

J.P. Morgan Comments

- Flexi-Ramp Product and Integrated Day-Ahead Market -

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 28, 2012, Flexible Ramping Product and Integrated Day-Ahead Market Proposal (“Proposal”). J.P. Morgan offers the following comments.

Comments

As recently detailed in its comments on the CAISO’s Stakeholder Initiatives Catalogue, J.P. Morgan supports the further development of the markets that will make available to the CAISO the flexible resources it needs to reliably operate the grid. In those comments, and in conjunction with the development of some form of multi-year forward capacity market, J.P. Morgan recommended the development of needed new reserve markets – both spot-market and longer term (monthly, annual) – that enable the CAISO to procure the flexible capacity capabilities needed for reliable system operation. Such markets would be bid-based and allow providers to recover their incremental and quasi-fixed costs. Development of specific products would depend on the CAISO’s specification of flexible capacity requirements, e.g. fast ramping, load/resource-following, etc.

Clearly, a Flexible Ramping Product could be one of the important reserve products that the CAISO develops. J.P. Morgan has consistently supported the development of bid-based market products rather than the implementation of non-bid-based mechanisms such as the Flexible Ramping Constraint. However, at this juncture, and based on the characterization of the service at the last CAISO meeting on this topic, it appears that the CAISO considers the Flexible Ramping Product to be a quasi energy-based type product rather than a reserve or capacity-based service. J.P. Morgan does not support development of a product the price of which is based solely on opportunity costs and where participants do not have an ability to submit bids that reflect not only their incremental costs but their capacity and/or quasi-fixed costs. J.P. Morgan does not believe that development of an energy-based product with opportunity-cost-based pricing will establish incentives for existing resources to provide such a service. Furthermore, to the extent that the CAISO continues to pursue development of such a service, and not a capacity-based service, then arguably such a service should not be subject to any resource adequacy capacity related must-offer obligation.

With respect to the CAISO’s proposal to develop an integrated day-ahead market, J.P. Morgan supports further examination of the CAISO’s iDAM proposal. In concept, the iDAM proposal has merit and could result in a more optimal day-ahead solution. However, development of the

iDAM (including the detailed algorithms necessary to co-optimize the procurement of energy, operating reserves, other reserve services necessary to satisfy the CAISO's flexibility requirements, and issue efficient market and reliability commitment decisions) is no small or easy effort. Rather than needlessly rushing this effort through by the end of 2012, J.P. Morgan recommends that the CAISO take a more deliberate approach whereby it can seamlessly develop the iDAM platform, needed new flexible capacity services, and other design changes needed to satisfy other market and/or regulatory requirements (e.g., FERC Order 764). J.P. Morgan appreciates the urgency with which the CAISO would like to complete development of any market design changes needed to help integrate and manage intermittent resources. In addition, J.P. Morgan understands the long timeline involved with completing design changes, securing necessary approvals, and working through development and implementation. Nonetheless, J.P. Morgan posits that the proposed changes are too important to rush and any effort to push them through over the next several months will likely result in unintended consequences and unnecessary and wasteful "do-overs."

J.P. Morgan recommends that the CAISO instead establish a more deliberate schedule that will permit thoughtful consideration of the following complex and interrelated efforts:

- 1) development of the iDAM (including the development of the needed new reserve products referenced below and a determination of whether and how to price the minimum load energy associated with market commitments and reliability commitments such as made through RUC, MOC, and other capacity-related constraints);
- 2) specification and development of flexible capacity requirements - performed in parallel with related CPUC proceedings - which will inform development of needed new CAISO market products (including potentially longer-term monthly or annual reserve products, such as a 30-minute reserve product);
- 3) consideration of market design changes related to FERC Order No. 764 and HASP/RT/Intertie Pricing in general (better to think through interrelationships/incentives established through all sequential markets at this time);
- 4) consideration of a multi-year forward capacity market and the potentially needed complexity of incorporating locational and flexible capacity-related constraints into such a market (although J.P. Morgan would recommend the immediate and concurrent development of a capacity market, regardless of the timing of such an effort the CAISO needs to consider the interplay between the CAISO's spot markets, any related locational and flexibility requirements, and the potential function of a capacity market).

In conclusion, J.P. Morgan recommends that the CAISO defer finalizing both the Flexible Ramping Product and its new iDAM proposal and instead develop a new schedule that allows for a detailed review and consideration of both those proposals as well as the other matters listed above.

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