

**Comments of Powerex Corp. on
Maximum Import Capability Enhancements Issue Paper**

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Powerex appreciates the opportunity to comment on the Maximum Import Capability (“IC”) Enhancements Issue Paper. Powerex has long advocated for the need to modify the IC framework to avoid inefficiently restricting the ability of external resources to compete to supply RA to meet California’s needs.

Powerex believes, however, that it would be a serious mistake to move forward with a stakeholder proceeding focused solely on the IC at this time. In particular, Powerex believes that tightening conditions throughout the west have created a pressing need for a holistic reevaluation of the existing framework for making transmission service available over the CAISO grid. As California and Southwest load-serving entities (“LSE”) seek to retire their existing fossil-fuel resources, the ability to acquire the excess capacity and flexibility of Northwest suppliers is becoming increasingly important to the ability of balancing authority areas (“BAA”) in both regions to efficiently and reliably operate their systems. However, certain stakeholders appear to be urging the CAISO to use its control over transmission facilities to elevate the reliability interests of LSEs in the CAISO BAA over other Southwest LSEs by making wheel-through schedules subordinate to schedules that sink in the CAISO BAA.

Powerex believes that the call for CAISO to use its control over transmission to favor the economic or reliability interests of any particular group of market participants is highly problematic and inconsistent with basic open access principles. Non-discriminatory, open access to the transmission grid is a foundational principle of wholesale market design and a prerequisite to the existence of competitive markets. Outside of California, non-discriminatory access to transmission is ensured through the open access transmission tariff (“OATT”) framework, which establishes a competitive and orderly process for reserving and awarding transmission service on a forward basis. Because the CAISO markets do not currently have a framework for reserving forward physical transmission rights, CAISO has relied on price-based competition through the CAISO day-ahead and real-time markets as its mechanism for achieving competitive and non-discriminatory access to its grid. However, it is now clear that the tightening grid conditions in the west have created a need for a new forward open access framework that determines, on a forward basis, which entities will have priority rights to use the CAISO grid during critical conditions.

The MIC Issue Paper appears to suggest that the current MIC framework could be used to provide such forward transmission access. There are a number of problems with pursuing this approach:

- First, these statements are fundamentally inconsistent with CAISO’s longstanding recognition that the IC allocation framework is merely a counting mechanism designed to ensure that the quantity of import RA commitments at a given intertie do not exceed the physical capability of the grid. As the CAISO has recognized, the IC allocation framework was never intended to “affect physical transmission capability of the CAISO-controlled grid, transmission rights, or the manner in which transmission service is obtained under the CAISO Tariff.”¹
- Second, and most importantly, the MIC allocation framework is inherently discriminatory, enabling CAISO LSEs priority access ahead of other market participants’ opportunity to acquire MIC.
- Third, the MIC allocation framework does not confer the congestion value of the respective import transmission path (*i.e.*, congestion revenue rights (“CRR”)), and hence does not include a core component of all physical transmission rights.
- Fourth, IC is allocated at no cost, and hence there is no ability for entities that are seeking to pay their fair share of funding the CAISO transmission system to receive all of the attributes of transmission service in exchange for doing so.

Powerex believes that CAISO must take steps to establish a competitive and non-discriminatory framework for reserving forward physical transmission on the CAISO grid. Accomplishing this objective will require establishing a new framework that allows all market participants—including imports, exports, and wheel-through schedules—to compete on a level playing field to obtain the right to use the capacity of the CAISO-controlled grid. It will also require revisiting aspects of the CAISO market design, such as the existing CRR allocation and auction process, which gives California LSEs preferential access to financial transmission rights necessary to hedge exposure to congestion charges associated with physical deliveries over the CAISO grid.

As a starting point for moving towards a physical transmission framework, Powerex believes that CAISO should work with stakeholders to agree on a set of principles that can guide the effort to design a competitive, non-discriminatory physical transmission framework. Among other things, these principles should include:

- ***All market participants should be given an equal opportunity to secure the right to utilize the CAISO-controlled grid.***

¹ *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,164 at P 5 (2007)

- ***Transmission capacity should be allocated based on objective, non-discriminatory criteria and principles (e.g., first-come, first-served, duration, or through an auction process).***
- ***The process of allocating and using transmission rights on the CAISO grid should not undermine the OATT priority of adjacent transmission providers.***
- ***Wheel-through schedules on this service should have the same curtailment priority as native load service in the CAISO BAA in all circumstances.***
- ***To the extent physical constraints require curtailment of schedules, curtailments should be implemented pro rata.***

Each of these principles is consistent with longstanding open access principles established by the Federal Energy Regulatory Commission and relied upon by other transmission providers throughout the west to ensure that transmission capacity is made available on a non-discriminatory basis and in a manner that supports competitive short-term and long-term markets for energy and capacity. Powerex encourages the CAISO to allow these same principles to guide CAISO's efforts to establish a forward physical transmission framework.