

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

Order Instituting Rulemaking to Oversee the Resource Adequacy Program, Consider Program Reforms and Refinements, and Establish Forward Resource Adequacy Procurement Obligations.

Rulemaking 21-10-002
(Filed October 7, 2021)

**NOTICE OF THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR
CORPORATION OF EX PARTE MEETING**

Pursuant to Rule 8.4 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, the California Independent System Operator Corporation (CAISO) hereby provides notice of oral ex parte communication in the above captioned proceeding.

This filing provides a summary of the CAISO's March 30, 2023 ex parte discussion with Jaime Gannon, Energy Advisor to President Alice Reynolds. The meeting occurred from approximately 11:30 A.M. to 12:00 P.M. via WebEx. Mark Rothleder, Senior Vice President and Chief Operating Officer; Anna McKenna, Vice President, Market Design and Analysis; Partha Malvadkar, Principal, Resource Adequacy; Cristy Sanada, Manager, California Regulatory Affairs; and Marissa Nava, Counsel, participated on behalf of the CAISO.

The CAISO expressed appreciation for the significant steps the Commission has taken since 2020 to advance new resource procurement in California as well as the Commission's efforts to evolve the resource adequacy framework to evaluate the energy sufficiency of the resource adequacy fleet. The CAISO stressed that in the resource adequacy program, it is critical the Commission establish a planning reserve margin (PRM) and procurement requirements that: (1) align with the procurement requirements established in the Integrated Resource Planning (IRP) proceeding; and (2) meet at least a 1 in 10 loss of load expectation (LOLE) target. The CAISO pointed to a 1 in 10 LOLE as an industry-accepted measure of supply sufficiency and performance. A 1 in 10 LOLE targets sufficient supply to avoid a state of potential load shed including avoiding reliance on "emergency measures" that indicate the risk of potential load shed. The CAISO encouraged the Commission to adopt performance targets to avoid reaching emergency states that can lead to potential loss of load. Specifically, the Commission should

ensure both IRP portfolios and procurement requirements established in the resource adequacy program meet the adopted common performance target.

The CAISO recommended the Commission ground the process to set the PRM in an LOLE study and use resource counting rules to inform the process. The CAISO explained that counting rules directly affect the PRM. If counting rules over-estimate the amount of energy resources that can be delivered when the grid is the most stressed, then a higher PRM will be required to meet a 1 in 10 LOLE target. The CAISO noted that the March 3, 2023 *Proposed Decision on Phase 2 of the Resource Adequacy Reform Track* (PD) proposed counting rules for wind and solar under the Slice of Day framework that appear more generous than counting rules established in recent years, which could be problematic. More generous counting approaches necessitate higher PRM levels to maintain a 1 in 10 LOLE, but it is possible that the Commission might not adjust the PRM for other reasons, which would result in failing to account for risk that resources cannot deliver up to counting values in critical hours. Ultimately, it might be difficult for the Commission to calibrate further adjustments to the PRM to account for the relationship between PRM and counting values. The CAISO stressed that the Commission should not forego or potentially undermine meeting a 1 in 10 LOLE target in the resource adequacy program to achieve a specific PRM outcome. The CAISO encouraged the Commission to ensure resource adequacy requirements meet a 1 in 10 LOLE based on the adopted counting rules. The CAISO further explained that more conservative counting approaches can better ensure the resource adequacy fleet will meet reliability targets in the event the Commission faces challenges adjusting PRM levels.

The CAISO also recommended the Commission provide clear direction on the process to set the PRM under the Slice of Day framework before the test year. This process should include: (1) identifying the resource portfolio that meets a 1 in 10 LOLE from the results of an LOLE study; (2) translating the portfolio to Slice of Day counting rules; and (3) establishing PRM levels that ensure resource adequacy requirements meet at least a 1 in 10 LOLE target. The CAISO suggested the Commission direct additional workshops with comment opportunities to establish and test the process to set the PRM under the Slice of Day framework before the test year. The CAISO also recommended the Commission re-evaluate whether a single annual PRM approach can meet a 1 in 10 LOLE target, given shortcomings of this approach identified in

workshops last year and concerns that a single annual PRM approach will not best support a 1 in 10 LOLE.

Additionally, the CAISO explained the Commission should discontinue the use of “effective” PRMs. Use of “effective” PRMs negatively affects the CAISO’s ability to ensure reliability because resources used to meet an “effective” PRM are not subject to certain resource adequacy rules designed to promote reliability. Use of “effective” PRMs can also hinder the CAISO’s ability to use its backstop procurement mechanisms because the CAISO cannot use backstop procurement to cure “effective” PRM deficiencies.

The CAISO provided a couple of clarifications regarding Qualifying Capacity (QC) values. First, the CAISO clarified the relevance of QC values for local capacity assessments. The CAISO explained that it dispatches resource adequacy resources in its local capacity assessments rather than simply adding up shown Net Qualifying Capacity (NQC) to determine whether shown resources meet local requirements. Second, the CAISO clarified how it would use the single, non-zero QC values the Commission provides to the CAISO. The CAISO uses QC values to determine NQC values, which establish how much of a resource entities can show to the CAISO as resource adequacy. Shown NQC values are then used in various CAISO processes including system resource adequacy assessments, establishing must offer obligations, outage substitution requirements, and setting the Maximum Import Capability required to support resource-specific resource adequacy imports.

Finally, the CAISO explained that the PD’s proposal to derive QC values for solar and wind resources for CAISO processes will result in significantly higher QC values for wind and solar than effective load carrying capacity values today. The CAISO expressed concern that this approach could result in solar and wind resources counting significantly more towards CAISO system peak requirements than in peak hours at the Commission. In turn, this could result in load serving entities meeting system requirements at the CAISO but not passing compliance at the Commission in peak hours. The CAISO explained its main concern with the proposed QC approach is whether the QC values provided to the CAISO will appropriately align with the Commission’s PRM level. The CAISO discussed potential QC values that could support better alignment between the Commission and the CAISO compliance evaluations in the peak hour and better align with the Commission’s PRM, while still meeting CAISO’s system requirements to have non-zero QC values. The CAISO suggested the Commission could provide the CAISO QC

values from the peak hour, or a small de minimis value if the peak-hour QC value is zero, instead of the average of hourly QC values across the CAISO's Availability Assessment Hours.

Respectfully submitted

By: /s/ Marissa Nava

Roger E. Collanton

General Counsel

Anthony Ivancovich

Deputy General Counsel

Marissa Nava

Counsel

California Independent System

Operator Corporation

250 Outcropping Way

Folsom, CA 95630

Tel: 916-963-0521

Fax: 916-608-7222

Email: mnava@caiso.com

Attorneys for the California Independent
System Operator Corporation

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