

## **J.P. Morgan Comments on CAISO Analysis of Real-Time Imbalance Energy Offset (CC 6477)**

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<b>Submitted by</b>	<b>Company</b>	<b>Date Submitted</b>
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J.P. Morgan appreciates the opportunity to provide these comments on the CAISO's August 24, 2009, Issue Paper regarding an "Analysis of Real-Time Imbalance Energy Offset (CC 6477)" (Issue Paper).

As stated in the CAISO's Issue Paper, the CAISO has initiated a near and long-term effort to address high charges under CAISO charge code 6477, Real Time Imbalance Energy Offset. The CAISO states that April amount billed through this charge code was \$14.13 million to Measured Demand. The CAISO states that it has identified two key drivers for the imbalance energy offset charges:

- Significant differences between HASP and RTD energy prices combined with high volumes of HASP energy (the CAISO states that this results in significant disparity in the cost of settling supply in the HASP and the settlement of real-time demand); and
- The effect of using an average energy hourly price for real-time imbalance energy settlement.

With respect to HASP-RTD price differences, the CAISO states that significant over-scheduling of load in the day-ahead IFM has resulted in depressed HASP prices. As a result of over-scheduling and resultant over-generation, CAISO operators have introduced downward biases in real-time forecasts and have exercised exceptional dispatch to reduce import energy and increase export energy. In addition, in order to secure sufficient ramping capacity, CAISO operators have also increased internal generation (to create more ramping capacity) and therefore had to decrease imports and increase exports (sell of excess HASP energy). Both of these factors – over-scheduling in the day-ahead and insufficient ramping capacity - have contributed to lower HASP prices and the divergence between HASP and RTD prices.

With respect to the effect of price averaging, the CAISO states that hourly-averaging – as opposed to pricing on an interval-by-interval basis - results in load being charged less when deviating upward and being paid more when deviating downward.

In order to address this issue and the above-identified system/market conditions on a long-term basis, the CAISO has identified the following four potential options:

- Option 1 is to develop a two-tier allocation for the Imbalance Energy Offset. Under this option, for Imbalance Energy offset charges, allocate the cost first (tier 1) to positive net Uninstructed Imbalance Energy and then (tier 2) to measured demand. The CAISO reasons that since positive net Uninstructed Imbalance Energy is a primary factor behind HASP negative instructed imbalance energy, such load should pick up the costs.
- Option 2 is to identify and address the causes of the large energy price differentials between RTD and HASP.
- Option 3 is to align the time intervals used for settlement of RT load Uninstructed Imbalance Energy and generation. To do so, the CAISO would use state estimator results to estimate Uninstructed Imbalance Energy for load for each settlement interval and settle those imbalances using the applicable interval price. This would fix the price averaging issue discussed above.
- Option 4 would be to use the RTD price to settle HASP tie transactions. The CAISO states that this option is similar to an approach on which the NYISO has recently been working.

The CAISO states that it plans to present the near-term proposal to its Board in September. The longer-term options will continue to be vetted with stakeholders.

#### Comments

J.P. Morgan agrees with the CAISO that the offset charges are largely a consequence of load over-scheduling in the day-ahead market and the CAISO's resulting actions. Based on the identified causes, J.P. Morgan supports Option 1, the development of a two-tier allocation for the Imbalance Energy Offset. J.P. Morgan support such a two-tiered allocation methodology so as to create an incentive for load to not over-schedule in the day-ahead market and manage the amount of positive net Uninstructed Imbalance Energy in the market. J.P. Morgan believes that Option 1 will also in part satisfy the objectives of Option 2.

While Options 3 and 4 may be viable considerations and merit further examination and consideration, J.P. Morgan recommends that the CAISO not pursue these options on a near-term basis. Prior to implementing these options, the CAISO should determine if Option 1 has the desired impact on load-scheduling behavior and in addressing the anomalous market conditions identified by the CAISO. J.P. Morgan requests that the CAISO provide further information regarding the market design details and implications and implementation complexities of Options 3 and 4.

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