



Memorandum

To: ISO Board of Governors and the EIM Governing Body

From: Anna McKenna, Vice President of Market Policy and Performance

Date: January 14, 2022

Re: Decision on Transmission Service and Market Scheduling Priorities

This memorandum requires Board of Governors and EIM Governing Body action.

EXECUTIVE SUMMARY

Last year, the ISO developed and implemented interim provisions that establish wheeling through self-schedule priorities as part of the ISO's market enhancements for summer 2021 initiative. The interim provisions are set to expire on June 1, 2022. Management proposes to extend the interim tariff provisions approved last year through May 31, 2024.¹

Extending these provisions will provide market participants with certainty regarding the rules for scheduling wheeling through transactions while the ISO works with stakeholders to develop a long term approach for entities to reserve available ISO transmission for wheeling transactions. The interim wheeling through provisions are a balanced approach that reasonably ensures ISO transmission is available to serve ISO load while providing external entities continued access to ISO transmission for wheeling through transactions. Management also proposes to make one change to tariff provisions regarding the resources that can back high-priority non-recallable exports. The ISO also developed the high-priority non-recallable export tariff provisions as part of the ISO's market enhancements for summer 2021 initiative.

Finally, based on stakeholder input received during the transmission service and market scheduling priorities initiative, the ISO is making certain data availability and system enhancements to provide increased transparency regarding information related to intertie transactions. These enhancements do not require tariff changes.

Management is presenting these proposed changes to the EIM Governing Body in its Advisory role, and to the ISO Board requesting its approval, at the January 20, 2022 joint meeting.

¹ Wheeling through schedules are schedules for energy flowing into and out of the ISO balancing authority area transmission system to serve load outside the ISO. Market participants submit wheeling through transactions to the ISO market as paired imports and exports as price-taker bids or economic bids. The market schedules both the import and export leg for the same amount.

In exercising its Advisory Role, Management proposes the following motion for the Governing Body:

Moved, that the EIM Governing Body advises the ISO Board of Governors, as discussed in today's, January 20, 2022 joint general session meeting, that it [supports/opposes/takes no position] on Management's transmission services and market scheduling priorities proposal.

Management further recommends the following Board motion:

Moved, that the ISO Board of Governors approves extending the currently effective, interim wheeling through self-schedule tariff provisions and to make other tariff changes as described in the memorandum dated January 14, 2022; 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 proposal described in the memorandum, 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.

BACKGROUND

Last year the ISO conducted an expedited policy initiative - market enhancements for summer 2021 – in which it developed several market enhancements in anticipation of challenging system conditions during summer 2021. The enhancements included establishing scheduling priorities in the ISO's day-ahead and real-time markets for wheeling through transactions and a post-HASP process to allocate transmission capacity between wheeling through self-schedules and ISO load when conditions are stressed. The ISO Board approved these interim measures to be effective on July 1, 2021, and FERC subsequently approved them. The ISO ultimately implemented the interim measures on August 4, 2021, and they will expire on June 1, 2022.

The interim wheeling approach establishes different scheduling priorities in the ISO's day-ahead and real-time market for two categories of wheeling through transactions— priority wheeling through transactions and non-priority wheeling through transactions.² If the

² Under the interim tariff provisions, a Priority Wheeling Through transaction is a "Self-Schedule that is part of a Wheeling Through transaction consistent with Section 30.5.4 that is supported by (1) a firm power supply contract to serve an external Load Serving Entity's load throughout the calendar month and (2) monthly firm transmission the external Load Serving Entity has procured under applicable open access tariffs, or comparable transmission tariffs, for Hours Ending 07:00 through 22:00, Monday through Saturday excluding

market exhausts economic bids, the market optimization may have to adjust self-schedules based on the scheduling priorities in the tariff to balance available supply and demand. Scheduling priorities are of consequence when the market cannot find a feasible solution. This occurs when there is insufficient supply to meet overall demand on the ISO grid, including exports, or when imports and self-scheduled (price-taker) wheeling transactions compete for transmission capacity. The adjustment process can, among other things, reduce imports, exports, wheels, and demand bids. The interim approach established that in such circumstances, priority wheeling through transactions have the same priority as ISO load and non-priority wheeling through transactions have a lower priority.

