

Comments on Market Enhancements for Summer 2021 Readiness Revised Draft Tariff Language

Department of Market Monitoring

April 15, 2021

I. Summary

The ISO Department of Market Monitoring (DMM) appreciates the ISO's efforts to facilitate as much discussion as possible given the accelerated timelines needed to develop the ISO's *Market Enhancements for Summer 2021 Readiness Final Proposal (final proposal)*, and the associated revised draft tariff language.^{1,2}

The proposed changes to current export and wheeling priorities in the final proposal and revised draft tariff language represent incremental improvements that should enhance the reliability of the CAISO BAA for summer 2021 relative to current practices, while taking initial steps to better align the CAISO market rules and practices with those of other BAAs. However, the final proposal still results in a transmission access framework that continues to provide a higher priority to wheel-through transactions relative to CAISO balancing area load than would occur in other BAAs and RTOs.³ Additional substantive changes introduced in the revised draft tariff language after publication of the final proposal appear to further increase the favorability of transmission access for wheel-through transactions, compared to the final proposal and the practices of other BAAs..

We offer additional detail in the comments below, and offer support for some recommendations made by stakeholders on the April 14, 2021 call that may adjust the ISO's wheeling prioritization policy for this summer to be closer to the prioritization that other balancing areas give to their native load relative to wheel-through transactions.

I. Comments on changes since final proposal

Tariff effective June 2022

The revised draft tariff language includes a section titled "Tariff Effective June 2022". This section addresses scheduling priorities in the day-ahead and real-time markets, and eliminates many of the changes proposed in the tariff language to be effective through May 2022.

¹ *Market Enhancements for Summer 2021 Readiness Final Proposal*, California ISO, March 19, 2021.

<http://www.caiso.com/InitiativeDocuments/FinalProposal-MarketEnhancements-Summer2021Readiness.pdf>

² *Revised Draft Tariff Language – Export, Load, and Wheeling Priorities – Market Enhancements for Summer 2021 Readiness*, California ISO, April 8, 2021. <http://www.caiso.com/InitiativeDocuments/RevisedDraftTariffLanguage-Export-Load-WheelingPriorities-MarketEnhancements-Summer2021Readiness.docx>

³ See full discussion of final proposal: *Comments on Market Enhancements for Summer 2021 Readiness – Final Proposal*, Department of Market Monitoring, April 2, 2021. <http://www.caiso.com/Documents/DMM-Comments-on-Summer-2021-Readiness-Final-Proposal-Apr-2-2021.pdf>

Notably, the distinction between LPT and PT wheel-through transactions is eliminated, and the scheduling priorities that remain for all wheel-through transactions are the same as those proposed for PT wheel-through transactions. This change suggests that beginning June 1, 2022, if no other process is in place prior to that date, all self-scheduled wheel-through transactions will have PT scheduling priority equal to CAISO load. This prioritization results in a policy that is *less* similar to the practices of other BAAs compared to the policy in the final proposal and the revised draft tariff language effective through May 2022.

Establishing a scheduling priority for self-scheduled wheel-through transactions equal to CAISO load is an improvement to the current CAISO operating practice, where wheel-through transactions receive a higher scheduling priority than CAISO load. However, current CAISO tariff language does not specify how wheel-through transactions are to be prioritized relative to CAISO load. DMM assumes this to mean that the ISO currently has the discretion to adopt operating practices which provide wheel-through transactions a priority which is higher, equal to or lower than balancing area load.

By allowing explicit scheduling priorities for self-scheduled wheel-through transactions to remain in the tariff, the revised draft tariff language effective June 2022 codifies the policy that all self-scheduled wheel-through transactions will have scheduling priority equal to CAISO load, and removes the possibility that operating practices could instead be modified to establish a higher scheduling priority for CAISO load. DMM understands that other BAAs will only offer firm transmission capacity having equal priority to native load if this capacity is in excess of what is needed to serve native load. Thus, this tariff change would codify a policy in the CAISO tariff that moves away from creating similarities with the practices of other BAAs.

An additional change in the revised draft tariff language effective June 2022 is the elimination of the post-HASP allocation process applied to congested interties and Path 26 when HASP makes uneconomic schedule adjustments based on penalty prices. Removal of the language describing this process appears to reintroduce some ambiguity in how transmission will be allocated under extreme system conditions and affords a greater degree of discretion in operating practices to CAISO operations. DMM views this additional discretion as appropriate in the absence of any differentiation between high priority and low priority wheels and in the absence of a process for wheel-through transactions to procure firm transmission in a manner similar to other BAAs. However, DMM requests the ISO to provide additional clarity on any proposed operating practices to allocate transmission under potential load shedding conditions in June 2022 and beyond.

