Comments of Powerex Corp. on
Maximum Import Capability Stabilization and Multi-Year Allocation Issue Paper

Submitted by	**Company**	**Date Submitted**
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Powerex supports the CAISO's decision to commence a stakeholder proceeding focused on the Maximum Import Capability ("MIC") allocation process. The MIC allocation process is a core component of the Resource Adequacy ("RA") framework that directly affects the ability of California load-serving entities ("LSE") to enter into contracts with external suppliers to meet RA requirements. To the extent that an LSE is unable to obtain sufficient import capability to support the import RA contracts that it wishes to enter into, the result will be that the LSE will be left trying to meet RA requirements using internal resources that may be less cost effective than contracts with external suppliers. In light of tightening grid conditions across the west and within the CAISO grid, access to import capability is critical to ensuring that LSEs are able to access all of the capacity that they are likely to require.

Powerex is concerned that the Issue Paper fails to address the most pressing shortcoming of the existing MIC allocation framework: ***the current MIC allocation method is functioning in a manner that creates unnecessary barriers to California LSEs entering into RA contracts with external suppliers, even where there is ample unused import capability available to support these contracts***. As Powerex has explained in detail in comments submitted in other CAISO stakeholder proceedings,[1] the existing inefficient MIC allocation framework directly prevents import Resource Adequacy contracts by allocating the majority of intertie capability to the largest California LSEs, who have no obligation to use this capacity or release it to other parties. The result is that unused capacity is effectively "stranded" and unavailable to support RA commitments with other smaller LSEs and external suppliers, unless the LSE holding the intertie capability voluntarily elects to sell this capability to another market participant.

Powerex believes that waiting to address the inefficiencies of the existing MIC allocation framework while CAISO pursues more limited enhancements may mean that California LSEs miss the opportunity to secure long-term commitments of capacity and flexibility from the most efficient and cost-effective resources available, as a greater portion of the capacity and flexibility in external markets is committed on a long-term basis to serve the needs of other regions. In fact, extending the current MIC allocation approach to multiple years is likely to have the effect of worsening this problem unless other improvements are implemented in tandem.

Powerex emphasizes that it supports the core objective of the MIC allocation process: to ensure that the quantity of import RA at a given intertie does not exceed the quantity of energy that can be delivered on that intertie. Powerex also agrees with the principle that the entities that fund the costs associated with intertie facilities should receive the benefits of those investments. But achieving these benefits does not require a structure that results in large quantities of intertie capability being effectively stranded to the detriment of California LSEs, suppliers, and, ultimately,

[1] *See, e.g.,* Comments of Powerex Corp. on RA Enhancements Straw Proposal – Part 2 (submitted Mar. 20, 2019), *available at:* http://www.caiso.com/Documents/PowerexComments-ResourceAdequacyEnhancements-StrawProposalPart2.pdf.

California ratepayers. To the contrary, Powerex believes that there are numerous frameworks that could be implemented that would eliminate the shortcomings of the existing MIC framework. Powerex believes that CAISO should consider several guiding principles when designing an appropriate approach to the allocation of import capability:

1) The allocation of import capability should never impede the execution of an RA contract unless the intertie is already fully utilized to support existing RA contracts;

2) Import capability should only be allocated to LSEs upon demonstration of having secured a pending RA contract with an external supplier; and

3) Preference should be given to LSEs seeking to enter into longer-term RA transactions.

Powerex believes that CAISO should use this proceeding as an opportunity to implement a new, multi-year allocation approach that can enable California LSEs to more effectively secure long-term commitments of RA capacity and flexibility from the most efficient and cost-effective resources available. This critical improvement has the potential to provide California LSEs with the import capability necessary to enter into the types of longer-term commitments that are being used by non-California LSEs that are seeking to address their own capacity and flexibility challenges associated with the retirement of fossil fueled resources and the continued growth of renewables across the west.

One approach that would be consistent with the goals of the MIC allocation framework and the additional principles set out above would be to create “request windows” corresponding to various contractual lengths (*e.g.*, 10 years, 5 years, 1 year) during which all LSEs would be given an opportunity to demonstrate that they had entered into a pending forward RA contract at a given intertie. For instance, CAISO could start by opening a window for contracts of 10 years or more, and any entity with an executed, pending RA contract would be able to request an allocation of import capability. If the contracts shown during a window did not fully utilize the capability available on an intertie, then CAISO would open windows for RA contracts shorter in duration (e.g., 5 years, 3 years, 1 year) until the applicable intertie was fully utilized with RA contracts. Only once the requested import capability exceeds the import limit at an applicable intertie would a load-ratio share be used to determine which requests would be granted, and which would be rejected. In this manner, the load ratio share allocation would be applied only once - when an intertie is fully utilized with actual RA contracts.

This type of framework would achieve the key objectives of ensuring that the RA contracts at an intertie do not exceed the physical constraints of the grid while maximizing the availability of import capability to support effective and efficient RA procurement. Powerex looks forward to working with CAISO and with other stakeholders to more fully develop such a framework, and to explore other potential approaches that can also meet these objectives.

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