

MEMORANDUM

2

TO: UTILITIES ADVISORY COMMISSION

FROM: UTILITIES DEPARTMENT

DATE: OCTOBER 1, 2008

SUBJECT: ADOPTION OF RESOLUTION APPROVING THE CITY OF PALO ALTO ELECTRIC UTILITY RESOURCE ADEQUACY PROGRAM AND DELEGATING THE AUTHORITY TO THE CITY MANAGER TO MAKE CHANGES TO ELEMENTS OF THE PROGRAM TO CONFORM TO CHANGES IN STATE LAW AND POLICY THAT IMPLEMENT PRUDENT UTILITY PRACTICES

REQUEST

Staff requests that the Utilities Advisory Commission (UAC) recommend that the City Council approve the City of Palo Alto Electric Utility Resource Adequacy Program (Attachment A) and delegate to the City Manager the authority to make changes to the elements of the Electric Utility Resource Adequacy Program to conform to changing utility practices and State policy.

BACKGROUND

The City has established and adopted an Interim Electric Utility Resource Adequacy Program, presented to the UAC at its April 19, 2006 meeting, and which has been in place since May 2006. This Interim Program was intended to expire on the date that the California Independent System Operator's (CAISO) Market Redesign and Technology Upgrade (MRTU) Tariff, which would introduce new resource adequacy responsibilities and reporting requirements, was implemented. However, because implementation of MRTU has been substantially delayed, the CAISO has incorporated resource adequacy compliance language in the currently effective CAISO Tariff.

To comply with current tariff requirements, and in anticipation of revised reporting requirements for 2009 under the CAISO's MRTU Tariff, staff has been working with staff of the Northern California Power Agency and member agencies to develop a replacement Electric Utility Resource Adequacy Program.

DISCUSSION

The attached Electric Utility Resource Adequacy Program has been updated to remain in compliance with current and anticipated regulatory requirements and to achieve a high degree of reliability in the electric service supplied to the City's customers. The replacement program includes many of the resource adequacy provisions contained within the City's existing program. Changes that have been made to the existing program include:

- Submission of an annual local area resource adequacy demonstration, which is a requirement under the current CAISO Tariff. The CAISO requires all load serving entities, such as the City of Palo Alto, to procure a large portion of their required resources from generators in their local areas – for Palo Alto that means within the San Francisco Bay Area.
- Changes to the demand forecast to utilize California Energy Commission or CAISO provided peak demand estimates, as required under the current CAISO Tariff.
- Changes to the annual system resource adequacy demonstration requirements in anticipation of new reporting requirements that will be in effect under the MRTU Tariff in 2009.
- Some changes in the definition of resources that count towards the City’s resource adequacy requirements to reflect current market products.

RESOURCE IMPACT

The costs of meeting the reliability requirements specified in the Electric Utility Resource Adequacy Program are included in the electric utility budget. The cost of the new requirement to procure local area resource adequacy is currently estimated in the budget at about \$3.4 million per year.

POLICY IMPLICATIONS

Adoption of the Electric Utility Resource Adequacy Program is consistent with the Council-approved policy to follow regulatory mandates, maintain local control over utility services and provide reliable electric power. Additionally, the Long-term Electric Acquisition Plan (LEAP) Implementation Plan that was approved by Council on April 17, 2006, included a statement to, “Establish a policy to address mandatory resource adequacy requirements.”

ATTACHMENT:

A: Electric Utility Resource Adequacy Program

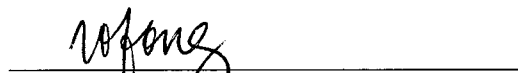
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[Insert Palo Alto Logo Above]

