California ISO

Stakeholder Comments Template

Maximum Import Capability Stabilization and Multi-year Allocation

This template has been created for submission of stakeholder comments on the Maximum import capability stabilization and multi-year allocation revised straw proposal that was published on March 12, 2020. The paper, stakeholder meeting presentation, and other information related to this initiative may be found on the initiative webpage at: http://www.caiso.com/StakeholderProcesses/Maximum-import-capability-stabilization-multi-year-allocation.

Upon completion of this template, please submit it to regionaltransmission@caiso.com. Submissions are requested by close of business on **April 2, 2020**.

Submitted by	Organization	Date Submitted
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Please provide your organization's overall position on the Maximum Import Capability and Multi-year Allocation revised straw proposal:

☐ Support
☐ Support w/ caveats
☐ Oppose
☐ Oppose w/ caveats
☐ No position

As described below, SCE has different views on the two elements of the proposal. On the Maximum Import Capability (MIC) Stabilization element, SCE **supports with caveats** that viable alternatives must be explored in the meantime while a quick fix is being implemented (i.e., looking at the prior five years data instead of the prior two years data). On the Multi-year Allocation element, SCE **opposes with caveats** that the CAISO should implement multi-year allocation *after* a multi-year system RA requirement has been established by CPUC/LRAs to avoid potential complexities introduced by the proposal.

Please provide your organization's comments on the following issues and questions.

1. Maximum Import Capability Stabilization

SCE supports development of a methodology to stabilize the MIC values. SCE continues to believe that the MIC amount should be closely aligned with the physical capability of the grid (including the simultaneous import limit or SIL).

Although the CAISO's proposal would be marginally better than today (i.e., more stable results are achieved by extending the time window of evaluating historical schedules from the prior two years to the prior five years and subsequently selecting the two highest years among the five years) however, the proposal will not address the issue of declining MIC amounts over the past few years, and therefore the proposal will not lead to the maximum use of the underlying grid capability being utilized in meeting resource adequacy (RA) requirements. A methodology that derives MIC values based on the average historical schedules over four peak load hours (i.e., based on the four historical "snapshots") as proposed by the CAISO, will only ensure that the allocated MIC is deliverable but does not maximize the value of the physical capability of the grid in meeting RA. Such methodology can limit otherwise available RA capacity on a specific intertie when the MIC is scarce on that intertie. Such methodology, because of its reliance of historical values, may not be aligned with potential supply and grid conditions in the future, for example, when more imports may become necessary to meet the net load peak as more thermal units inside California are retired. In this case, while interties capacity may be available, the use of historical values will limit the amount of import capacity that could be utilized for RA without utilizing all of the intertie capacity available. For these reasons, SCE continues to emphasize that the MIC allocation should be based on and fully aligned with the physical capability of the grid.

In the response to the stakeholder comments, the CAISO clarified that: 1) the MIC allocated today is close or above the SIL, and 2) the CAISO believes the MIC allocation among interties based on historical schedules is appropriate, because if the historical schedule is higher on an intertie, "there is a much higher likelihood resources exist and are available for RA contracts"[1]. The CAISO has also stated a concern that solely relying on physical capability of interties in the MIC allocation can have detrimental effects to new internal resources inside the CAISO (connected close to the

[1] CAISO Response to Stakeholders Comments, at 2 & 26, available at http://www.caiso.com/InitiativeDocuments/ISOResponsestoComments-MaximumImportCapabilityStabilizationandMulti-YearAllocation-StrawProposal.pdf.

same nodes where imports are scheduled) and will negatively impact all CAISO ratepayers[2]. The CAISO stated that: "The CAISO is willing to explore viable alternatives through this on-going stakeholder process… Other viable alternatives may be discussed and explored for RA year 2022 implementation"[3].

SCE appreciates the clarifications offered by the CAISO. To resolve the issues above while maintaining the goal of maximizing the utilization of the physical capability of the grid, SCE requests the CAISO focus the remainder of this initiative on the development of viable alternatives. Specifically, the following items should be further explored:

1) When and if historical schedules are used to derive the MIC values, the MIC allocation process should consider exports, i.e., the MIC values should be the net import schedules plus expected exports.

2) The CAISO and stakeholders should explore an alternative approach that is based on the physical capability of the grid, i.e., the transfer capability of interties. LSEs can nominate or submit requests not exceeding the transfer capability of an intertie. To validate and grant the requested capacity, a simulation study can be performed if needed to ensure the granted capacity will not exceed the maximum import level of each intertie that is viable; the simulation should consider the viable, maximum import capability for each intertie (i.e., the MIC value for each intertie) by studying different scenarios under different grid and supply conditions. Under this alternative approach, the MIC will still be allocated based on LSEs' load share ratio.

