

## J.P. Morgan Comments

### RI Phase 2 – Day-of Market 7/6/11 Initial Straw 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) July 6, 2011, initial straw proposal entitled “Renewable Integration Market Vision and Roadmap Day-of Market” (“Initial Straw Proposal”). J.P. Morgan offers the following comments.

J.P. Morgan appreciates the thought and detail that went into development of the CAISO Initial Straw Proposal. J.P. Morgan supports development of a comprehensive vision/roadmap for the market as a whole and agrees with the guiding principles outlined by the CAISO. However, it is difficult to assess the propriety of a day-of market design without understanding the features of the forward market, both the day-ahead as well as the long-forward. The California market has fundamental issues regarding the valuation/pricing of capacity that have to be addressed. As J.P. Morgan has previously stated, a first step in addressing those issues is the clear and transparent identification of the CAISO’s reliability requirements/needs. After the identification of such requirements can come the deliberate consideration of how to satisfy those requirements, whether through forward contracts and/or the procurement of market products/services for items such as ramping capability, load/resource following, inertia, frequency response/recovery, minimum on-line constraints, etc.

As the CAISO moves forward, J.P. Morgan urges the CAISO to, where possible, focus on needed targeted changes to address known operational (e.g., renewable integration, as supported by technical studies) and market needs (e.g., revenue sufficiency/capacity payments) and to rely on existing products/services (e.g., Regulation, Spinning Reserves) to the extent possible. While more significant changes to the market design, and new products (e.g., inertia, RTIS) may be needed, J.P. Morgan is concerned that implementation of a comprehensive redesign may come too late to address both the CAISO’s operational needs and market participants’ need for predictable and reliable revenue streams.

1. Please provide any comments on the ISO’s proposed schedule, timeline, or process for this stakeholder process.

J.P. Morgan supports the CAISO’s proposed schedule. The CAISO’s timeline for arriving at a final market vision and roadmap is appropriately aggressive. The CAISO’s proposed timeline for implementation of the final design is frustratingly four years out and the CAISO should be vigilant about finding ways to shorten that schedule. J.P. Morgan is concerned that market and

operational conditions could overtake the design/implementation schedule proposed by the CAISO. As a consequence, the CAISO should perhaps focus on the targeted changes necessary to address the fundamental issues of concern.

2. Are there additional goals or operational challenges that the ISO should be addressing through this stakeholder process?

J.P. Morgan is not aware of any additional goals or operational challenges. J.P. Morgan does request that the CAISO explicitly acknowledge and address how this process will align with and/or feed into the state's larger long-term procurement and resource adequacy requirements and processes.

3. Please indicate whether your organization agrees with the guiding principles listed in the straw proposal. If not, please indicate why not. If you would like to have other guiding principles added, please describe those additional principles.

J.P. Morgan agrees with the CAISO's proposed guiding principles. In particular, J.P. Morgan agrees with the "Transparency" principle, which states that, "The ISO market relies on price signals to incent participant behaviors that align with ISO operating needs." J.P. Morgan also agrees with the "Durable and Sustainable" principle, which states that, "The ISO market ensures an efficient mix of resources to maintain reliability and attracts new investment when and where needed" and that, "Resources are commercially viable through a combination of ISO market revenues and forward contracts." As noted above, alignment of CAISO and CPUC goals and processes (RA and LTPP) will be critical if this principle is to be satisfied.

4. Please provide your organization's views on any incremental ancillary services you believe are necessary to accommodate the intermittency of renewable resources.

The CAISO has begun to appropriately focus on potentially necessary incremental ancillary services, such as ramping, load/resource-following (RTIS), and inertia and frequency response services. J.P. Morgan cautions the CAISO to continuously balance the need to address an operational issue and the creation of a new service. To the extent possible, the CAISO should rely on existing products, e.g., increase non-spin or regulation requirements. J.P. Morgan is concerned that further product segmentation could result in inappropriately thin markets and the inevitable imposition by the CAISO of market power mitigation measures that will only serve to undermine the "transparency" and "durable and sustainable" principles noted above. However, resources must be compensated for services provided and J.P. Morgan does not support the implementation of market software constraints or operating procedures that do not explicitly and appropriately price services procured. J.P. Morgan continues to support the development and implementation of products and services that value and price the provision of capacity-based services and other services that presently help ensure the stability of the power system.

5. Does your organization believe that Residual Unit Commitment should be performed more granularly than daily (i.e. on-demand RUC)? Is on-demand

RUC needed if the 15 minute unit commitment, either in RTED (Option A) or RTPD (Option B) looks forward 8-10 hours?

At present, J.P. Morgan does not see an apparent need to implement a more granular/frequent version of RUC. The existing RUC and RTPD processes appear to work. Rather than providing the CAISO additional opportunities for unit commitment during the day, J.P. Morgan suggests that the CAISO continue to refine its day-ahead and RTPD load and renewable resource forecast capabilities.