The scheduling coordinator for a priority wheeling through must notify the ISO that it meets the eligibility requirements for priority transaction 45 days prior to the applicable month. This aligns with the deadline for ISO load serving entities to make their monthly resource adequacy showings. The priority wheeling through requirements demonstrate an external entity depends on and is committed to using the ISO transmission to serve its load similar to ISO load serving entities.

Finally, the interim approach provides that when the transmission system is constrained and priority wheeling through transactions are competing with other schedules (*e.g.* imports), the ISO will conduct a real-time market schedule adjustment process (the post-HASP process) to allocate transmission capacity pro rata between priority wheeling through transactions and transactions serving ISO load.

Among other enhancements, the market enhancements for summer 2021 stakeholder initiative also produced several rule changes regarding the designation of non-resource adequacy capacity backing high-priority non-recallable exports from the ISO balancing authority area. These high-priority, non-recallable exports have the same priority as transactions serving ISO load in the ISO market. These changes better ensure capacity sold to ISO load serving entities does not back high-priority, non-recallable exports. The new rules also ensure designated capacity backing high-priority, non-recallable exports is available and physically capable of sustaining the export in real-time so the ISO does not have to support the export using its resource adequacy capacity. These rules do not expire on June 1, 2022.

PROPOSAL

The following describes Management's proposed tariff changes and data availability enhancements:

NERC holidays, from the source to a CAISO Scheduling Point." All other Wheeling Through Self-Schedules are non-Priority Wheeling Through transactions.

Interim Wheeling Through Tariff Provisions Extension

Management is working with stakeholders as part of its transmission service and market scheduling priorities initiative to develop a long-term approach for accommodating wheeling through transactions. The ISO intended that the interim measures would allow time to develop a more robust, long-term process for external entities to obtain transmission reservations for wheeling through transactions.

Although work on a long-term framework is progressing, it is clear that the ISO and stakeholders cannot design and implement a long-term approach by June 1, 2022, when the existing interim wheeling through provisions expire. Management thus proposes to extend the interim wheeling through tariff provisions through May 31, 2024. This will allow additional time to develop and implement a long-term approach.

As part of its transmission service and market scheduling priorities initiative to develop the long-term transmission reservation process, the ISO is benchmarking the practices of the other balancing authority areas in the west and examining the practices of other independent system operators and regional transmission organizations. In addition, the ISO is taking a collaborative approach with stakeholders to develop the long-term approach, using stakeholder “working groups” to help develop the approach. The first working group, focused on calculating native load needs and deriving transmission capacity that may be available for wheeling through transactions, commenced in November 2022. Other working groups launched in January 2022. These working groups are focused on identifying potential transmission reservation products and potential processes for assessing transmission reservation requests. They also will examine processes for incorporating transmission reservation requests for wheeling through transactions into the ISO’s transmission planning process.

Extending the existing interim wheeling through provisions will allow this stakeholder process to continue. In the meantime, it will continue the interim provisions’ balanced approach that help ensure ISO transmission is available to serve ISO load while providing external entities continued access to ISO transmission for wheeling through transactions to serve load outside the ISO balancing authority area.

Although, the ISO and stakeholders examined potential modifications to the interim provisions as part of the transmission service and market scheduling priorities initiative, Management concluded that implementing any significant modifications to the current approach would divert ISO and stakeholder efforts from the long-term approach and potentially delay it. Also, Management concluded extending the interim approach without modification provides certainty about the near-term rules for wheeling through transactions that will minimize disruptions to energy procurement planning and contracting activities.

