

# Comments on Maximum Import Capability Enhancements Straw Proposal

Department of Market Monitoring

May 27, 2021

## I. Summary

The ISO Department of Market Monitoring (DMM) appreciates the opportunity to comment on the Maximum Import Capability (MIC) Enhancements Straw Proposal.<sup>1</sup>

## II. Comments

***DMM asks that the ISO clarify whether external capacity can be used for substitution.***

The ISO states that load serving entities (LSEs) may hold MIC back for unit substitution to avoid resource adequacy availability incentive mechanism (RAAIM) penalties and cites this as a key reason for why it would be challenging to require LSEs to release unused MIC.<sup>2</sup> The ISO also reasons that RAAIM must be eliminated before considering a process to require LSEs to release unused MIC.

It is not clear to DMM whether scheduling coordinators (SCs) are allowed to use imports as substitute capacity and therefore it is unclear whether retaining excess MIC helps SCs mitigate exposure to RAAIM. The Reliability Requirements BPM Section 9.2.2.2 states “Only resources internal to ISO BAA (gen type) can be used as substitutes.” DMM also looked at RA showings from May 2019 to May 2021 and found that external capacity was not used for substitution in this timeframe.

However, the ISO tariff appears to allow substitution from external resources (Sections 40.9.3.6.4 and 40.9.3.6.5) under certain conditions. DMM asks that the ISO clarify whether external capacity can, in fact, be used for substitution so stakeholders can accurately assess to what extent holding MIC back for substitution may be a barrier to trading excess MIC.

***The ISO should consider enhancements that would increase the ability for entities to trade unused MIC.***

DMM has observed that there has been unused MIC on branch groups in months where MIC traded bilaterally at relatively high prices. Figure 1 shows unused MIC in August and September of 2019 and 2020 where there were non-zero bilateral prices reported in the month on the branch group. Unused MIC in Figure 1 is derived based on monthly resource adequacy supply plans. While DMM does not have insight into the demand for MIC on these paths or what capacity was offered for sale bilaterally, Figure 1 shows that MIC was traded bilaterally at

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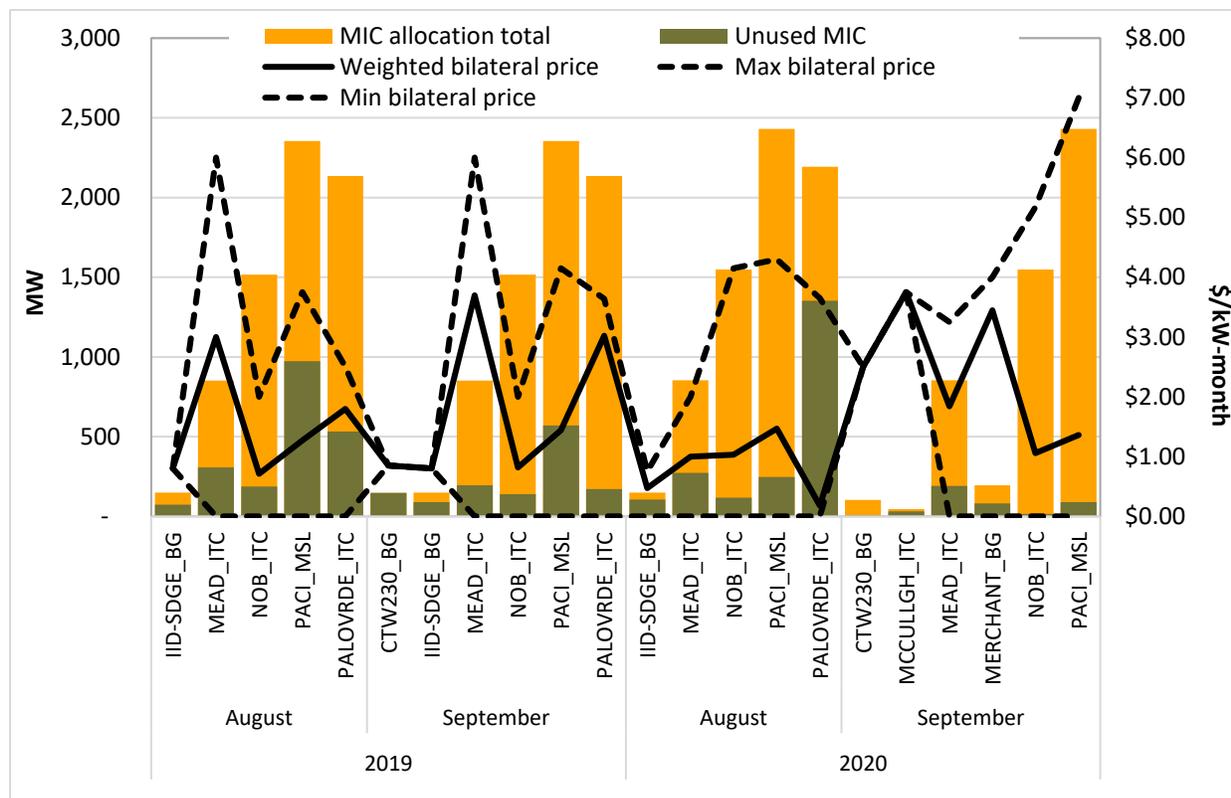
<sup>1</sup> *Maximum Import Capability Enhancements – Straw Proposal*, California ISO, May 6, 2021:

