Memorandum

To: ISO Board of Governors

From: Neil Millar, Vice President of Infrastructure and Operations Planning

Date: October 27, 2021

Re: **Decision on Maximum Import Capability Enhancements**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management proposes changes to the maximum import capability process in order to accommodate requests made and supported by an overwhelming majority of participating stakeholders.

The proposed changes to the process will: provide additional transparency regarding ownership of maximum import capability allocations and their usage (after the allocation process ends); improve the CPUC policy portfolio by adding non-CPUC jurisdictional load serving entities' contractual data; allow stakeholder to make maximum import capability expansion requests; improve step 13 of the allocation process by giving same day priority to existing contracts; and align the tariff and business process manual with current practice.

Management proposes the following motion:

> ***Moved, that the ISO Board of Governors approve the enhancements to the Maximum Import Capability process, as described in the memorandum dated October 27, 2021; and***
>
> ***Moved, that the ISO Board of Governors authorizes Management to make all necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed revisions, including any filings that implement the overarching initiative policy but contain discrete revisions to incorporate Commission guidance in any initial ruling on the proposed tariff amendment.***

DISCUSSION AND ANALYSIS

The ISO conducted a stakeholder process to solicit proposed enhancements to the maximum import capability process. The overwhelming majority of stakeholders supported the following enhancements: additional transparency improvements regarding ownership of maximum import capability allocations and their usage (after the allocation process ends); improving the CPUC policy portfolio by adding non-CPUC jurisdictional load serving entities' contractual data; allowing stakeholders to make maximum import capability expansion requests; improving step 13 of the allocation process by giving same day priority to an existing contract; and clarifications to the tariff and business process manual reflecting current practice.

Many other items were discussed during the stakeholder process, but these received divergent comments among stakeholder classes and also within the same class of stakeholders. As a result, Management does not propose to adopt any other process changes at this time. These items could be revisited in future years, especially if the proposed improvements do not yield the expected results.

Improved Transparency:

The ISO proposes to provide additional transparency by making data publically available through a web interface (or publishing) by first identifying the most-up-to-date owners of all maximum import capability allocations at the branch group level. This data will include: load serving entity name and ID; MW quantity of allocation by branch group; period (duration) of held allocations; MW quantity available for trade by branch group; and contact data (name, e-mail, phone number) for the load serving entities holding allocations. Second, the ISO will publish aggregate usage by branch group level after validation of each month ahead and year ahead resource adequacy showing. The aggregation will show three values: total overall resource adequacy showings for all ISO internal load serving entities; totals by each branch group; and their split by CPUC jurisdictional and non-CPUC jurisdictional load serving entities.

The proposed changes will facilitate transparency regarding ownership of maximum import capability allocations and their use in resource adequacy showings. The ISO believes this will increase all market participants' access to the trading of import capability and that in turn would result in more trades.

Inclusion of contractual data from non-CPUC jurisdictional load serving entities into the policy portfolio used for maximum import capability *expansion:*

The CPUC currently provides the ISO with policy portfolios to determine the transmission needs for policy driven transmission. These portfolios contain enough new resources to meet future needs of both CPUC as well as non-CPUC jurisdictional load serving entities. Because the portfolios are mainly driven by macroeconomic and renewable data to estimate future contractual development, they may not perfectly align with actual contracts signed by load serving entities, resulting in a disconnect between the portfolios studied in the transmission planning process and the resources procured under actual contracts.

This discrepancy is exacerbated for non-CPUC jurisdictional load serving entities because the CPUC does not have direct visibility into non-jurisdictional contractual arrangements and they are reluctant to make such data available directly to the CPUC.

Per non-CPUC jurisdictional requests, the ISO will facilitate a process to collect the relevant non-CPUC jurisdictional information and provide it to the CPUC to inform the CPUC's portfolios. The ISO will collect resource data from resource adequacy contracts that are not already publically available every year in the list of existing transmission contracts, transmission ownership rights, pre-resource adequacy import commitments and new use import commitments.

The ISO will continue to work with the CPUC and all the non-CPUC jurisdictional load serving entities in order to assure the CPUC receives the data in a useful format for its policy portfolio needs from those non-CPUC jurisdictional load serving entities willing to share. The agreed upon format needs to minimize the confidentiality concerns of all involved parties.

Maximum Import Capability expansion requests:

The ISO proposes to allow individual load serving entities and other stakeholders to request an increase in the maximum import capability at any given branch group to support resource adequacy import contracts.

In order to limit the amount of studies and queued requests seeking maximum import capability expansion, only requests by stakeholders with legitimate reasons and financial commitments towards serving ISO internal load will be considered.