**Electric Utility
Resource Adequacy Program**

City of Palo Alto

October 20, 2008

Electric Utility Resource Adequacy Program

Table of Contents

1	Background and Purpose of Program	3
2	Applicability	3
3	Compliance Demonstration	4
3.1	Submission of Annual System Resource Adequacy Demonstration	4
3.2	Submission of Monthly System Resource Adequacy Demonstration	5
3.3	Submission of Annual Local Area Resource Adequacy Demonstration	5
3.4	Submission of Annual and Monthly Resource Adequacy Supply Plans	6
4	Demand Forecast	6
5	Planning Reserve Margin.....	7
6	CAISO Authority to Dispatch Generation Facilities	7
7	Resource Adequacy Qualifying Capacity Rules and Criteria.....	7
7.1	Resource Adequacy Qualifying Capacity	7
7.2	Qualifying Capacity Rules and Criteria – Eligible Resource Types.....	8
7.2.1	NCPA System	8
7.2.2	Jointly-Owned Facilities	8
7.2.3	Thermal Resources.....	9
7.2.4	Hydro Electric Resources	9
7.2.5	Unit-Specific Contracts.....	10
7.2.6	Firm Energy Contracts.....	10
7.2.7	Industry Standard Contracts with Damages Provisions.....	10
7.2.8	Wind and Solar Resources	10
7.2.9	Geothermal Resources	11
7.2.10	Participating Loads	11
7.2.11	Dispatchable Demand Resources.....	12
7.2.12	Facilities Under Construction	12
7.2.13	Non-Dynamically Scheduled System Resources (Imports).....	12
7.2.14	Dynamically Scheduled System Resources (Imports).....	13
8	Compliance and Enforcement.....	13

1 Background and Purpose of Program

City of Palo Alto (“City”) recognizes that to achieve a high degree of reliability in the electric service supplied to its customers, an amount of resources sufficient to not only meet the immediate loads of the City’s customers, but to also permit maintenance, to provide for planned and forced outages, and to account for load forecast errors is required.

In order to achieve a high degree of reliability in the electric service supplied to its customers, the City has established this Resource Adequacy Program to accomplish this goal, which includes the following information and requirements:

- Applicability
- Compliance Demonstration
- Demand Forecast
- Planning Reserve Margin
- CAISO Authority to Dispatch Qualifying Capacity
- Qualifying Capacity Rules and Criteria
- Compliance and Enforcement

This Resource Adequacy Program has been developed to coordinate with the rules and requirements incorporated within the California Independent System Operator Corporation (“CAISO”) Market Redesign and Technology Upgrade FERC Electric Tariff (“MRTU Tariff”), as applicable to the City, and shall become effective at the time the MRTU Tariff is implemented or when approved by the City’s Council, referred to as the City’s Local Regulatory Authority (“LRA”), and will remain in effect until terminated by action of the LRA. This Resource Adequacy Program may be modified by the LRA per its discretion.

Capitalized terms not otherwise defined within this Resource Adequacy Program shall be defined as set forth in the Master Definitions Supplement of the MRTU Tariff.

2 Applicability

Pursuant to Section 40 of the MRTU Tariff all Load Serving Entities (“LSE”) and their respective Scheduling Coordinators, with limited exemptions, are subject to certain Resource

Adequacy requirements based on its election of LSE status. The City currently operates within the CAISO Balancing Authority Area as a Load Following Metered Subsystem, pursuant to the terms of the Amended and Restated NCPA Metered Subsystem Aggregator Agreement (“MSSA Agreement”), as amended from time to time, and therefore is recognized as a Load Following Metered Subsystem entity regarding the application of Resource Adequacy requirements. Therefore, the City is required to comply with the requirements encompassed within this Electric Utility Resource Adequacy Program and the CAISO Tariff, as applicable.

3 Compliance Demonstration

Pursuant to this Electric Utility Resource Adequacy Program and the MRTU Tariff Section 40, the City is required to provide a system and local area Resource Adequacy demonstration to the CAISO that sets forth the amount of capacity procured by the City to satisfy the obligations described below. As a result, NCPA will submit, on behalf of the City, the following information to the CAISO:

3.1 Submission of Annual System Resource Adequacy Demonstration

NCPA, acting as Scheduling Coordinator on behalf of the City, will submit an annual system Resource Adequacy demonstration to the CAISO for the applicable compliance period on behalf of the City, on a schedule and in a format set forth by the MRTU Tariff and the CAISO Business Practice Manual for Reliability Requirements. The annual system Resource Adequacy demonstration will include a monthly coincident peak Demand determination for the City for each of the five summer months, May through September, of the applicable compliance period, established pursuant to Section 4, and identify the megawatt (MW) quantity of Resource Adequacy Qualifying Capacity, established pursuant to Section 7, that the City will rely upon to satisfy ninety percent (90%) of its respective monthly coincident peak Demand determination plus the monthly Planning Reserve Margin, established in Section 5, for each of the five summer months, May through September, of the applicable compliance period.