Modifications to post-HASP allocation process for congested intertie capacity

In the revised draft tariff language to be effective through May 2022, the ISO has changed the post-HASP allocation process applied to congested interties when HASP makes uneconomic scheduling adjustments based on penalty prices. The post-HASP allocation process described in the final proposal considered a pro-rata allocation of import capacity on a congested intertie among PT wheel-through schedules, and the greater of real-time import RA bid volume or

cleared RUC imports, subject to the intertie import limit. However, the approach in the revised draft tariff language eliminates consideration of import schedules cleared in RUC, and only considers RA import bids present in HASP.

Non-RA imports compete with RA imports in the day-ahead market, and may economically displace RA import awards. Only when the RUC market solution is infeasible will all import RA be forced to clear RUC. Import RA resources that are not under the jurisdiction of the CPUC and do not clear RUC do not have a real-time must offer obligation. Therefore, in instances where non-RA imports displace RA imports awards in RUC, and the displaced import RA bids are not present in real-time, the RUC cleared non-RA imports are expected to be needed to meet the CAISO load forecast.

DMM's understanding is that other balancing areas reserve the transmission capacity they need for imports to serve their native load and then only make excess capacity available for wheels. In the forward time frame, other balancing areas will determine the transmission they need to serve load and will make the excess transmission available as long-term firm transmission for wheels. In the day-ahead time frame, if the transmission a balancing area reserved for its native load is in excess of its needs for the day, the balancing area will make this daily excess transmission capacity available for wheels.

Under the ISO's proposed framework for this summer, PT wheels are treated as comparable to the long-term transmission rights that other balancing areas sell to wheels. In order to provide native load a similar priority to its transmission as other BAs provide to their native load, any transmission not used by PT wheels in the day-ahead time frame should first be prioritized for generation needed to meet the CAISO balancing area's load. To have comparable priority policies as other BAs, the CAISO BA would only make transmission available to non-PT wheels in the day-ahead time frame when that transmission is not needed to serve the CAISO BA's load.

Any imports or internal generation that clears RUC, whether or not it is "RA", should have a higher priority to transmission than LPT wheels. Non-RA imports or non-RA internal generation that clear RUC in place of RA imports or RA internal generation are the power sources that the CAISO BA has deemed necessary to meet its load. The utilization of transmission by non-RA imports and non-RA internal generation represents transmission that the CAISO BA has deemed necessary for meeting its native load. Therefore, imports and internal generation that receive RUC awards, whether or not they are RA or non-RA, should get the same priority to transmission as PT wheels.

Given this, it seems appropriate to include non-RA RUC imports in the post-HASP pro-rata import allocation with PT wheels, when the total volume of RUC cleared imports exceeds that of real-time import RA bids. Failing to do so, as proposed in the revised draft tariff language, is a step away from the CAISO BA providing its native load a transmission priority that is similar to the priority that other western balancing areas give to their load.

Extended timeline to qualify for PT wheel-through scheduling priority

In the revised draft tariff language that would be effective through May 2022, the ISO has extended the timeline for entities to notify the ISO of a firm energy contract to serve load in another BAA to qualify for PT wheel-through scheduling priority. This timeline has been extended from a one-time deadline of April 23, 2021 (or the date on which the tariff language is filed) to a rolling deadline of June 29, 2021 for July and August 2021, and 45 days ahead of each month thereafter. Extending this date for summer 2021, and establishing a rolling deadline on the basis of new contracts moves far beyond accommodating contracts already signed for summer 2021 under assumptions of CAISO's current operating practices. Additionally, this change makes CAISO's transmission access provisions and scheduling priorities for wheel-through transactions *less* similar to those of other BAAs, compared to the final proposal.

As explained in the section above, PT wheel status is comparable to the long-term firm transmission rights that are sold by other balancing areas which can be used to wheel through those areas. Other balancing areas will only offer this status to wheels for transmission capacity that is in excess of what its forward studies determine is needed to meet its native load. For this summer, the CAISO BA has not been able to implement a process for only granting PT wheel status for transmission in excess of the CAISO BA's reliability needs. Given this implementation limitation, comparable treatment to other BA's offering long-term rights to wheels would seem to dictate that the CAISO only grant PT wheel status to wheels that other balancing areas have been relying on, in the long-term forward procurement horizon, to meet their reliability needs.

The March 19 proposal seemed to accomplish this by setting a firm date before this summer by which contracts needed to be signed in order to qualify for PT wheel status. The April 9 tariff policy of allowing any contracts signed 45 days before any future month to qualify for PT status seems to be a step away from the CAISO BA providing its native load a transmission priority that is similar to the priority that other western balancing areas give to their load. This April 9 tariff policy change will allow wheeling transactions that were not part of a load serving entity's long-term resource sufficiency plans to have the same access to CAISO BA transmission that the CAISO BA needs to serve its native load.

