

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

Order Instituting Rulemaking to Establish
Policies and Cost Recovery Mechanisms for
Generation Procurement and Renewable
Resource Development

R.01-10-024

**CALIFORNIA INDEPENDENT SYSTEM OPERATOR'S
NOTICE OF EX PARTE COMMUNICATION**

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Dated: September 11, 2003

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In accordance with Rule 1.4, the California Independent System Operator ("CA ISO") hereby provides its notice of ex parte communication relating to a September 9, 2003 meeting with President Peevey in which matters at issue in this proceeding were discussed. The meeting took place at 11:00 AM on September 9, 2003, at the California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, California, 94102. The meeting was granted at the request of the CA ISO. The CA ISO persons to attend the meeting were Terry Winter, Robin Smutny-Jones, Phil Pettingil, and Anjali Sheffrin. CPUC personnel who attended the meeting were President Peevey, Barbara Hale, Julie Fitch, Jim Hendry, Kerry Hattevik, and Bill Ahern. The meeting lasted approximately one hour.

Most of the time (45 minutes) was spent discussing resource adequacy and the procurement proceeding. CA ISO personnel handed out a three page document which is attached entitled "California ISO Perspectives and Discussion Paper -- Resource Adequacy Obligation". Terry Winter and CA ISO staff expressed concerns about the

direction of resource adequacy policy in California. Principally, CA ISO personnel stressed that it is extremely risky to approve plans that allow the investor-owned utilities to rely heavily on spot market purchases going forward.

CA ISO personnel recommended that load serving entities be required to demonstrate one month ahead of real time that they have locked up sufficient "firm capacity" to meet their needs. CA ISO personnel stressed the distinction between short term and spot capacity purchases and spot energy purchases and clarified that its concerns relate to capacity purchases. CA ISO personnel noted that if sufficient capacity is procured in forward markets, the CA ISO would support affording the utilities wide discretion to enter into spot energy purchases. CA ISO personnel discussed in detail the points listed in the attached document. CA ISO personnel stressed that it is important to develop ex ante procurement rules that will provide incentives to the utilities to forward contract for capacity, in order to support increased generation and transmission investment, rather than to rely upon spot market capacity purchases.

The CA ISO also discussed the Joint Proposal for resource adequacy that was put forth by the California Energy Commission, the Office of Ratepayer Advocates, the Utility Reform Network, Southern California Edison Company, Pacific Gas and Electric Company, and San Diego Gas and Electric Company. CA ISO personnel noted that the CA ISO cannot support the proposal at the current time because it does not contain a month ahead capacity obligation. CA ISO personnel also expressed concern about the time frame for getting resource adequacy requirements in place. CA ISO personnel expressed some concern about leaving too many issues to be resolved in workshops that

might or might not address all issues, and a concern about a process that would unduly extend the definition and imposition of resource adequacy requirements.

Finally, CA ISO personnel noted that absent some clear month ahead capacity requirement, the CA ISO will seek policy guidance from the state with respect to what particular actions the state would like the CA ISO to take in real time in the event of a supply shortage (i.e., rotating outages or paying very high prices on an out-of-market basis if there is energy available for purchase).

The last part of the meeting (10-15 minutes) was devoted to a discussion of the Miguel-Mission transmission line. Mr. Winter expressed urgency in getting the line sited and noted that it made more sense for San Diego Gas and Electric Company to spend the incremental money now to upgrade the line in a manner that will prevent the need for further expenditures and scheduled outages in the future resulting from the need for additional projects in the area.

Respectfully submitted,

By:

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