Comments of J.P. Morgan Ventures Energy Corporation

Subject: CAISO Standard Capacity Product

Submitted by	Company	Date Submitted
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J.P. Morgan Ventures Energy Corporation (J.P. Morgan) offers the following initial overarching comments and recommendations on the CAISO's Standard Capacity Product effort. J.P. Morgan notes that it is difficult to answer many of the specific issues and questions posed by the CAISO without understanding and/or assuming how the feature in question works in conjunction with other elements of the design. Therefore, J.P. Morgan has purposefully limited its comments to issues regarding scope, the general nature of performance obligations, grandfathering, and credit requirements. J.P. Morgan will provide more specific comments on the identified issues as more detail is developed and the process unfolds.

I. CAISO Should Limit the Scope of Standard Capacity Product Effort – Based on the proposed timeline for completing this effort and the need to obtain FERC approval of the proposal by first quarter 2009, J.P. Morgan recommends that the CAISO limit the scope of the Standard Capacity Product initiative as follows:

- **Create a Standard Capacity Product –** True to its name, the CAISO should focus on creating a single standard Resource Adequacy capacity product. The CAISO should not focus on creating different "flavors" of a capacity product. Creating different "standard" products will only further segment an already non-transparent market in capacity. J.P. Morgan supports the creation of Standard Capacity Product capacity "tags" that are based on and equate to a resource's Net Qualifying Capacity. Net Qualifying Capacity should be based on both a resource's maximum performance capability as well as its deliverability (thereby appropriately acknowledging and valuing, consistent with the established Resource Adequacy rules, a resource's locational value).

- **Focus on Standard Performance Obligations and Penalties –** The CAISO should focus its design efforts on creating viable, transparent standard performance obligations that are applied to all qualifying capacity. The CAISO should not attempt to create differing performance obligations that are tailored to the unique operating and performance characteristics of individual resource types. The CPUC's counting rules and conventions already account for and acknowledged these differences. All the CAISO should focus on is whether a capacity resource is available as needed by the CAISO (i.e., has satisfied its offer obligations). In addition, the CAISO should develop and establish standard penalties for non-performance (lack of availability).

Whether financial penalties or reductions in Net Qualifying Capacity for future periods, the consequences for non-compliance with established performance obligations (availability) should apply evenly to all capacity resources.

- **Do Not Revisit or Refine Established RA Program Rules –** The CAISO should not include within the scope of this effort reexamination or refinement of the CPUC's established Resource Adequacy program rules. First, it does not appear that the CPUC has asked the CAISO to reexamine any aspect of its RA program rules and would not likely countenance any such reexamination or refinement. Second, reexamination or refinement of any of the CPUC's RA program rules is not achievable within the timeframe contemplated for this effort. J.P. Morgan recommends that for purposes of this effort the CAISO assume that the CPUC's existing RA program policies and rules are as established, including, but not limited to, counting rules, and the need for Load Serving Entity showings.

- **Secondary Features Should be Deferred –** The CAISO should not include within the scope of the Standard Capacity product effort development of a Bulletin Board or RA Registry. J.P. Morgan suggests that the development of more complex and automated registration, trading, reporting and compliance systems can be deferred until later, after FERC has ruled on the merits of the CAISO's SCP proposal and the CPUC has ruled on the propriety of implementing a centralized capacity market.

  J.P. Morgan does not believe that creation of SCP Bulletin Board is critical to facilitating the trading of capacity. First and foremost, the CAISO must define a standard capacity product. Once that is complete and FERC has ruled on the merits of the proposal, then the CAISO and stakeholders can focus on potentially complementary features such as a Bulletin Board. J.P. Morgan believes it is premature to develop such a mechanism until after the CPUC has ruled on the long-term capacity market structure for California.

  J.P. Morgan also supports deferring development of an electronic RA Registry until after FERC has ruled on the CAISO's Standard Capacity Product and the CPUC has ruled on the merits of creating a centralized capacity market. J.P. Morgan notes that even the parties advocating the development of an RA Registry in filings before the CPUC state that, "The Joint Parties wish to underscore their view that, although an electronic registry has obvious advantages, its immediate availability is not essential to implementation of the Proposal [creation of a standard capacity product] advanced herein." (Joint parties at p.10). J.P. Morgan supports this viewpoint.

  Finally, J.P. Morgan recommends that the CAISO endeavor to rely on existing mechanisms and procedures to complement and implement the Standard Capacity Product. J.P. Morgan believes that the existing Supply Plan procedures could continue to be used to identify and register capacity resources and will play an import role in distinguishing between capacity that must satisfy the standard performance obligations and that capacity that has been grandfathered.

  J.P. Morgan supports mechanisms that will ensure the clear and clean transfer of Resource Adequacy capacity between parties. J.P. Morgan believes that a confirmation letter is one such mechanism. J.P. Morgan does not believe that development of a standard approach to transferring Resource Adequacy capacity is a crucial element to the CAISO's initial proposal or filing. The CAISO should accommodate the use of non-standard forms or letters to codify the transfer of Resource Adequacy capacity from one party to another and should defer consideration of standard forms (confirmation letter) or mechanisms (automated Registry) until a later time.

- **No New Credit Requirements –** J.P. Morgan does not believe that SCP-specific credit requirements need to be developed by the CAISO. In general, J.P. Morgan recommends that the CAISO factor SCP-compliance measures into their existing overall Scheduling Coordinator-based credit requirements and that the CAISO should continue to establish credit requirements on a Scheduling Coordinator's aggregate market liabilities or exposure.

II. Performance Obligations - J.P. Morgan is not opposed to expanding the existing Resource Adequacy – Must Offer Obligation to include a requirement to provide Ancillary Services, if capacity resources are so capable/qualified. J.P. Morgan believes that an RA-MOO for Energy and Ancillary Services is sufficient and that compliance with the established RA-MOO should be tied to availability during a defined set of peak hours. J.P. Morgan recommends that the CAISO not attempt to develop overly complex metrics for performance but instead focus on a resource's compliance with the core established offer obligations.

III. Grandfathering - J.P. Morgan supports grandfathering of existing Resource Adequacy contracts. Existing contracts already define performance obligations for Resource Adequacy suppliers and the consequences/penalties for non-compliance. To require the parties to those contracts to conform to any new CAISO Tariff specified performance obligations and related penalties would necessitate renegotiation of the existing Resource Adequacy contracts. While not only a burden on the parties, renegotiation of such contracts in the timeframe contemplated by the CAISO for implementing a Standard Capacity Product is unrealistic.

On a going-forward basis and for new Resource Adequacy contracts, J.P. Morgan supports a clear hand off of responsibility for satisfying any established CAISO Tariff performance obligations from the applicable Load Serving Entity to the Resource Adequacy capacity supplier once the applicable Load Serving Entity has made its Resource Adequacy compliance showing, the transfer in responsibility has been confirmed by the parties, and the compliance period has begun.

J.P. Morgan appreciates the opportunity to submit these comments and looks forward to working collaboratively with the CAISO and other stakeholders on this matter.