3.2 Submission of Monthly System Resource Adequacy Demonstration

NCPA, acting as Scheduling Coordinator on behalf of the City, will submit a monthly system Resource Adequacy demonstration to the CAISO for the applicable compliance period, on a schedule and in a format set forth by the MRTU Tariff and the CAISO Business Practice Manual for Reliability Requirements. The monthly system Resource Adequacy demonstration will include a monthly coincident peak Demand determination for the City for the relevant reporting month of the applicable compliance period, established pursuant to Section 4, and identify the megawatt (MW) quantity of Resource Adequacy Qualifying Capacity, established pursuant to Section 7, that the City will rely upon to satisfy one-hundred percent (100%) of its monthly coincident peak Demand determination plus the monthly Planning Reserve Margin, established in Section 5, for the relevant reporting month of the applicable compliance period.

3.3 Submission of Annual Local Area Resource Adequacy Demonstration

NCPA, acting as Scheduling Coordinator on behalf of the City, will submit an annual local area capacity Resource Adequacy demonstration to the CAISO for the applicable compliance period, on a schedule and in a format set forth by the MRTU Tariff and the CAISO Business Practice Manual for Reliability Requirements. The annual local area Resource Adequacy demonstration will identify the megawatt (MW) quantity of Resource Adequacy Qualifying Capacity, established pursuant to Section 7, qualified as Local Capacity Area Resources that the City will rely upon to satisfy its allocated responsibility for procurement of Local Capacity Area Resources determined pursuant to the MRTU Tariff. The City's allocated responsibility for procurement of Local Capacity Area Resources is based on its proportionate share of the Transmission Access Charge ("TAC") Area Load at the time of the CAISO's annual coincident peak Demand set forth in the annual peak demand forecast for the next applicable compliance period, as determined by the California Energy Commission ("CEC"). Those Local Capacity Area Resources identified within the annual local area capacity Resource Adequacy demonstration will count towards the City's overall system capacity requirements in addition to meeting the City's local Resource Adequacy requirements.

3.4 Submission of Annual and Monthly Resource Adequacy Supply Plans

A Load Following Metered Subsystem LSE such as the City is not required, pursuant to the CAISO Tariff, to provide the CAISO with annual and monthly Resource Adequacy Supply Plans for Resource Adequacy Qualifying Capacity that is used to meet its own system and local Resource Adequacy requirements. To the extent that a Load Following Metered Subsystem LSE such as the City provides Resource Adequacy Qualifying Capacity to a Reserve Sharing Load Serving Entity or a Modified Reserve Sharing Load Serving Entity, its Scheduling Coordinator is required to provide the CAISO with annual and monthly Resource Adequacy Supply Plans for this quantity of Resource Adequacy Qualifying Capacity. As a result NCPA, acting a Scheduling Coordinator on behalf of the City, will submit annual and monthly Resource Adequacy Supply Plans to the CAISO on behalf of the City (if required), on a schedule and in a formant set forth in the MRTU Tariff and the CAISO Business Practice Manual for Reliability Requirements. Both the annual and monthly Resource Adequacy Supply Plans shall include a listing of the City's commitments to provide Resource Adequacy Qualifying Capacity to any Reserve Sharing Load Serving Entity or Modified Reserve Sharing Load Serving Entity for the applicable compliance period.

4 Demand Forecast

Pursuant to the CAISO Tariff, the City's Resource Adequacy Program shall utilize the monthly coincident peak Demand determination provided by the California Energy Commission for the applicable compliance period, which is based on demand forecast data ("Demand Forecast") submitted to the California Energy Commission by the City (or by NCPA on behalf of the City), or, if the California Energy Commission does not produce a monthly coincident peak Demand determination for the City, the monthly coincident peak Demand determination produced by the CAISO for the applicable compliance period for the City in accordance with the MRTU Tariff and the applicable Business Practice Manual, using Demand Forecast data submitted to the CAISO by the City (or by NCPA on behalf of the City). The monthly coincident peak Demand determination developed and provided by either the California Energy Commission or the CAISO are coincident with the CAISO monthly system peak demand forecast for the applicable

compliance period. If the California Energy Commission or the CAISO fail to produce a monthly coincident peak Demand determination for the City, the monthly coincident peak Demand determination that will be used for Resource Adequacy compliance shall be equal to the City's contribution to the NCPA Pool's monthly coincident peak demand forecasts for the applicable compliance period irrespective of the CAISO system coincident peak.