3) Any other viable alternatives proposed by CAISO and stakeholder should also be considered.

The second and third items suggested above are especially important, given the likelihood that the MIC allocation today significantly limits potential RA capacity on particular interties, which is an issue that must be addressed as the supply condition is expected to get tighter and there is a higher need to address the net load peak through imports in coming years.

With regard to the CAISO concern that increased MIC may have detrimental impacts on the deliverability of resources internal to the CAISO but connected near the intertie, SCE requests that the CAISO further explain how MIC accounts for the deliverability tests that are performed for all resources internal to the CAISO to

[2] CAISO Proposal, at 17, available at http://www.caiso.com/InitiativeDocuments/RevisedStrawProposal-MaximumImportCapabilityStabilization-Multi-YearAllocation.pdf.
[3] CAISO Proposal, at 17.

establish the NQC of a resource. It is SCE's understanding that but for extraordinary circumstances, once a resource is deliverable, it will retain that deliverability for the life of the facility. It therefore seems counterintuitive that the MIC process could or should impinge upon the deliverability of any internal resource regardless of the methodology chosen.

Please provide your organization's feedback on the maximum import capability stabilization topic as described in section 4.1. Please explain your rationale and include examples if applicable.

2. Available Import Capability Multi-year Allocation Process

As mentioned in previous SCE comments[4], the existing requirements for RA imports are currently being revisited and it's unclear that a multi-year MIC allocation would incentivize multi-year RA contracts on interties prior to the requirements for RA imports being finalized. A method for multi-year MIC assignment must be closely aligned with the specifics of multi-year RA system and/or flexible RA requirements, which do not exist today. Without those specifics being available, allocating MIC multi-year forward can introduce inefficiencies and risk incorrect amounts being assigned to individual LSEs, whose load could constantly change from year to year. The topic of multi-year MIC allocation can and should be revisited upon further understanding of a multi-year forward requirement for system and flex.

Aside from the general comments offered above, SCE submits the following specific comments on the two options proposed by the CAISO.

- ***The CAISO should clarify the proposed resource-specificity requirement for RA Contracts used for locking MIC allocations***

The CAISO stated that the RA contracts used for locking MIC allocations to branch group for either option should be "associated only with either pseudo-tied resources, resource-specific dynamically scheduled system resource or other resource-specific system resource"[5]. SCE agrees, and believes that, as also implied in the CAISO

[4] SCE Comments on Straw Proposal, available at http://www.caiso.com/InitiativeDocuments/SCEComments-MaximumImportCapabilityStabilization-Multi-YearAllocation-StrawProposal.pdf.
[5] CAISO Proposal, at 20.

proposal[6], there should be a high level of commitment from an external resource in order to obtain multi-year forward MIC. The CAISO should clarify, what happens if the resource, after the multi-year forward MIC has been assigned to the resource, is no longer a pseudo-tie, dynamic schedule or "other resource-specific system resource". Would the multi-year MIC be forfeited and removed from the LSE that the MIC was assigned to? Would this occur during the annual year-ahead MIC allocation process, or would it occur at the time when the resource is no longer a resource-specific resource? The CAISO should also clarify what are "other resource-specific system resource" that are eligible to be considered for being assigned for multi-year MIC allocation.

- ***The proposed Alternative 2 is preferable than the proposed Alternative 1.***

Compared to Alternative 1, which leaves load migration issues unaddressed, Alternative 2 addresses the load migration issues under multi-year MIC allocation. In particular, under Alternative 2, "LSEs may lock up their multi-year allocations through RA contracts for an undetermined length of time, however if the individual LSEs year ahead allocation falls below the previous year(s) lock-up amount, then the LSE will be limited to the current year ahead allocation"[7]. As SCE understands it, the year-ahead allocation will continue to be based on load share ratio, which can change year to year. Under Alternative 2, the MIC allocation for each LSE will not exceed the load share ratio for that LSE as determined during the year-ahead allocation process. This is illustrated by the following example.