Other Tariff Revisions

In addition to extending the interim wheeling through provisions, Management also proposes to revise other tariff provisions resulting from the market enhancements for summer 2021 initiative, that do not expire on June 1, 2022.

The first change is to tariff provisions regarding the resources backing high-priority, non-recallable exports. These provisions specify that a resource can only be designated to support a high-priority, non-recallable export if the resource is expected to have sufficient available capacity to support the export quantity throughout the entire hour. For variable energy resources, this assessment is based on the resource's forecast at the time of bid submission.

Because scheduling coordinators can submit real-time bids immediately after the day-ahead market closes, this creates a risk that the forecast may overstate the capacity of the resource that will be available to support the resource in real-time. The original forecast may no longer be accurate, and a more recent forecast may show that the resource is incapable of supporting the export for the entire hour. The ISO proposes to revise the tariff to clarify that the available capacity of a variable energy resource will be determined based on the resource's most recent forecast at the time bids are due for the applicable hour of the real-time market. This sets the expectation that if the forecast changes, a scheduling coordinator for a high priority, non-recallable export should update its bid accordingly.

Data Availability and System Enhancements

Finally, in response to stakeholder requests, Management is planning several data availability and system enhancements regarding intertie transactions.

To increase transparency and help inform market participant decisions, Management plans to post on the ISO website additional data relevant to wheeling through and export transactions. This additional data will benefit market participants by providing additional information regarding conditions on the ISO system affecting these transactions. Among other uses, this information will help market participants assess the risk of intertie schedule curtailment. The ISO has already made some of the data requested by stakeholders available on its website.

Management is also planning system enhancements to enable scheduling coordinators for non-resource adequacy resources backing high-priority, non-recallable exports to view the amount of a resource's non-resource adequacy capacity. This will help facilitate the submission of more accurate high priority export schedules. The system enhancements will also notify all scheduling coordinators submitting high-priority, non-recallable export schedules if the schedules exceed the supporting resource's non-resource adequacy capacity.

STAKEHOLDER POSITIONS

Stakeholders largely either support or do not oppose extending the interim wheeling through tariff provisions. Although some stakeholders would prefer modifications to the interim provisions or maintain their original objections to them, there is general stakeholder consensus that extending the existing provisions is desirable because it will allow the ISO and stakeholders to focus on the long-term approach and provide certainty regarding the rules in the meantime.

Stakeholders generally support the tariff revision to clarify that the most recent applicable forecast must be used for a variable energy resource supporting a high-priority non-recallable export. Some stakeholders would prefer the ISO go even further and curtail a high-priority non-recallable export during the operating hour if the supporting resource is under-producing under stressed conditions or otherwise exceeds the backing resources non-resource adequacy capacity. Management does not believe curtailments under these conditions during the operating hour after hourly schedules are set is consistent with the prevailing practice across the west, which is to continue supporting exports' schedules for the hour, even in stressed system conditions. This practice is in place to avoid adversely affecting the reliability conditions of the receiving balancing authority area. The ISO carries contingency reserves to cover generation that becomes unavailable in real-time, and the ISO would curtail high priority recallable exports on a pro-rata basis with load when there is a risk of shedding load regardless of the production level of the identified supporting resource.

A stakeholder objected to sun-setting the extended interim tariff provisions on June 1, 2024, expressing the concern it would leave ISO load unprotected. Management never intended the interim wheeling through tariff revisions to extend as a long-term solution, and most stakeholders do not support them as long-term measures. Under these circumstances, the proposed sunset date is appropriate and it echoes the ISO's commitment to prioritize moving to a long-term solution.

CONCLUSION

Management requests the EIM Governing Body, in its advisory role, recommend ISO Board of Governors approval, and the Board approve Management's interim wheeling through self-schedule tariff provisions and other tariff changes described in this memorandum. Extending the interim provisions will provide certainty to the rules as the ISO works with stakeholders to develop a long-term approach. The other tariff changes will improve the rules for high-priority non-recallable exports and clean-up other provisions.