5 Planning Reserve Margin

The City shall maintain an amount of Resource Adequacy Qualifying Capacity, as described in Section 7, equal to no less than one-hundred fifteen percent (115%) of the City's peak hourly Demand Forecast for the applicable compliance period. The resulting fifteen percent (15%) capacity reserve margin which is in excess of the City's peak hourly Demand Forecast, for the applicable month, is referred to as the Planning Reserve Margin.

6 CAISO Authority to Dispatch Generation Facilities

As a Load Following Metered Subsystem Entity, the City is only required to comply with a limited set of provisions contain within the MRTU Tariff, and is not required to make available its Resource Adequacy Qualifying Capacity used to meet its capacity reserve requirements to the CAISO for Dispatch in the Day-Ahead Market or Real-Time Market. However, the CAISO has authority to dispatch the City's Resource Adequacy Qualifying Capacity used to meet its capacity reserve requirements pursuant to the terms of the MSSA Agreement, which is incorporated by reference as it now exists or may thereafter be amended.

7 Resource Adequacy Qualifying Capacity Rules and Criteria

7.1 Resource Adequacy Qualifying Capacity

Resource Adequacy Qualifying Capacity shall be the quantity of capacity from a resource, stated in megawatts (MW), which is listed within the Resource Adequacy system and local area capacity demonstration. Resource Adequacy Qualifying Capacity is the megawatt (MW) quantity of capacity from resources, as calculated using the Qualifying Capacity Rules and

Criteria, that is used for resource adequacy compliance. The rules and criteria for determining the type of resources that may be eligible to provide Resource Adequacy Qualifying Capacity and for calculating the quantity of Resource Adequacy Qualifying Capacity provided from eligible resource types is documented within Section 7.2. Once calculated, the Resource Adequacy Qualifying Capacity will be provided to the CAISO to be used to verify compliance against submitted Resource Adequacy compliance demonstrations.

7.2 Qualifying Capacity Rules and Criteria – Eligible Resource Types

The types of resources specified in Section 7.2 will be eligible to provide Resource Adequacy Qualifying Capacity to the extent that they meet the criteria for each type of resource set forth in this Section 7.2. Net Dependable Capacity (“NDC”) defined by North American Electric Reliability Corporation (“NERC”) Generating Availability Data System (“GADS”) information will be used to determine the Resource Adequacy Qualifying Capacity of some of the resource types identified in this Section 7.2. For the purpose of this Section 7.2, NDC is equal to Gross Dependable Capacity (“GDC”) less the unit capacity utilized for unit station service or auxiliaries. GDC is equal to Gross Maximum Capacity (“GMC”) modified for seasonal limitations over a specified period of time. GMC is the maximum capacity a unit can sustain over a specified period of time when not restricted by seasonal or other deratings.

7.2.1 NCPA System

As defined in the MSSA Agreement, the NCPA System means all transmission and distribution facilities owned or controlled by the NCPA Pool participants, including the City, and all Generating Units within the CAISO Balancing Authority Area owned or controlled by the NCPA Pool participants or any individual NCPA Pool participant or combination of NCPA Pool participants.

7.2.2 Jointly-Owned Facilities

A jointly-owned facility must either be identified in Schedule 14 of the MSSA Agreement, located within the NCPA System, a Participating Generator, a System Resource, or a Qualified

Facility to be considered Resource Adequacy Qualifying Capacity. The Resource Adequacy Qualifying Capacity for the entire facility will be determined based on the type of resource as described within Section 7.2. The City's entitlement to the Resource Adequacy Qualifying Capacity of a facility may encompass the entire Resource Adequacy Qualifying Capacity of the facility, or may be limited to a portion of the Resource Adequacy Qualifying Capacity of the facility. The total amount of Resource Adequacy Qualifying Capacity that may be identified in the system and/or local area capacity compliance demonstration is limited to the total jointly-owned facility Resource Adequacy Qualifying Capacity as determined pursuant to Section 7.2.

7.2.3 Thermal Resources

Thermal generating facilities must either be identified in Schedule 14 of the MSSA Agreement, located within the NCPA System, a Participating Generator, a System Resource, or a Qualified Facility to be considered Resource Adequacy Qualifying Capacity. The Resource Adequacy Qualifying Capacity of thermal facilities will be based on Net Dependable Capacity as defined in Section 7.2.

