Comments of J.P. Morgan Ventures Energy Corporation
Subject: CAISO's Standard Capacity Product 2nd Draft Final Proposal

Submitted by	Company	Date Submitted
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J.P. Morgan Ventures Energy Corporation (J.P. Morgan) appreciates this opportunity to comments on the California ISO's (CAISO's) February 27, 2009, Standard Resource Adequacy Capacity Product (SCP) 2nd Draft Final Proposal. J.P. Morgan continues to support the development of a SCP and the objective of finalizing development of the SCP and submitting it for approval by FERC by the end of the first quarter of 2009 or soon thereafter. J.P. Morgan supports development and implementation of a SCP to facilitate the development of a viable and transparently-priced market for needed capacity. J.P. Morgan believes that development of a SCP, if done correctly, can be an important building block towards establishing a robust long-term resource adequacy program in California.

J.P. Morgan supports most of the elements of the CAISO's final SCP proposal. As further outlined below, J.P. Morgan continues to have concerns with the respect to the treatment of ambient derates, the proposal to defer application of the SCP provisions to certain resources, and aspects of the CAISO's proposed unit substitution policy. In addition, J.P. Morgan looks forward to reviewing further details of the expanded must-offer obligation. These concerns notwithstanding, J.P. Morgan thanks CAISO staff for its willingness to respond to stakeholder comments and concerns throughout this process and appropriately adapt the CAISO proposal.

Ancillary Services Must-Offer Obligation

- ***Subject to reviewing further details, J.P. Morgan supports implementation of an expanded resource adequacy must-offer obligation***

J.P. Morgan supports implementation of an expanded resource adequacy must-offer obligation. Specifically, J.P. Morgan supports an expanded resource adequacy must-offer obligation whereby a resource adequacy resource must offer all available energy *and* ancillary services into the CAISO day-ahead market and Residual Unit Commitment (RUC) process. However, J.P. Morgan is opposed to any exemptions to this requirement, be they for hydro or any other use-limited resource. As stated in its previous comments, J.P. Morgan supports application of the expanded must-offer obligation to all use-limited resources in a manner consistent with the resource's demonstrated and approved use limitations. Specifically, J.P. Morgan supports application of the expanded must-offer requirement to hydro and other use-limited resources such that these resources have to offer ancillary services at a level commensurate with the daily energy offers/bids (which presumably are consistent with their use limitations). Finally, J.P. Morgan reserves the right to revise and update its position once the details of the expanded must-offer obligation have been developed and set forth in draft CAISO tariff language. It will be important to fully understand the specific application (nature and timing) of the requirement to various types of resources (e.g., long-start, short-start, energy-limited resources, resources with certain operating constraints such as Forbidden Operating Regions, etc.) that participate in the CAISO's markets.

Availability Standards and Incentives

Availability Standards

- ***J.P. Morgan supports the CAISO's proposal to establish a standard target availability value for each month that is based on an assessment of the historic (3-yr.) availability of the resource adequacy resource fleet during certain defined peak hours.***

J.P. Morgan supports the CAISO's proposal to establish a standard target availability value for each month of the year that is based on an assessment of the historic availability of the resource adequacy resource fleet (rather than the historic availability of individual resources) during a pre-defined set of peak hours for the prior three years. For purposes of initial implementation of the SCP proposal, J.P. Morgan supports the CAISO's proposal to define the peak hours being from 14:00 – 18:00 April-October, and 17:00–21:00 January-March and November-December (excluding all weekends and federal holidays). J.P. Morgan acknowledges that the definition of peak hours may evolve as the CAISO gains experience with the SCP program and as California further develops its long-term resource adequacy program. J.P. Morgan also supports the CAISO's proposal to base availability on whether or not a resource is on a "Forced Outage", as defined under the CAISO Tariff.

J.P. Morgan supports the CAISO's proposal to establish a monthly target availability value, since the development of monthly values may be more equitable than annual metrics and may better match outage profiles throughout a compliance year. J.P. Morgan also supports the inclusion of "grandfathered" resources in the calculation of the target availability value since exclusion of such resources (as well as Use Limited Resources and non-resource specific imported RA resources) may inappropriately reduce the pool of resources/data used to set the availability value.

Performance Incentives

- ***J.P. Morgan supports the CAISO's proposal to assess non-availability charges to those resource adequacy resources that fail to achieve the target availability value during the applicable month and to pay resources that exceed the target availability value.***

J.P. Morgan supports the CAISO's proposal to adopt and impose financial penalties on those resources that fail to satisfy adopted availability standards. J.P. Morgan supports implementation of a financial penalty based system and believes that a financial penalty based program is workable under today's resource adequacy construct and is preferable to a NQC-adjustment based system.

J.P. Morgan supports the CAISO's proposed financial penalty system, including the application of the penalty rate to a resource's entire resource adequacy capacity if it fails to maintain at least a 50% availability rate during the compliance month. In addition, J.P. Morgan supports the CAISO's proposed 5% dead band.

