Memorandum

To: ISO Board of Governors

From: Eric Hildebrandt, Executive Director, Market Monitoring

Date: October 22, 2025

Re: **Department of Market Monitoring report**

This memorandum does not require ISO Board of Governors action.

EXECUTIVE SUMMARY

This memo provides comments by the Department of Market Monitoring (DMM) on the ISO Management's Track 1 and Track 3A proposed changes to resource adequacy modeling and program design. DMM supports the Track 1 proposal to update the default methodologies for the planning reserve margin and qualifying capacity. The updated default modeling methodology will create a consistent modeling framework for the ISO to determine system reliability needs, supporting greater system reliability while maintaining local regulatory authority autonomy. DMM also supports the Track 3A proposal. Track 3A introduces valuable informational enhancements that may improve visibility, and facilitate efficient and expeditious bilateral procurement by the ISO through the capacity procurement mechanism.

COMMENTS

Track 1 proposal

The ISO proposes to update the default qualifying capacity and planning reserve margin methods to meet an expectation of one loss-of-load event every 10 years (0.1 LOLE). DMM supports these proposed updates to create a consistent modeling framework for the ISO to determine system reliability needs. The default accounting rules would also establish these values where not established by the local regulatory authority, and can be voluntarily adopted by any local regulatory authority. DMM understands that qualifying capacity and planning reserve margin values established by a local regulatory authority will continue to take precedent where such values exist. DMM supports the importance the ISO places on maintaining local regulatory authority autonomy.

In this initiative, the ISO initially worked on developing qualifying capacity values based on an unforced capacity resource-specific accounting framework that would have applied to the net qualifying capacity of resources, as well as to default values. DMM supported this approach. However, in the final proposal, the ISO has decided to defer to the California Public Utilities Commission (CPUC) on finalizing this policy development

for net qualifying capacity, and proposes only to apply an unforced capacity methodology to default values for some resource types.[1,2] DMM generally supports the improvements to the proposed default accounting methodologies, which include a methodology for storage resources that includes a measure of energy sufficiency. DMM supports the ISO's proposal to include a resource-specific unforced capacity framework for some resource types, with a commitment to align with the CPUC unforced capacity framework when finalized in the future.

DMM continues to caution that the default qualifying capacity rules may lead to capacity accounting differences across local regulatory authorities because the ISO uses the highest qualifying capacity value shown for a resource by any local regulatory authority. The Track 1 proposal does not alter this aspect of current rules. However, DMM notes that if valuations vary widely between different local regulatory authorities, this could incentivize sales of additional capacity (in excess of the ISO's default values) from suppliers in one local regulatory authority to load serving entities under other local regulatory authorities.[3]

Lastly, there are several unaddressed issues that the ISO has stated will need to be revisited in the context of default values and modeling process. These include the seasonality of default values, unforced capacity, and the interaction of interdependent policies such as outage substitution, the resource adequacy availability incentive mechanism, and capacity procurement mechanism. DMM recommends the ISO incorporate revisions to these policies into the default values and modeling process as the parallel policy development processes reach conclusion.[4]

Track 3A proposal

DMM supports the Track 3A proposal to increase the ability of the ISO to identify resources that may be procured to meet system, local, or flexible resource adequacy reliability needs. The ISO has tariff authority to procure backstop capacity using the capacity procurement mechanism by way of the competitive solicitation process.

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[1] *Comments on Resource Adequacy Modeling and Program Design Revised Discussion Paper and Final Recommendation Plan*, Department of Market Monitoring, August 12, 2024: https://www.caiso.com/documents/dmm-comments-on-resource-adequacy-modeling-and-program-design-revised-discussion-paper-and-final-recommendation-plan-aug-12-2024.pdf

[2] *Resource Adequacy Modeling, Default Rules, and Ambient Derates (Track 1) Straw Proposal*, California ISO, June 6, 2025: https://stakeholdercenter.caiso.com/InitiativeDocuments/Track1StrawProposal-ResourceAdequacyModelingandProgramDesign-June62025.pdf

[3] *Comments on Resource Adequacy Modeling, Default Rules, and Ambient Derates (Track 1) Straw Proposal*, Department of Market Monitoring, June 25, 2025: https://www.caiso.com/documents/dmm-comments-on-resource-adequacy-modeling-default-rules-and-ambient-derates-track-1-straw-proposal-jun-25-2025.pdf

[4] *Comments on Resource Adequacy Modeling and Program Design Revised Discussion Paper and Final Recommendation Plan*, Department of Market Monitoring, August 12, 2024: https://www.caiso.com/documents/dmm-comments-on-resource-adequacy-modeling-and-program-design-revised-discussion-paper-and-final-recommendation-plan-aug-12-2024.pdf

However, if no capacity is available through the competitive solicitation process, the ISO can procure backstop capacity bilaterally. Track 3A introduces valuable informational enhancements that may improve visibility of available capacity, and facilitate efficient and expeditious bilateral procurement by the ISO.

The ISO has not recently had any deficiency for generic or local resource adequacy capacity. However, maintaining reliability is a key function of the ISO, and the capacity procurement mechanism is a key tool for ensuring reliability in the case of capacity shortfalls. DMM further supports this effort in conjunction with the Track 1 proposal, which will increase the ISO's analytical capability to determine reliability needs. The added understanding of system reliability from Track 1 will include additional reliability considerations, such as energy sufficiency of storage resources, which can then be incorporated into the capacity procurement mechanism as necessary.

In addition to reliability improvements, the increased visibility under Track 3A can improve policy and modeling for the CAISO system. Additional visibility into resource adequacy resources internal to the CAISO balancing authority area would improve a system-wide understanding of recent trends in the capacity procurement mechanism and competitive solicitation process. Further, a better understanding of resource availability would improve the ability of the ISO to model system reliability.