7.2.4 Hydro Electric Resources

Hydro electric generating facilities must either be identified in Schedule 14 of the MSSA Agreement, located within the NCPA System, a Participating Generator, a System Resource, or a Qualified Facility to be considered Resource Adequacy Qualifying Capacity. The Resource Adequacy Qualifying Capacity of a pond or pumped storage hydro electric facility will be based on Net Dependable Capacity as defined in Section 7.2, minus variable head de-rate based on current reservoir levels with average year forecasted inflows. The Resource Adequacy Qualifying Capacity of a run-of-river hydro electric facility will be based on Net Dependable Capacity as defined in Section 7.2, minus actual or forecasted conveyance flow, stream flow, or canal head de-rate.

7.2.5 Unit-Specific Contracts

Unit-specific contracts will fully qualify as Resource Adequacy Qualifying Capacity. The generating facility identified in the contract must either be identified in Schedule 14 of the MSSA Agreement, located within the NCPA System, a Participating Generator, a System Resource, or a Qualified Facility to be considered Resource Adequacy Qualifying Capacity.

7.2.6 Firm Energy Contracts

Firm energy contracts, executed by the City of Palo Alto prior to October 27, 2005¹, which contain provisions to ensure reliable physical delivery of Energy and that contain provisions that identify non-delivery as a default condition subject to contract termination, and that does not require the seller to source the Energy from a particular unit, but specifies a delivery point internal to the CAISO Balancing Authority Area will fully qualify as Resource Adequacy Qualifying Capacity. The capacity value from such firm energy contracts will not be traded with other load serving entities or scheduling coordinators.

7.2.7 Resource Adequacy Capacity Products

Resource Adequacy Capacity products that provide the City with Designated Resource Adequacy capacity from a generation unit located in the CAISO control area, and that provide Resource Adequacy Requirement (RAR) attributes or Local Area Reliability (LAR) attributes will fully qualify as Resource Adequacy Qualifying Capacity.

7.2.8 Wind and Solar Resources

The Resource Adequacy Qualifying Capacity of wind and solar generating facilities, with backup sources of generation, will be based on Net Dependable Capacity as defined in Section 7.2.

¹ The October 27th 2005 cutoff date for counting firm energy contracts towards resource adequacy requirements is consistent with the CAISO's default qualifying capacity criteria in the currently effective tariff (Section 40.8.1.5 of Appendix CC: <http://www.caiso.com/201c/201cc1b31fca0.pdf>).

The Resource Adequacy Qualifying Capacity of wind and solar facilities, without backup sources of generation, will be based on their monthly historic noon to 6:00 p.m. capacity factor, using a three-year rolling average.

Wind and solar generating facilities without backup sources of generation which do not have three years of historic performance data will be assigned a default Resource Adequacy Qualifying Capacity value for each year of missing historical performance as follows:

- The Resource Adequacy Qualifying Capacity of a solar or wind generator with historic data located in the same weather regime with similar technology adjusted for the nameplate capacity ratio of a new generator and the similarly situated proxy generator.
- If historical data of a solar or wind generator located in the same weather regime with similar technology is not available, then historic performance data from the monthly average production factors of all units (wind or solar) within the TAC Area in which the generator is located will be utilized.

The default Resource Adequacy Qualifying Capacity values will be replaced on a year by year basis with actual performance data as the data becomes available to form a three year rolling average.

7.2.9 Geothermal Resources

Geothermal generating facilities must either be identified in Schedule 14 of the MSSA Agreement, located within the NCPA System, a Participating Generator, a System Resource or a Qualified Facility to be considered Resource Adequacy Qualifying Capacity. The Resource Adequacy Qualifying Capacity of a geothermal facility will be based on Net Dependable Capacity as defined in Section 7.2, adjusted for steam field degradation.

7.2.10 Participating Loads

Participating Loads must either be identified in Schedule 14 of the MSSA Agreement or located within the NCPA System to be considered Resource Adequacy Qualifying Capacity.

Participating Loads must be available at least 48 hours during the five summer months (May –

September) to be counted in a system and/or local area Resource Adequacy compliance demonstration as Resource Adequacy Qualifying Capacity. If Participating Loads are available for the minimum requirement, the stipulated megawatt (MW) quantity reduction in Demand will be treated as supply and be eligible to be listed as Resource Adequacy Qualifying Capacity.

