Comments of J.P. Morgan Ventures Energy Corporation on Convergence Bidding and Bid Cost Recovery

J.P. Morgan Ventures Energy Corporation (J.P. Morgan) appreciates the opportunity to comment on matters discussed at the CAISO’s October 16, 2008, Convergence Bidding Stakeholder Meeting. J.P. Morgan supports the CAISO’s efforts to implement Convergence Bidding twelve months after the start of MRTU, if not earlier. As stated below, J.P. Morgan supports a Convergence Bidding design that is founded on the best practices in place in other organized markets that support Convergence Bidding and that is based on sound cost-causation principles. J.P. Morgan believes that more analysis is required prior to arriving at a final recommendation on the issues discussed at the October 16, 2008, meeting. J.P. Morgan supports the comments submitted by the Western Power Trading Forum (WPTF).

Response to CAISO Questions

Section 1 – MAP Program Update
Presented by Janet Morris

1. Are you interested in Joint Application Development (JAD) sessions for test scenario development for element of MAP, like Convergence Bidding?

J.P. Morgan may be interested in JAD sessions for test scenario development for MAP elements such as Convergence Bidding. J.P. Morgan believes that it is important to fully test the CAISO’s Convergence Bidding software to ensure that the CAISO’s systems can adequately handle the potentially large payload of Convergence Bids at multiple locations and to better understand the interaction between the Convergence Bidding functionality and results and other CAISO systems and market performance.

2. If you are interested, what is your availability to participate?

The availability of J.P. Morgan personnel is dependent on the number and length of the proposed JAD sessions. J.P. Morgan recommends that the CAISO develop and release to Market Participants a detailed schedule that will enable J.P. Morgan personnel to plan and prioritize their activities in advance and quite likely between various CAISO activities, including testing of other elements of MAP.
3. What high level test scenarios would you propose for Convergence Bidding?

J.P. Morgan supports testing of “large payload” scenarios, including large payloads of small Convergence Bids at multiple (nodal) locations. In addition, J.P. Morgan supports testing and evaluating the impact of, and interaction between, Convergence Bids and the CAISO’s IFM, RUC and Real-Time Market outcomes (including Bid Cost Recovery related costs under various cost-allocation scenarios) and the CAISO’ CRR market.

4. Additional comments?

Section 2 – Resource IDs for Convergence Bidding
Presented by Byron Woertz.

1. Of the options presented in the white paper, are there any that are completely unworkable for you?

At this time, based on the information presented, J.P. Morgan believes that all the options are potentially workable, although managing separate Resource IDs at each node and for each transaction may be unreasonably burdensome.

2. Do you have a preference among the options presented?

Based on the system constraints identified by the CAISO, J.P. Morgan can support either Option 4 (Revised Modeling Approach) or Option 5 (Additional Field for Certified SC). J.P. Morgan recommends that the CAISO examine the functionality and requirements in place in the other markets that support Convergence Bidding with an aim to facilitate Convergence Bidding in a manner that minimizes system/software development both at the CAISO and Market Participants.

3. Other comments?
J.P. Morgan supports a cost allocation methodology for virtual bids based on cost causation. Toward that objective, J.P. Morgan supports the presentation and comments made by WPTF at the October 16, 2008, meeting. In addition, J.P. Morgan generally supports the written comments submitted by WPTF.

Specifically, as stated by WPTF at the October 16th meeting, J.P. Morgan finds that: 1) when virtual demand displaces other price sensitive demand, the CAISO does not incur any additional commitment costs; 2) when virtual demand clears in the IFM, commitment costs are shifted to the IFM, thus potentially avoiding RUC commitment costs (Availability Payments); and 3) when virtual supply participates in the IFM, IFM uplifts are lower (lower commitment costs) and that the resultant shift of commitment costs from the IFM to RUC should not increase costs to LSEs, in part because of the fact that virtual transactions will bear their proportional share of the costs.

J.P. Morgan generally supports the CAISO staff’s proposal to allocate IFM Tier 1 uplift costs to virtual bidders only if net virtual demand and physical demand is greater than or equal to the CAISO forecast. However, J.P. Morgan agrees with WPTF that further analysis is needed about the relationship of uplift costs and Convergence Bidding.

2. Issue Paper on Two-Tier Real-Time Bid Cost Recovery Uplift

(This paper considers separating the allocation of costs associated with the Real Time Market into two tiers, which could involve both virtual and “physical” bids. This paper is located at: http://www.caiso.com/205b/205bf1653cf60.pdf.)

A) Do you have a preference among the options reviewed in the issue paper?

- Option 1 – Each SCs need for inc or dec energy across their portfolio if aligned with the total system need for inc or dec energy would determine allocation for Tier 1 Real-Time uplift. This includes both virtual supply and virtual demand.
- Option 2 – Allocation for Tier 1 Uplift for each SC would be based on Net Negative Uninstructed Deviation and net Virtual Supply

J.P. Morgan does not have a preference at this time. J.P. Morgan requests further information (and a better understanding of) the reasons that may give rise to the occurrence of real time bid cost recovery uplifts. J.P. Morgan believes there are important differences between CAISO actions in the forward market (and the information available to the CAISO in the
forward market) versus CAISO real-time market actions. At present, it is not clear why Convergence Bids will have an impact on real-time market and operator actions (RTUC). Moreover, it appears that the NYISO does not allocate real time uplift costs to Convergence Bids.

As a general matter, and based on its understating of the actions that could give rise to real-time costs, J.P. Morgan believes that Option 1 may be better aligned with cost-causation. While J.P. Morgan agrees with the CAISO’s statement that actions that resulted in net negative uninstructed deviations (and the need for incremental energy) are more likely to lead to the incurrence of bid cost recovery costs, in light of the unknown system dynamics and market incentives/performance under MRTU J.P. Morgan believes that it is prudent to initially allocate such costs to all market participants whose actions require real-time action by the CAISO. However, J.P. Morgan suggests that more analysis is required prior to making a final recommendation.

B) Do you have other thoughts on how costs should be allocated in Tier 1 for Real-Time uplift?

C) Do you have a preference on what the denominator should be for the calculation of the Real-Time Tier 1 purchase rate?
   - Absolute Value of Real-Time instructed incs and decs
   - Instructed incs only
   - Net of instructed incs and decs

As noted above, J.P. Morgan recommends that the CAISO undertake further analysis prior to making a final recommendation on this matter.

4. Additional comments?