

Memorandum

To: ISO Board of Governors
From: Eric Hildebrandt, Executive Director, Market Monitoring
Date: October 28, 2021
Re: Department of Market Monitoring Comment

This memorandum does not require Board action.

EXECUTIVE SUMMARY

This memo provides comments by the Department of Market Monitoring (DMM) on management's proposed enhancements regarding the process for determining and allocating maximum import capability. DMM supports the ISO's proposed changes as incremental improvements to the current maximum import capability framework. To better facilitate contracting for resource adequacy capacity from imports, the ISO should continue to enhance its processes to better ensure that entities can acquire the maximum import capability needed to support resource adequacy contracts. DMM recommends the ISO continue to pursue further enhancements through a second phase of this stakeholder process.

BACKGROUND

Under the ISO's resource adequacy framework, maximum import capability capacity is allocated to load serving entities who are required to use this capacity to count external supply toward meeting resource adequacy requirements. In recent years, system capacity has become scarce in summer months and some load serving entities have found it increasingly difficult and expensive to contract for additional system capacity. In summer 2021, the ISO procured additional import resource adequacy capacity at the soft offer cap to meet the demand for additional system capacity.

To the extent that an unavailability of maximum import capability could prevent load-serving entities from contracting for additional import capacity to meet system capacity needs, then there is value to enhancing this process to potentially increase maximum import capability, or better allocate this capacity among load serving entities.

As noted in stakeholder comments, DMM observed that in recent years there were often very high bilateral prices for maximum import capability at certain branch groups during the

summer months, while there appeared to be maximum import capability that was not used to support resource adequacy contracts on those branch groups.

These findings indicate that there could be room to enhance the allocation and trading of maximum import capability so that capability at highly valued branch groups for resource adequacy contracting does not go unused. To better facilitate contracting for resource adequacy capacity for imports, the ISO should continue to enhance its processes to better ensure that entities can acquire the maximum import capability needed to support resource adequacy contracts.

MANAGEMENT PROPOSAL

The ISO proposes four main enhancements in its final proposal:

- Improve transparency regarding maximum import capability allocations and usage to enhance trading
- Adopt enhancements to maximum import capability expansion study processes
- Allow load serving entities and other stakeholders to request maximum import capability expansions
- Give load-serving entities with existing resource adequacy contracts priority to unallocated remaining import capability in the later stage of the allocation process

As explained below, DMM supports these enhancements as incremental improvements to the current maximum import capability framework.

Improving transparency of capability allocations and usage

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

Enhancements to expansion study processes

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

Allow entities to request expansions

The ISO proposes to allow load serving entities and other participants to request maximum import capability expansions at branch groups under certain conditions. DMM supports the

ISO developing a new process for entities to request expansions since this additional import capability could help ensure that resources already under contract or new projects committed to serve ISO load can count for resource adequacy.

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

Enhancements to step 13 of the allocation process

DMM also supports the proposal to allocate remaining import capability at a branch group in step 13 of the allocation process among requesting entities based on their proportion of maximum import capability requested, as opposed to a first-come first-served basis. These changes could help ensure that maximum import capability 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 load serving entity was not able to obtain maximum import capability.

The ISO 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 maximum import capability expansion requests as well as potential changes to maximum import capability calculations to account for differences in utilization of different branch groups for resource adequacy purposes. DMM strongly recommends that the ISO continue to enhance its processes to better ensure that entities can acquire the maximum import capability needed to support resource adequacy contracts.

FURTHER RECOMMENDATIONS

The ISO should continue to consider further enhancements that could increase maximum import capability on branch groups that are highly demanded or highly utilized to support resource adequacy contracts.

The ISO indicated that it is willing to further explore changes to the maximum import capability calculation in a future policy process. However, the ISO suggested that it would study the impacts of the proposed set of enhancements before considering further enhancements. Given the immediate need for additional resource adequacy in the near term, DMM believes the ISO should consider additional enhancements to the maximum import capability calculation in a second phase that would start when the ISO has the available resources. To the extent that changes to the maximum import capability calculation could facilitate additional import resource adequacy contracting, waiting several years before considering such further enhancements could be costly.

DMM suggests the ISO consider using gross imports in the maximum import capability calculation rather than net imports.

In recent years, exports to some neighboring balancing areas have been increasing on the high load days used in maximum import capability calculations. Under the current practice of using net imports to determine maximum import capability, the growth in gross exports at certain interties will reduce future maximum import capability 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 maximum import calculation, instead of net imports, could give a more accurate picture of the level of imports that an intertie could feasibly support. It could also potentially mitigate the effect of reducing MIC at certain branch groups due to increased exports in prior years.

If bilateral trading of maximum import capability is not improved by providing additional transparency alone, the ISO could consider further enhancements to facilitate trading.

While providing additional transparency regarding maximum import capability allocations and usage could help facilitate more bilateral trading of capability, load-serving entities may continue to hold capability or not offer capability for sale. If trading and utilization of capability is not improved by increasing transparency alone, then the ISO could consider further enhancements that could better facilitate trading of allocated maximum import capability.

It does not appear that load-serving entities are regularly holding back maximum import capability allocations for potential generation substitution purposes, as the ISO originally suggested. Instead, it appears there may be other more significant reasons that entities are not offering excess maximum import capability allocations for sale. It could be helpful for the ISO to further investigate what barriers load serving entities face that may prevent them from releasing excess capability, and to try to address those barriers directly in the near term.

Additionally, if trading of excess maximum import capability is not improved by adding transparency alone, then the ISO could give further consideration to proposals that would require entities to release unused capability. The ISO could also give further consideration to developing a process by which entities with excess maximum import capability are required to release their unused capability. This process could include a guarantee that the entity would be compensated at or above a specific price floor if another entity procured the maximum import capability. This could help ensure that other entities seeking maximum import capability can have access to the excess capacity on the system and that the entities who were originally allocated this capability are compensated.

There could also be benefit if the ISO played a larger role in facilitating trading of excess maximum import capability to match counterparties. For example, under the current framework, a load serving entity seeking import(s) at a specific branch group may have to transact and contract with several different entities for relatively small excess amounts of import capability. In this case, there are potentially significant transaction costs that could

present barriers to trading excess import capability that may be reduced if the ISO played an active role in matching counterparties.

Potential enhancements to allocation rules

As an alternative to enhancing processes for trading import capability after allocations take place, the ISO could further consider enhancing the allocation processes up front to give higher priority access to import capability to entities with resource adequacy contracts in the year-ahead timeframe.

Currently, entities with existing resource adequacy contracts can reserve import capability for years forward but are generally limited to how much capability they can reserve by their load share of total maximum import capability. DMM understands that load share restrictions could still be limiting in terms of reserving import capability for entities that rely heavily on either pseudo-tied or dynamically scheduled capacity to meet resource adequacy requirements. This is particularly true for small load serving entities whose share of total maximum import capability may be very small. While new requests for expansion of import capability could help free up additional capability, entities making such requests are still not guaranteed to be able to secure any additional capability requested if this additional capability is subject to existing allocation rules.

The ISO could give further consideration to allowing load serving entities to nominate maximum import capability in excess of load share in the year-ahead timeframe, and potentially transfer import capability between parties (i.e. from entities with a high load share to entities with a lower load share) at a rate based on the transmission access charge.