As stated in its previously submitted comments, J.P. Morgan supports the CAISO's proposal to initially use the FERC-approved, Interim Capacity Procurement Mechanism (ICPM) rate of $41/kW-year as the initial financial penalty under the SCP program. In addition, J.P. Morgan supports the CAISO's proposal to use penalty revenues to reward capacity resources that exceed the established availability metrics during the compliance period. J.P. Morgan also agrees that the bonus payment program be structured ("capped") so that the per MW value of bonus payments not exceed three times the non-availability charge rate (e.g., the ICPM rate) and to allocate any excess funds back to load (via real time neutrality). While supportive of the CAISO's proposal for purposes of initial implementation of the SCP, J.P. Morgan recommends that the CAISO periodically reevaluate the effectiveness of the proposed penalty/bonus payment mechanisms. Finally, J.P. Morgan supports the CAISO's proposal to settle all penalty and bonus payments in the same settlement month.

<u>Source of Outage Data</u>

- ***J.P. Morgan supports the use of CAISO SLiC data for purposes of initial 2010 implementation of the SCP program but urges the CAISO to transition to the use of NERC GADS data one year after implementation.***

As outlined in its previous comments, J.P. Morgan recommends that the CAISO use and rely on NERC GADS data to support the SCP program. That fact notwithstanding, J.P. Morgan can support the CAISO's proposal to initially rely on CAISO SLiC data so long as the CAISO commits to transition to NERC GADS by a future date certain, preferably no later than one year after start-up of the SCP program. J.P. Morgan continues to believe that reliance on a generally-accepted and used data base such as GADS will facilitate collection and analysis of resource performance not only within California but across organized markets. As noted previously, J.P. Morgan notes that section 40.4.5 of the CAISO MRTU Tariff already contemplates use of NERC GADS data to implement a performance criteria program.

Ambient Outages

- ***J.P. Morgan suggests that ambient derates may best be addressed by factoring them in to a resources Net Qualifying Capacity.***

As outlined in its previous comments, it is not clear to J.P. Morgan why SLiC “Ambient Card” derates would be counted against a resource’s availability for purposes of implementing the SCP. It would appear that such derates should be factored into a resource’s Net Qualifying Capacity and thus the amount of capacity available to be sold as resource adequacy capacity. If factored into a resource’s NQC, it would appear unnecessary to then count such ambient derates against a resource’s availability, since the portion of its capacity associated with the ambient derate could not be sold as resource adequacy capacity in the first instance.

J.P. Morgan also notes that, as proposed, the CAISO’s proposal may be difficult to implement. The CAISO proposes to count “Ambient Outages” against a resource’s availability except for Ambient Outages caused by “Uncontrollable Forces” and Ambient Outages that are the result of CAISO actions that cause an energy-limited resource to run up against its use limitations. The CAISO defines “Uncontrollable Forces” per the CAISO Tariff and consistent with the standard industry term. However, it remains unclear the extent to which “weather” in general falls within the definition of an uncontrollable force or act of God. While the established definition cites to specific weather extremes (e.g., storm, flood, earthquake, etc.), J.P. Morgan posits that it may be difficult to determine what weather conditions are “normal”; even slight variations in weather (e.g., ten degrees above normal on a given day) are arguably “uncontrollable” and may have an impact on a resource’s performance capability. Finally, J.P. Morgan cautions the CAISO that its proposal may require fairly extensive monitoring and evaluation regarding the submission of SLiC outages and whether those outages have been appropriately categorized by market participants (since two categories of forced outages for an “Ambient” derate will not count against a resource’s availability, e.g., use-limited resources that hit an energy constraint and those caused by an “uncontrollable force”, while one category will, e.g., temperature-related ambient derates).

J.P. Morgan recommends that the CAISO reconsider this proposal and perhaps simplify the approach by factoring ambient conditions into a resource’s Net Qualifying Capacity and thus avoid the necessity of monitoring and evaluating SLiC tags. In support of such an approach, J.P. Morgan recommends that the CAISO implement a robust resource adequacy resource testing process in order to validate the capability of resource adequacy resources during the applicable peak hours. Such testing process should be incorporated into and become part of the CAISO’s Net Qualifying Capacity determination process. J.P. Morgan notes that the PJM Interconnection uses a 15-year average of ambient conditions at the time of the system’s annual peak load as measured at the plant site to determine the weather conditions for rating units.