6. Please provide your organization's views on replacing today's Hour Ahead Scheduling Process (HASP) for inter-ties with a simpler method that would not involve establishing separate hourly prices for the inter-ties and that would not include bid cost recovery. Please suggest proposals concerning what accommodations are necessary at the inter-ties to provide scheduling flexibility for western market entities.

At present, under the West's existing interchange scheduling practices and timelines, J.P. Morgan does not support the elimination of the HASP. Intertie resources (imports and exports) rely on the price and schedule certainty afforded by the HASP in finalizing necessary external arrangements like transmission service and supply arrangements. If the rest of the West moves to a common intra-hour scheduling timeline, J.P. Morgan could support a CAISO transition to some form of two-settlement system where tie resources are settled in real-time and on a basis comparable to internal load and resources. In the interim, J.P. Morgan supports measures that reasonably address certain of the problematic aspects of the HASP-RT market differences (e.g., RTIEO charges). However, these measures should be targeted (e.g., further consideration of possible measures like those offered by Powerex) rather than proposals that have more widespread and problematic impacts (e.g., elimination of convergence bidding at the interties).

7. Does your organization prefer a two settlement market or a three settlement market? Please describe why.

See answer to (6) above. J.P. Morgan prefers a three-settlement system until and unless the WECC changes its existing scheduling timelines. J.P. Morgan requests that the CAISO clarify the "complexities" involved in a three-settlement system (presuming a three-settlement system applies to both internal and external resources). Are the complexities with respect to implementation and settlement system impact? The application of convergence bidding? Or does the CAISO have additional concerns regarding incentives/interplay between the three markets? J.P. Morgan acknowledges that the answers to these questions may make implementation of a full HA market impractical.

8. Please provide your organization's feedback on the concept of a 1 minute Real Time Imbalance Service (RTIS).

Implementation of an RTIS-type service makes some sense for purposes of satisfying the CAISO's likely load/resource following needs. Moreover, distinguishing between (and paying

different prices to) the resources providing RTIS and Regulation makes conceptual sense. However, as noted above in response to (4), J.P. Morgan urges the CAISO to carefully consider the implications of bifurcating these products/services. More importantly, J.P. Morgan requests that the CAISO provide detail regarding its specific operational requirements/needs and whether/how those requirements can be satisfied with the existing fleet of resources or whether additional resources are necessary.

- a. Does your organization agree that with RTIS, regulation should be changed to a bi-directional service?

J.P. Morgan understands that while the CAISO procures regulation service from varied resources today but that it predominantly relies on faster-moving resources. Therefore, changing Regulation to a bi-directional service that rewards fast-moving resources makes sense.

- b. Is one minute the correct dispatch interval for RTIS?

J.P. Morgan does not have a firm position on this issue. A shorter RTIS dispatch interval lessens the distinction from Regulation service – although the difference between 1 minute and 4 seconds is still distinguishable – and perhaps increases the cost exposure to resources unable to adjust their schedules on a frequent basis.

- c. How should RTIS be bid, selected, and dispatched? Should a mileage bid be used for dispatch with a market clearing mileage price determined each minute?

Conceptually, J.P. Morgan supports further exploration and development of pricing regime whereby RTIS resources are paid a capacity payment and, if they elect, a mileage-based price. J.P. Morgan further agrees that both the capacity and mileage-based price be based on a market-clearing price.

- d. Does your organization's opinion on RTIS differ depending on whether Option A or Option B is chosen?

No.

9. Please comment on your organization's preference for Option A or Option B with regard to the real time market. If neither option is feasible in your view, please provide input on how the real time market should be configured.

As noted above, J.P. Morgan does not support the elimination of HASP until the WECC moves to a more granular (intra-hour) scheduling timeline. To the extent that the CAISO eliminates the HASP, J.P. Morgan's preference is Option A, since inertia resources would appear to have a greater ability to lock in a price for a longer time period (15 minutes versus 5 minutes).

- a. Would 15 minute real time prices enable price responsive demand or demand response?

No comment.

- b. In Option A, with 15 minute RTED, what is your organization's opinion about a 10 minute ramp period?

10. How often should renewable resources be allowed to schedule?

All resources should be allowed to schedule on the same basis.

- a. In Option A does every 15 minutes make sense?
- b. In Option B should renewable generation be able to schedule every 5 minutes, 15 minutes, or some other time interval?
- c. Does it make sense to limit this scheduling opportunity to only renewable resources, or should it apply more generally? Who should be able to schedule more granularly than hourly?

11. Please provide any other comments your organization would like the CAISO to consider through this initiative.

No additional comments.