7.2.11 Dispatchable Demand Resources

Dispatchable Demand resources must either be identified in Schedule 10B of the MSSA Agreement or located within the NCPA System to be considered Resource Adequacy Qualifying Capacity. Dispatchable Demand resources must be available at least 48 hours during the five summer months (May – September) to be counted in a system and/or local area Resource Adequacy compliance demonstration as Resource Adequacy Qualifying Capacity. If a Dispatchable Demand resource is available for the minimum requirement, the megawatt (MW) quantity reduction stipulated in the contract or program will be treated as supply and be eligible to be listed as Resource Adequacy Qualifying Capacity.

7.2.12 Facilities Under Construction

Resource Adequacy Qualifying Capacity for facilities under construction will be determined based on the type of resource as described elsewhere in this Section 7.2. The facility will be eligible to be identified as Resource Adequacy Qualifying Capacity in a system and/or local area capacity compliance demonstration of the City pursuant to the anticipated operational date of the facility.

7.2.13 Non-Dynamically Scheduled System Resources (Imports)

The Resource Adequacy Qualifying Capacity of Non-Dynamically Scheduled System Resources to which the City has an entitlement shall be the amount of the City's entitlement, measured in megawatts (MW).

7.2.14 Dynamically Scheduled System Resources (Imports)

The Resource Adequacy Qualifying Capacity of a Dynamically Scheduled System Resource to which the City has an entitlement shall be the amount of the City's entitlement. Eligibility as Resource Adequacy Qualifying Capacity is contingent upon the City securing transmission through any intervening Balancing Authority Areas for the resource entitlement that cannot be curtailed for economic reasons or trumped by higher priority transmission.

7.2.15 CAISO's Backstop Procurement Allocated to the City

To the extent allowed by the CAISO's MRTU Tariff, and in the event that the CAISO uses its backstop procurement authority to purchase capacity under the terms of the MRTU Tariff and allocates the cost of such capacity to the Pool Members on the basis of the CAISO-determined annual local or system capacity shortfall of the Pool, and any such allocation that is determined to be the responsibility of the City will be eligible to be listed as Resource Adequacy Qualifying Capacity in subsequent Monthly System Resource Adequacy Demonstrations.

7.2.16 Other Resources

At such time that the City purchases, or enters into a contract for, a resource not listed in this Section 7.2, the City's LRA reserves the right to establish Qualified Capacity Criteria for the new resource. Future resources could include, but are not limited to: customer-owned distributed generation; ocean/tidal generation; and small solar projects (<5MW).

8 Compliance and Enforcement

Once the CAISO has received the system and/or local area capacity compliance demonstrations submitted by NCPA on behalf of the City, acting as Scheduling Coordinator, the CAISO will verify that the City has procured sufficient Resource Adequacy Qualifying Capacity to comply with the Planning Reserve Margin established in Section 5, and any requirements established by the City's LRA. To the extent the system and/or local area capacity demonstrations do not include sufficient Resource Adequacy Qualifying Capacity to satisfy the Planning Reserve Margin and/or the Local Capacity Area Resource Adequacy requirements, or in the case of a

mismatch between information included in the compliance demonstration and the Resource Adequacy Supply Plan submitted by the Scheduling Coordinator of a resource identified in the City's compliance demonstration, the CAISO will notify NCPA and attempt to resolve the issue. To the extent that NCPA is unable to resolve the identified issue, the CAISO will notify the City's LRA of the potential deficiency.

Once the City's LRA is informed of the identified deficiency and confirms that the City's system and/or local area capacity compliance demonstration is deficient, the City's LRA may determine if and how the deficiency will be resolved. If the CAISO identifies a mismatch between the information included in the City's system and/or local area capacity compliance demonstration and a Resource Adequacy Supply Plan submitted by the Scheduling Coordinator of a resource identified in the Resource Adequacy compliance demonstration, and the identified mismatch is not resolved prior to the 10th day before the effective month during the applicable compliance period, the CAISO will accept the value contained in the Supply Plan to set the Resource Adequacy Qualifying Capacity value for the applicable compliance period.

If the City's LRA requires the City to resolve an identified deficiency in the system and/or local area capacity compliance demonstration, and the City has not resolved the identified deficiency, the City must provide an explanation as to why the identified deficiency has not be resolved to its LRA. The City may incur penalties or other sanctions adopted by the City's LRA for failure to cure the deficiency. NCPA, acting as Scheduling Coordinator, is required to report to the CAISO within thirty (30) days of any action taken by the City's LRA in response to the deficiency notification if the City's LRA does not provide public access to records or information regarding action taken for violations of the City's Resource Adequacy Program policies or rules.