources already under contract or new projects committed to serve ISO load can count for resource adequacy.

While DMM supports the ISO allowing for MIC expansion requests, any MIC expansion resulting from this new process would be subject to existing MIC allocation rules. Therefore, the entities requesting the MIC expansions are not guaranteed to secure the MIC that was requested and approved. DMM suggests that the ISO consider allowing the requesting entities priority access to incremental MIC that results from the MIC expansion study process. Otherwise, entities may have to rely on trading with other entities for the additional MIC they requested, where bilateral trading of MIC in recent years has been an area of concern.

4. 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 signed, mitigating to some extent the chance that resource adequacy already under contract could be stranded because the LSE was not able to obtain MIC.

DMM supports the ISO allocating remaining import capability at a branch group in step 13 among requesting entities based on their proportion of MIC requested, as opposed to a first-come first-served basis.

5. Tariff and BPM updates

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

The ISO should continue to consider approaches to modifying the MIC calculation, which could potentially increase MIC on branch groups that are highly demanded or highly utilized to support resource adequacy contracts.

As discussed in DMM's August 25 comments, between 2019 and September 2021, MIC on some branch groups has gone unused to support import resource adequacy.⁴ Additionally, there are branch groups where less than 50 percent of MIC has been used to support import resource adequacy throughout 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 indicated that it is willing to explore changes to the MIC calculation further, in a future MIC policy process. In the stakeholder call on September 20th the ISO suggested that it would study the impacts of the proposed set of MIC enhancements before considering further enhancements. Given the immediate need for additional resource adequacy in the near term, DMM believes that the ISO should consider additional enhancements to the MIC calculation in a second phase of MIC enhancements that would start now. To the extent that changes to the MIC calculation could facilitate additional resource adequacy contracting to address capacity needs, then further MIC enhancements should be considered immediately, rather than years from now.

Additionally, DMM suggests the ISO consider using gross imports in the MIC calculation rather than net imports. In recent years, exports to some neighboring balancing areas have been increasing on the high load days used in MIC calculations. Under the current practice of using

⁴ *Comments on MIC Enhancements Revised Straw Proposal*, DMM, August 25, 2021, p. 2:
<http://www.caiso.com/Documents/DMM-Comments-on-Maximum-Import-Capability-Enhancements-Revised-Straw-Proposal-Aug-25-2021.pdf>

net imports to determine MIC, the growth in gross exports at certain interties will reduce future MIC at those interties.

Despite reductions in net imports (due to increased exports), the import capability at certain branch groups is not necessarily reduced year over year. Using gross imports in the MIC calculation instead of net imports could give a more accurate picture of the level of imports that an intertie could feasibly support. This change could also potentially mitigate the effect of reducing MIC at certain branch groups due to increased exports in prior years.

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 may 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 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 already have associated MIC which could be used for substitute capacity for the resource. DMM also observed that external resources have not been used as substitute capacity 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 to try to address those barriers directly in the near term.

Additionally, 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. The ISO could give further consideration to developing a process by which LSEs with excess MIC are required to release their unused MIC, which could guarantee that the LSE would be compensated at or above a specific price floor if another LSE procured the MIC. This could help ensure that other entities seeking MIC can have access to the excess capacity on the system, and that entities originally allocated MIC are compensated.

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

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

that 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 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. While new MIC expansion requests could help free up additional MIC, LSEs making such requests are still not guaranteed to be able to secure the additional requested and approved MIC if MIC expansions are subject to existing allocation rules.

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 a LSEs' load share between parties (i.e. LSEs with high load share to LSEs with lower load share) at a TAC-based rate.