Memorandum

To: ISO Board of Governors

From: Neil Millar, Vice President of Transmission Planning and Infrastructure Development

Date: September 23, 2020

Re: **Decision on maximum import capability multi-year allocation proposal**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management proposes changes to the allocation of the maximum import capability (MIC) in order to facilitate multi-year contracting for resource specific import resource adequacy (RA) by California ISO load serving entities.

The proposed changes to the maximum import capability allocation process modify the import capability allocation methodology and provide a higher level of certainty for load serving entities to retain allocations at specific import paths (”branch groups”) for multiple years. The proposed changes also provide additional transparency to stakeholders about how the import capability is allocated.

These changes will allow a load serving entity to lock down up to 75% of its year ahead total maximum import capability allocation at the branch group level by demonstrating it has entered into multi-year applicable contracts. This would apply for the entire length of the contract, however if the individual load serving entity’s future total year ahead allocation falls below the previous year(s) total locked up amount, then the load serving entity will be limited to that future year ahead allocation.

This is one of two changes developed to improve the efficacy of the import capability allocation process managed by the ISO; the other change focused on providing greater consistency in setting year over year import capability limits and has already been implemented through changes to the appropriate business practice manual.

Management proposes the following motions:

> ***Moved, that the ISO Board of Governors approves the tariff revisions necessary to implement the proposal for the maximum import capability multi-year allocation proposal as described in the memorandum dated September 23, 2020; 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 reviewed its current processes to calculate the maximum import capability (MIC), and how it is assigned, to improve the opportunities for import capacity to be used for resource adequacy purposes. During the review process two main issues were identified: the need to stabilize the maximum import capability calculation – e.g. provide greater consistency in the total amount available year to year - and the need to provide multi-year allocations in order to facilitate new multi-year import RA contracts. In order to more practically enter into longer term import contracts, load serving entities need assurances not only that they will have sufficient import capability – which is a function of their load share – but also that they will retain sufficient capacity on the specific import path (or "branch group") that the imports would be relying on.

The calculation of maximum import capability was revised to draw on samples from five years of historical data instead of only the last two, providing overall higher and more stable year-to-year results, and has already been implemented through changes to the appropriate business practice manual.

Changing the current methodology for setting and allocating the MIC in order to support new long-term RA import contracts requires tariff changes. The ISO and stakeholders agree that the following elements are necessary and represent improvements to the current process: added transparency, changes to the import capability allocation methodology, and providing higher level of certainty for retention of MIC allocations at a certain branch group year over year.

<u>*Transparency:*</u>

The ISO will make public the information related to the load serving entity (LSE) holder, locked up amounts of maximum import capability, lock starting date, and lock expiration date, for each individual branch group.

Change to the import capability allocation methodology:

The change will introduce an intermediate calculation in the existing methodology in order to assure equitable treatment of LSEs taking into account pre-existing rights to transmission capacity that are not subject to the allocation process.

Single year maximum import capability allocation with multi-year lock at the branch group level:

The year ahead MIC allocation process that is in place today, to allocate at a branch group level, will not be modified. The changes would now allow, however, up to 75% of LSEs' year ahead total MIC allocation (as communicated by the ISO per step 7 of the import allocation process) to be locked up at the branch group level by demonstrating that multi-year applicable contracts have been signed by May 15th of the applicable RA year (coincident with July RA showings) and then communicating this to the ISO by submitting the required fill in template per dates specified in the Reliability Requirements Business Practice Manual. The import capability on the specific branch group would then be retained for the length of the contract; however if the individual LSEs future total year ahead allocation falls below the previous year(s) total locked up amount, then the LSE will be limited to that future year ahead allocation. LSEs will be required to provide the ISO with contract priorities and preferences of curtailment order before MIC allocations are given out for the next RA year. The total locked up amounts for each LSE represents the sum of all their existing transmission contracts (ETCs), transmission ownership rights (TORs), pre-resource adequacy import commitments and new applicable contracts.

Applicable RA contracts used for locking maximum import capability allocations to branch group:

The ISO would like to ensure that capacity built outside California to support ISO load will be available and accessible to California on the same basis as RA capacity in the ISO balancing area is available to the ISO. Therefore the ISO proposes that new contracts used to lock MIC allocations to branch groups should be associated with source-specified import resources (either resource specific or an aggregation of specific resources). This design is consistent with the proposed import RA rules and maintains alignment with RA enhancement must offer obligation rules.

The import capability would also only be locked for years within the RA contract term that the capacity rights span a minimum of 3 summer months (between June-September). For years when the contract drops below the minimum summer months requirement, the RA import allocations can still be received through the annual allocation process, however the LSE will not have a retained allocation or pre-assignment at the respective branch group level.