Deferrals/Exemptions

- ***In principle, J.P. Morgan does not support any going-forward exemptions to the SCP standards and performance incentives. J.P. Morgan recommends that the CAISO not defer application of the SCP provisions to Wind, Solar, QF, and Demand Response resources and that the counting issues regarding such resources be expeditiously addressed at the CPUC.***

The CAISO proposes to defer application of the SCP requirements to Wind, Solar, QF, and Demand Response resources. J.P. Morgan supports application of the SCP requirements uniformly to all resources and resource types. J.P. Morgan understands that application of the CAISO's proposed SCP availability and performance incentive provisions to the above resources may result in a double counting of outages for these resources. However, rather than defer application of the SCP provisions to these resources, J.P. Morgan recommends that the resource counting conventions for the above-identified resources be addressed at the CPUC. J.P. Morgan understands that the counting methodology for intermittent resource adequacy resources is currently the subject of an ongoing proceeding at the CPUC. J.P. Morgan recommends that the CAISO work closely with the CPUC and other parties to that proceeding to fundamentally revise the counting methodology for Wind, Solar, QF, and Demand Response resources to resolve this issue. Alternatively, and at a minimum, the CAISO and CPUC and other interested parties should work together to ensure that forced outages are excluded from the historic availability calculations currently used in the counting methodology for such resources. On a long-term basis, J.P. Morgan is concerned that any temporary deferral of the application of the SCP provisions to these resources may become permanent. Moreover, based on the projected large increase in the amount of these types of resources over the next several years, J.P. Morgan is concerned that the exclusion of these resources from the SCP provisions will render the SCP program ineffective.

Treatment of Non-Resource Specific Imports

- ***J.P. Morgan supports the CAISO's proposal to apply an availability standard to resource adequacy imports.***

J.P. Morgan supports the CAISO's proposal to apply a unique availability standard to resource adequacy imports. Specifically, J.P. Morgan supports the CAISO's proposal to base a non-resource specific import's availability on whether such a resource has offered into the CAISO's day-ahead market. J.P. Morgan agrees that such resources should be required to offer 100% of the time and that transmission derates or outages should not count against an import resource's availability.

Unit Substitution

- ***J.P. Morgan supports unit substation but recommends that the CAISO permit any capacity resource within a given Local Area to substitute for a resource adequacy resource on a forced outage.***

J.P. Morgan supports the CAISO's proposal to allow unit substitution, i.e., allowing a supplier of resource adequacy capacity to substitute a non-resource adequacy capacity resource in the event of a forced outage of its resource adequacy resource. J.P. Morgan also supports the CAISO's proposal to require "pre-approval" of the resources that may be used for unit substitution.

While J.P. Morgan supports the CAISO's focus on establishing criteria regarding the unit substitution rules for local capacity resources, J.P. Morgan does not agree with the CAISO's proposal to limit permissible substitutions to resources that provide "equivalent system reliability benefits."[1] As stated in its previous comments, J.P. Morgan is concerned that the CAISO's proposal and proposed criteria goes beyond the definition and qualifying criteria for local capacity resources. While J.P. Morgan understands that CAISO operators may at times request the dispatch of specific resources to provide specific local area needs such as voltage support, since the CAISO's local capacity criteria is more broadly defined it is inappropriate for the CAISO to apply a more stringent or restrictive criteria in the application of its unit substitution policy. Therefore, J.P. Morgan recommends that the CAISO permit any capacity resource located within a given Local Capacity Area to substitute for a Local Capacity Area Resource Adequacy resource on a forced outage.

Credit Requirements

- ***J.P. Morgan agrees with the CAISO that no new SCP-specific credit requirements are needed.***

The CAISO states that there no need for a "special" credit policy for SCP and that the general credit policy as described in Section 12 of the CAISO Tariff is sufficient to ensure credit coverage (CAISO paper at p.32). J.P. Morgan agrees with this assessment.

[1] J.P. Morgan notes that the CAISO, in its previous White Paper, previously proposed that substitute resources offer capacity that was "electrically equivalent (connected at the same bus or otherwise suitable)" as the resource adequacy resource on outage. While that specific language has been removed, the CAISO continues to state that "additional scrutiny is appropriate" (p.31 of 35) and it appears that the CAISO intends to apply the "electrically equivalent" criterion.

Transition Issues

- ***J.P. Morgan supports the CAISO's proposal to grandfather resource adequacy contracts entered into prior to January 1, 2009,***

In principle, and as stated in its previous comments, J.P. Morgan supports appropriate grandfathering of existing resource adequacy agreements. J.P. Morgan generally supports the CAISO's revised proposal regarding the treatment of grandfathered contracts (i.e., full grandfathering without condition for contracts entered into prior to January 1, 2009, and application of the SCP to all contracts entered into after January 1, 2009) and the elimination of any "no trade" restrictions for grandfathered contracts.

In addition, J.P. Morgan supports the CAISO's proposal that renewals or evergreen type extensions of current resource adequacy contracts will not extend the term of the SCP-grandfathering applicable to such contracts. Finally, J.P. Morgan agrees with the CAISO's requirement that parties to grandfathered contracts be required to certify to the start and end date of the contract, the resource ID, and the amount of capacity that is grandfathered.

Conclusion

J.P. Morgan very much appreciates the opportunity to submit these comments on the CAISO's 2nd Draft Final Proposal Standard Capacity Product and the effort of CAISO staff in continuing to move this effort forward and toward a final conclusion and FERC filing.