The ISO will coordinate maximum import capability expansion requests with the policy portfolio assessments, which may result in expansion for all branch groups that do not have enough remaining import capability to cover the stakeholder requests along with the policy portfolio expansion requirements. To determine whether an expansion request can be accommodated, the ISO will conduct a deliverability study with the requested expansion. If the transmission system can accommodate the additional request, the ISO will expand the maximum import capability accordingly.

The request to study a potential maximum import capability increase does not convey the requestor any special rights to any potential expansion during market scheduling, market operation or during the annual allocation process. All expansions requests that can be accommodated will be allocated to ISO internal load serving entities based on the tariff approved methodology.

After the ISO completes its deliverability studies on the expansion requests, it will increase the available maximum import capability if and when deliverability is available. The same way internal generation can have "interim deliverability" status, import deliverability can be increased temporarily on certain branch groups before other higher queued resources become operational.

In addition, the ISO may evaluate whether to approve transmission system upgrades required to make these expansion requests deliverable. However, to approve any such transmission system upgrade, the ISO must determine it is either economic and/or required to meet other reliability or policy reasons as currently authorized by the ISO tariff. Maximum import capability expansion requests submitted by stakeholders, as a sole need, cannot justify new transmission expansion paid by all ratepayers.

If studies show that deliverability is not available, and the ISO does not find the required upgrade to be economic or otherwise needed for policy or reliability, then the expansion request for will be denied.

The ISO may further study a framework to submit requests for customer-paid transmission upgrades when maximum import capability expansion is denied. This future framework would also need to consider the rights conveyed to the paying customer related to the increase in transmission system capabilities to support transactions into and across the ISO.

Same day priority to existing resource adequacy contracts during step 13 of the Maximum Import Capability allocation process:

The proposed enhancements will give priority to load serving entities with existing resource adequacy contracts over all other stakeholder requests during step 13 (last step) of the allocation process for requests received during the same day. The priority relates only to the branch group where the existing resource adequacy contract is being scheduled.

If two or more load serving entities have resource adequacy contracts that exceed the amount left after step 12 on any given branch group, then the assignment will be split among the applicable contracts on a MWs available versus total MWs requested basis.

Tariff and Reliability Requirements Business Process Manual alignment of terms:

The ISO will update tariff and reliability requirements business process manual language to be consistent with current approved practice.

One example is language in section 40.4.6.2.2.2 that appears to limit bilateral maximum import capability transfers to full MW increments, when in fact all resource adequacy requirements, transactions and showings (including transfers) are done using two decimal places.

Another example is in the same section 40.4.6.2.2.2 of the tariff that suggest the ISO submits quarterly trading data directly to FERC when, in fact, trading data is publically posted for all stakeholders to see and use.

POSITIONS OF THE PARTIES

The ISO conducted a stakeholder process from March until October 2021, which included five rounds of papers, meetings and calls, and stakeholder comments.

There was robust stakeholder participation. After each round of stakeholder engagement the ISO received an average of about 10 sets of written comments. The proposal was directly driven by stakeholder requests and took into account input and preferences expressed by the majority of stakeholders.

At the end of the stakeholder process, the overwhelming majority of stakeholders expressed support (with caveats) for the initiative and its outcome.

Support with caveats – California Community Choice Association, California Department of Water Resources, California ISO Department of Market Monitoring, Pacific Gas & Electric, Six Cities as well as Southwestern Power Group, Pattern Energy and Valley Electric Association.

Imperial Irrigation District fundamentally opposes the existence of the maximum import capability for resource adequacy purposes, however with respect to the enhancements, they otherwise support the proposed improvements to the process. The total non-simultaneous operating transfer capability of all branch groups coming into the ISO is about 45,000 MW and the ISO control area cannot simultaneously import anywhere close to this amount. The simultaneous maximum import capability is somewhere around 15,800 MW and, as such, the ISO must account for this simultaneous limit during the resource adequacy process.

The majority of the caveats from supporting stakeholders concerned implementation details mostly related to maximum import capability expansion requests. The ISO is committed to working collectively during drafting of the tariff and business process manual language to further address their caveats. The ISO acknowledges that not all caveats may be addressed satisfactorily since some were conceptually opposed to each other.

CONCLUSION

Management requests Board approval of the maximum import capability enhancements initiative as described in this memorandum. It is critical that the ISO implement the provisions outlined in this proposal to facilitate additional transparency, improve the CPUC policy portfolio by including non-CPUC jurisdictional load serving entities' contracts, allow maximum import capability expansion requests, improve step 13 of the allocation process by providing same day priority to existing resource adequacy contracts and additional clarifications in the tariff and reliability requirements business process manual.