If the specific resource or the aggregation of specific resources have variable qualifying capacity values between months, then the month with the highest total qualifying capacity value by branch group will represent the locked amount. These values must be given to the ISO in the template that the LSEs will have to fill in around mid-June for the next RA year.

In order to avoid excessively high off-peak contracts that would lock MIC allocations over the entire year, each LSE's locked amount per branch group (scheduling point) is limited to 120% of the highest summer monthly value. Additional MWs of import capability may be obtained through the regular yearly allocation process, or through trading.

In order to maintain the lock on the branch group, the RA contract used for locking must be active in the next RA year and must be included in the year ahead template submitted to the ISO.

In order to ensure that each LSE has a chance of locking up MIC at any given branch group and that an LSE does not lock up capacity on a certain branch group indefinitely, the LSEs cannot replace the original contract used for locking MIC with a new contract or an extension of the same contract without going through the yearly MIC allocation first.

An extension of an old contract (pre-resource adequacy import commitment or new use) is treated as a new contract and must meet any new (future) tariff and business practice manual requirements in order to achieve a new lock based on its own merits.

Evergreen contracts are not allowed; the RA contracts must have specific end dates and must be communicated to the ISO.

Phased approach to implementation:

As a first step the ISO proposes to allow only contracts for pseudo-ties and resource specific dynamic scheduled resources to be relied upon to start locking multi-year import capability at the branch group level for RA year 2022. Currently only these resources have ISO master file data that proves they are resource specific and they are also allowed to count as import RA under CPUC decision D.19-11-016.

Later, potentially for RA year 2023 and beyond, other types of resource specific resources or aggregations thereof may be added through changes to the applicable business practice manual as long as they meet ISO tariff and revised business practice manual specifications.

POSITIONS OF THE PARTIES

The ISO conducted a stakeholder process from December 2019 to August 2020. The stakeholder process included five rounds of papers, meetings and calls, and stakeholder comments.

There was robust stakeholder participation. After each round of stakeholder engagement the ISO has received no fewer than 10 sets of written comments. The proposal was adapted to take into account input and preferences expressed by the majority of stakeholders.

The proposal is responsive to the majority of LSEs who would like to be able to lock MIC at the branch group level to enable multi-year contracts, while being simple and efficient to implement and being sufficiently flexible to manage load migration concerns, e.g. the formation of new LSEs and year ahead load migration. It provides a framework for LSEs to manage their risk by either staying further back from the 75% limit or their choice of first selling the extra contracts that may be surplus with load share ratio decreases, or second buying extra MIC allocations from other LSEs (if available).

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

Support with caveats – Pacific Gas and Electric (PG&E), Valley Electric Association (VEA), Six Cities, California Municipal Utilities Association (CMUA), (the ISO had also received support with caveats in earlier rounds of stakeholder discussions from California Department of Water Resources (CDWR), Northern California Power Agency (NCPA), Southwestern Power Group (SWPG), Brookfield Renewable and Direct Energy)

Neutral – Powerex, Sacramento Municipal Utility District (SMUD)

Oppose with caveats – Southern California Edison (SCE)

Oppose – California Public Utilities Commission (CPUC)

SCE's opposition was due to the CPUC not having made a decision yet on multi-year system RA requirements. While the ISO cannot remedy SCE's concern, Management points out that SCE and other LSEs have already entered into multi-year RA contracts without a CPUC requirement to do so.

CPUC staff supported the direction with caveats through the entire stakeholder engagement, but chose to oppose the final draft proposal because they are concerned with the type of eligible RA contracts that would be allowed to lock MIC on multi-year bases – "Staff requests that CAISO align the resources that can be used to lock MIC with the eligible resources identified in D.19-11-016, should it choose to move forward." In order to remedy the CPUC's concern, the ISO is moving forward with a phased approach. In the first phase only pseudo-ties and resource specific dynamic resources are allowed to lock MIC on a multi-year basis and these resources are also allowed under CPUC specified D.19-11-016.

As for the majority of the caveats from supporting stakeholders, they concerned the RA contracts allowed to lock MIC on multi-year bases. While for some the concerns are addressed by the introduction of the phased approach, for other stakeholders the ISO is committed to working collectively during drafting of the tariff and business practice manual language to further address their caveats. 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 multi-year allocation initiative as described in this memorandum. It is critical that the ISO implement the provisions outlined in this proposal to facilitate the addition of new resource specific RA import resources dedicated to the LSEs in the ISO control area. Currently there are about 5000 MW of dynamic resources and pseudo-ties that are already under new RA contracts or immediately available for multi-year contracting.