

J.P. Morgan Comments

Mitigation of Exceptional Dispatch in LMPM Enhancements Phase 2 – Draft Final Proposal

Submitted by	Company	Date Submitted
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J.P. Morgan Ventures Energy Corporation and BE CA, LLC (collectively, “J.P. Morgan”) appreciates this opportunity to provide comments on the California ISO’s (CAISO’s) September 4, 2012, draft final proposal “Mitigation of Exceptional Dispatch in LMPM Enhancements Phase 2” (“Draft Final Proposal”). J.P. Morgan offers the following comments.

Background

As explained by the CAISO, implementation of phase 2 of its Local Market Power Mitigation Measures (“LMPM”) enhancements – enhancements designed to implement a dynamic, rather than static, local market power assessment methodology in the CAISO market software – introduces “a gap” in identifying and mitigating local market power for Exceptional Dispatches. The CAISO states that since most Exceptional Dispatches are “preemptive – made in anticipation of certain circumstances based on observed system and market conditions” and thus may relieve congestion on a constraint and the new LMPM dynamic competitive path assessment may not be performed. Moreover, the CAISO states the previously available “static” list of competitive/non-competitive paths will no longer be available to operators. Therefore, the CAISO states that a new methodology for determining when to mitigate Exceptional Dispatches must be employed.

To address that purported “gap”, the CAISO proposes a methodology that deems all paths non-competitive by default and then applies a test to determine whether a path is competitive for purposes of determining whether to apply mitigation to Exceptional Dispatches. Specifically, the CAISO proposes that a path will be deemed competitive if, using data from the past 60 days: 1) a path is congested in 10 or more hours in the RTUC market run where the competitive path assessment is calculated (according to the CAISO this ensures that the constraint has been tested in past 60 days); and 2) the path was deemed competitive in 75% or more of the instances where the constraint was binding and tested. The CAISO states that the purpose of the 75% threshold is to “strike a balance between two non-observable conditions at the time of the Exceptional Dispatch.” If a path does not pass these thresholds, the path will continue to be treated as non-competitive and any real-time Exceptional Dispatches will be mitigated. In addition, the CAISO proposes that all un-modeled constraints be deemed non-competitive by default. In sum, whereas the dynamic competitive path assessment deems a path competitive unless otherwise

demonstrated to be non-competitive, the CAISO's proposed methodology effectively deems a path non-competitive unless otherwise proven to be competitive.

Comments

J.P. Morgan does not support the CAISO's Draft Final Proposal. J.P. Morgan supports the application of appropriate mitigation measures where the exercise of market power, or the ability to exercise market power, has been demonstrated on an ex ante basis using objective and measurable standards. The CAISO Draft Final Proposal, however, is unsupported, may result in "false positives." Moreover, by presuming the existence of market power and designating all paths in a competitive market as non-competitive, subject to mitigation unless the paths pass certain tests, the CAISO Draft Final Proposal may apply mitigation in circumstances attributable to genuine scarcity and where no entity is exercising market power. Finally, the CAISO's proposed tests for determining whether a constraint is competitive are based on arbitrary thresholds unsupported by any rigorous analysis. While the CAISO states that it is attempting to "strike a balance", its proposed methodology is biased and may result in the inappropriate and unnecessary application of mitigation measures to resources Exceptionally Dispatched in real-time.

J.P. Morgan has long supported the development and implementation of the CAISO's new LMPM LMP decomposition method and associated dynamic competitive path assessment methodology and lauds the CAISO for moving that effort forward. Unfortunately, the CAISO's Draft Final Proposal is step in the wrong direction and obviates certain of the benefits of deploying the new LMPM measures.

J.P. Morgan recommends that the CAISO not move forward with the Draft Final Proposal and instead focus on the development of a proposal that is based on a rigorous demonstration by the CAISO that resources Exceptionally Dispatched in real time have the ability to exercise market power.

J.P. Morgan appreciates the opportunity to provide these comments.