> A hypothetical example: suppose the MIC for an intertie is 100 MW, which does not change all three years out. The load share ratio was 30% for LSE A and 10% for LSE B during the three-year allocation process. The load share changes in the year-ahead allocation due to load migration, which is 20% for both LSE A and LSE B during the year-ahead allocation.
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> Consider a scenario where LSE A locked up 30MW MIC via RA contracts for 10 years. LSE A was allocated 30MW for all three years. However, because its load share ratio is only 20MW during the year-ahead allocation, LSE A receives a reduction of 10MW during the year-ahead allocation and the 30MW MIC allocated in the three-year allocation is revised to 20MW during the year-ahead allocation. This occurs regardless of the allocated amount for LSE B.
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> Consider another scenario, where the MIC of the intertie changes from 100MW during the three-year allocation process to 80MW during the year-ahead allocation process; same as the scenario above, LSE A's load share ratio changes from 30% to 20%, and LSE B's load share ratio changes from 10% to 20%, from the three-

[6] CAISO Proposal, at 20 "the CAISO should develop mechanisms that will ensure capacity built outside California to support CAISO load will be available and accessible".
[7] CAISO Proposal, at 20.

year allocation process to the year-ahead allocation process. Under this scenario, LSE A receives a further reduction and the highest amount allowed for the LSE A during the year-ahead process is 16 MW (i.e., 80MW * 20%). LSE A receives 14MW reduction and the 30MW MIC allocated in the three-year allocation is revised to 16MW during the year-ahead allocation. This occurs regardless of the allocated amount for LSE B.

SCE seeks confirmation of the understanding above. The CAISO should clarify that the year-ahead allocation will continue to be based on the current year's load share ratio under the proposal (e.g., if the year-ahead MIC allocation is for RA year 2021, then the load share ratio will be calculated based on the peak load forecast for RA year 2021; similarly, for RA year 2022, it will be based on the peak load forecast for RA year 2022, and so on so forth).

By solely relying on the year-ahead allocation process, the CAISO proposal appears insufficient in addressing the load migration issues as load migration can occur throughout the year. The proposed adjustment, which is to occur only during the year-ahead allocation process to ensure a multi-year MIC that was assigned to not exceed the load share ratio, should be conducted whenever a load migration occurs that isn't addressed in the prior year-ahead allocation process. I.e., the CAISO should not wait for the annual year-ahead allocation process to conduct this adjustment. The Proposal should also address, what happens if there is a load migration in other months except the peak load month (i.e., the load share ratio it uses in the multi-year MIC allocation does not change, but there is load migration during the year).

- ***There is a list of issues that must be addressed under Alternative 2.***

While the CAISO has described the concept of the proposed Alternative 2 in its proposal, many details are lacking to assess the viability of this option. Below, SCE offers a list of issues that should be addressed:

  - What are the granularity requirements for RA contracts in order to lock up MIC allocation multi-year ahead?
    - Does the RA capacity have to be contracted for all months in the year? Or only for summer months? Or by season? Does the RA capacity have to be contracted for each hour of the day? Or just availability assessment hours?
    - When the underlying contract is only for specific months, would the LSE be able to lock the MIC for those months? If this is the case, how will the load ratio share be calculated? I.e., should it be

based on annual peak load forecast or the peak load forecast for that specific month(s)?

- What are the requirements for the project online date for RA contracts in order to lock up MIC allocation multi-year ahead?
    - Given that it's multi-year ahead, does the CAISO require the resource under a contract to be operational at the time of locking up the MIC amount?
        - If the commercial online date is required at the time of the multi-year MIC assignment, then it is unclear how the proposal will incentivize and enable building new resources external to the CAISO to meet the obligation of an LSE inside the CAISO[8]. Developers and LSEs maynot be willing to risk stranding the resource and therefore may require that the import capacity be allocated prior to contract signing.
        - If this is not required, then what are the mechanisms for the CAISO to monitor and track the progress of the resource in achieving commercial operation toward the year for which MIC has been granted? If an attestation is required under the proposal in order to receive multi-year MIC values for new resources, how will the CAISO ensure the attestation requirement by itself is sufficient and what happens if the project is not operational at an agreed-upon date?
    - What happens if an entity "locks up" a long term contract, receives import rights, and then ends up having to terminate the contract (either by force, or by choice or other reasons). To the extent the contract is terminated by choice, would this be considered as gaming the system? If so, what are appropriate rules to address the situation?

Please provide your organization's feedback on the available import capability multi-year allocation process topic as described in section 4.2. Please explain your rationale and include examples if applicable.

[8] The CAISO Proposal, at 6.

Additional comments

SCE does not have additional comments at this time. SCE may submit further comments later once more information becomes available.

Please offer any other feedback your organization would like to provide on the Maximum import capability stabilization and multi-year allocation revised straw proposal.