II. Additional recommendations

As indicated in the comments above, the changes to the revised draft tariff language appear to result in a policy that is less similar to the practices of other BAAs than the final proposal. The changes reduce CAISO native load's priority for access to CAISO transmission relative to the priority that other western balancing areas give to their native load.

On the April 14, 2021 stakeholder call, some stakeholders made suggestions that could make CAISO's transmission priority policy more similar to that of other BAs and that could mitigate some of the reliability risk associated with the proposed CAISO policy's relatively more favorable treatment of wheels. The stakeholder suggestions appear to be easily implementable and aligned with the business practices of entities likely to utilize PT wheel-through

transactions. DMM supports these recommendations to reduce the amount of uncertainty to the CAISO BAA between RUC and the real-time market, and to ensure PT wheel-through status is provided only as intended, to entities relying on such service to deliver contracted supply to a non-CAISO load serving entity dependent on that supply to meet resource sufficiency requirements.

Require PT wheel-through transactions to schedule in day-ahead

The ISO noted on the April 14, 2021 stakeholder call that, because of the operating practices of entities expected to use PT wheel-through transactions, the majority of PT wheel-through transactions are likely to be scheduled in the day-ahead market. Very few PT wheel through transactions are expected to be scheduled in real-time only. Some stakeholders have expressed concern that allowing PT wheel-through transactions to schedule in real-time only can create uncertainty because of the ability for PT wheel-through transactions to displace imports that may be needed to serve real-time CAISO load. DMM also noted a similar concern in earlier comments on the final proposal.⁴

While some of this uncertainty between RUC and the real-time market can be mitigated by appropriate use of RUC forecast adjustments, some stakeholders suggested that PT wheel-through transactions be required to participate in the day-ahead market in order to have PT scheduling status in real-time. DMM supports this suggestion. Requiring PT wheel-through transactions to schedule day-ahead appears consistent with the ISO's understanding of business practices of entities that will use PT exports, and will also reduce uncertainty between the RUC and real-time markets.

Strengthen language defining which power supply contracts can be used to establish PT wheel-through scheduling priority, and require firm transmission from CAISO to load sink

As DMM understands, the intent of the PT wheel-through scheduling priority is to accommodate the deliverability of firm energy supplies contracted by non-CAISO load serving entities to meet resource sufficiency needs of that load serving entity on at least a monthly basis. PT wheel-through scheduling priority should not be used to support commercial transactions of opportunity under tight conditions, or, for example, options-type contracts that only apply under certain economic circumstances but are not generally needed for resource sufficiency.

The revised draft tariff language is vague in defining which energy supply contracts may be used to support a PT wheel-through self-schedule. DMM recommends the ISO revise the tariff language to be as specific as possible in stating which power supply contracts can and cannot be used to support a PT wheel-through self-schedule. DMM suggests that the ISO could include tariff language stating that only firm power supply contracts for capacity needed to meet the

⁴ *Comments on Market Enhancements for Summer 2021 Readiness – Final Proposal*, p. 8, Department of Market Monitoring, April 2, 2021. <http://www.caiso.com/Documents/DMM-Comments-on-Summer-2021-Readiness-Final-Proposal-Apr-2-2021.pdf>

resource sufficiency needs of the non-CAISO load serving entity, for at least a month, independent of prevailing market prices or conditions that materialize in the month, may be used to support a PT wheel-through self-schedule. The ISO could further strengthen the tariff language by specifically excluding some types of power supply contracts dependent on specific pricing or market outcomes, or which may otherwise not be needed to meet the monthly or longer resource sufficiency needs of a non-CAISO load serving entity.

Finally, DMM notes that the revised draft tariff language only states a general requirement of firm transmission for a transaction to qualify for PT wheel-through scheduling priority. The final proposal stated a more specific requirement that PT wheel-through transactions must have firm transmission from the source to the CAISO border. The ISO clarified verbally on April 14, 2021 that there was no intent to change this more specific requirement.

DMM recommends the ISO clarify the more specific requirement in the tariff language and add the requirement that a PT wheel-through transaction also have firm or network transmission from the scheduling point of the CAISO wheel-through export leg to the load sink, and that the firm transmission from the source to CAISO and from CAISO to sink be reserved for use by the accompanying energy supply contract. As noted on the April 14, 2021 stakeholder call, the type of transactions for which PT wheel-through scheduling priority is intended would likely already hold firm or network transmission service to the load sink. The ISO's requirement of this service to establish PT wheel-through scheduling priority should not pose significant additional burden, and would help further ensure that PT wheel-through scheduling priority is only granted to transactions for which it is intended.