<http://www.caiso.com/InitiativeDocuments/StrawProposal-MaximumImportCapabilityEnhancements.pdf>

<sup>2</sup> *Ibid.*, p. 6.

relatively high prices on certain branch groups in months where there was also unused MIC capacity on the branch group.

**Figure 1: Branch groups with non-zero bilateral prices and unused MIC**



For example, in September 2020, MIC for the PACI\_MSL (Malin) branch group traded bilaterally at prices up to \$7.00/kW-month while there remained about 90 MW of unused MIC capacity. DMM does not have insight into how much MIC on Malin was, in fact, offered for sale bilaterally (and perhaps did not sell). However, about 10 MW of the unused MIC on Malin was held by 16 different entities with less than 5 MW of unused MIC each, many of which held less than 1 MW of unused MIC each.

If MIC sales are conducted through RFO-like solicitations today and sellers must actively seek counterparties, it may not be cost-effective for a single LSE to hold a solicitation to sell a small amount of MIC. However, the aggregate excess MIC across multiple LSEs with small positions could be valuable to an entity seeking to purchase MIC across a certain path. Additionally, the ISO tariff appears to limit bilateral MIC transfers to MW increments. The ISO tariff Section 40.4.6.2.2.2 states:

Any Load Serving Entity or other Market Participant that has obtained Existing Contract Import Capability, Pre-RA Import Commitment Capability, or Remaining Import Capability may assign, sell, or otherwise transfer such Existing Contract Import Capability, Pre-RA Import Commitment Capability, or Remaining Import Capability in MW increments.

DMM suggests that to better facilitate trading of excess MIC among entities, the ISO could consider developing a centralized platform for trading MIC. The ISO could also allow MIC to be traded in less than one MW increments. Lifting the MW increment restriction could be increasingly beneficial to facilitate more trading of MIC as load continues to disaggregate to smaller LSEs who receive smaller MIC allocations.

***DMM agrees with stakeholder suggestions that the ISO could consider incorporating actual or expected resource adequacy contracting in MIC calculations, to potentially maximize the amount of MIC allocated on branch groups that are utilized the most to support import resource adequacy.***

DMM has observed that MIC on some branch groups has not been used in the past two years to support import resource adequacy. In 2020, the total MIC on these unutilized branch groups was about 510 MW. Additionally, there are branch groups where less than 50 percent of MIC was used to support import resource adequacy throughout 2019 and 2020, amounting to about 700 MW of unused MIC. 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.

DMM agrees with stakeholder suggestions that there could be value in the ISO evaluating whether different assumptions about available MIC based on actual or expected import contracting could lead to more efficient MIC allocations. There could be benefits to understanding whether reducing MIC on under-utilized branch groups could free up additional capacity on more highly traded interties, or increase the deliverability of internal generation.