J.P. Morgan Comments
Subject: Capacity Procurement Mechanism and Compensation and Bid Mitigation for Exceptional Dispatch

Submitted by	Company	Date Submitted
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This template has been created to help stakeholders provide their written comments on the September 15, 2010 "Revised Draft Final Proposal for Capacity Procurement Mechanism and Compensation and Bid Mitigation for Exceptional Dispatch." Please submit comments in Microsoft Word to bmcallister@caiso.com no later than the close of business September 29, 2010.

This template is structured to assist the ISO in clearly communicating to the ISO Board of Governors your company's position on each of the elements of the Revised Draft Final Proposal. In particular, the ISO is interested in whether your company generally supports or does not support each element of the proposal and your reasons for those positions. Please provide your comments below.

Proposal Element	Generally Support	Do not Support
1. File CPM and Exceptional Dispatch tariff provisions with no sunset date.		While J.P. Morgan supports establishing a permanent CPM, J.P. Morgan does not believe that the CAISO's proposal is sustainable. The CAISO's proposal will inevitably have to be updated and a more complete design established in order to establish the locational and transparent prices necessary to support reliability. (See also item (9) and "Other Comments", below).
2. Provide that ICPM procurement with a term that extends beyond March 31, 2011 can be carried forward into CPM and paid at CPM rate after March 31 without doing a new CPM procurement.	J.P. Morgan generally supports this transition measure.	

Proposal Element	Generally Support	Do not Support
3. Pro-rate the compensation paid to CPM capacity that later goes out on planned outage after being procured under CPM.		J.P. Morgan does not believe it is reasonable to pro rate the revenues due a CPM resource based on the number of days it is out on a planned outage. The CASO should not establish an incentive for resources to not perform planned maintenance. To the extent the CAISO proceeds with implementing this element and consistent with J.P. Morgan's earlier comments, the CAISO should explicitly allow resources to provide equivalent substitute capacity from another resource for the days when the CPM resource is out of service and allow a resource the explicit option of rescheduling its planned outage. In addition, resources that are offered a CPM designation should have priority in rescheduling previously planned and approved outages.
4. Improve current criteria for selecting from among eligible capacity for CPM procurement by adding a criterion to establish a preference for non-use-limited resources over use-limited resources.	J.P. Morgan generally supports this element. However, consistent with its earlier comments, since the CAISO has information regarding use-limited resources, J.P. Morgan recommends that the CAISO use that information to determine the potential availability of a use-limited resources when evaluating which resources are capable of addressing a CPM need.	
5. Improve current criteria for selecting from among eligible capacity for CPM procurement by adding a criterion to establish an ability to select for needed operational characteristics.	J.P. Morgan generally agrees with this element of the CAISO's proposal. See also "Other Comments" below and interplay with RA and LTPP processes identified in ietms (7) and (8).	
6. Procure capacity to allow certain planned transmission or generation maintenance to occur.	J.P. Morgan generally agrees with this element of the CAISO's proposal. See also "Other Comments" below and interplay with RA and LTPP	

Proposal Element	Generally Support	Do not Support
	processes identified in items (7) and (8).	
7. Procure capacity in situations where the output of intermittent Resource Adequacy resources is significantly lower than their RA values.	J.P. Morgan generally agrees with this element of the CAISO's proposal. See also "Other Comments" below. However, J.P. Morgan is concerned that reliance on this mechanism could indicate a serious deficiency in the existing RA program and the related resource-counting conventions. Consistent use of this mechanism indicates need to revisit the RA counting rules.	
8. Procure capacity that is needed for reliability but is at risk of retirement.	J.P. Morgan generally agrees with this element of the CAISO's proposal. See also "Other Comments" below. However, J.P. Morgan is concerned that reliance on this mechanism could indicate a serious deficiency in the existing RA program. If resources are needed for reliability, such resources should be procured through forward contracts executed pursuant to the RA requirements. In addition. J.P. Morgan remains concerned about the financial information requested, and presumed to be analyzed, by the CAISO to determine an entity's financial condition. J.P. Morgan does not agree that the CAISO is in a position to make such assessments and should instead rely on the representation (e.g., notice to terminate its PGA) by the entity regarding its intent to cease operation.	

Proposal Element	Generally Support	Do not Support
9. Base compensation paid for CPM on “going-forward fixed costs” plus a 10% adder ($55/kW-year per CEC report), or higher price filed/approved at FERC.		J.P. Morgan does not support the CAISO’s proposal to pay CPM resources based on an assessment of going forward fixed costs. Alternatively, J.P. Morgan supports a cost-of-new-entry based (CONE) methodology, similar to that previously outlined and considered by the CAISO. Compensating CPM resources at going-forward fixed costs will not ensure that existing resources will be made available to the CAISO to support the short-term reliability of the system and will not create incentives or price signals for new resources to enter the market and support the long0term reliability of the system. See also “Other Comments” below.
10. Compensate Exceptional Dispatch at same rate as compensation paid under CPM, or supplemental revenues option.	J.P. Morgan supports this element of the proposal in concept. However, the CAISO must address the material deficiency in its pricing proposal (see item (9) above).	
11. Mitigate bids for Exceptional Dispatches: (1) to mitigate congestion on non-competitive paths, and (2) made under “Delta Dispatch” procedures.	Consistent with its earlier comments, J.P. Morgan does not believe that the CAISO should mitigate bids absent an affirmative showing that a resource has market power. Toward that point, and consistent with its earlier comments, J.P. Morgan recommends that the CAISO reevaluate and reform its existing local market power mitigation (LMPM) measures and the Competitive Path Assessment (CPA) underlying the LMPM methodology.	

<u>Other Comments</u>

1. If you would like to provide additional comments, please do so here.

As a general matter, J.P. Morgan supports a broad CAISO backstop capacity procurement authority. However, under the current resource adequacy regime in California, CAISO backstop capacity procurement should be limited and most capacity needs should be satisfied through forward contracts between load-serving entities and capacity resources entered into pursuant to the requirements of the RA program and the Long-Term Procurement Plan (LTPP) process. Notwithstanding this position and the need to minimize CAISO backstop procurement, it is imperative that the value of capacity to the system for maintaining reliability be transparently priced through the market. Absent clear price signals, the market cannot and will not respond to satisfy the short-term and long-term reliability needs of the system. As it exists today, the bilateral RA program does not, and is incapable of establishing, such transparent locational market price signals and such RA prices are influenced by administrative caps. It is therefore critical that the CAISO value (price) capacity, even if its procurement is "at the margin" and represents a minimal procurement when compared to capacity secured through forward contracts.

J.P. Morgan recommends that CAISO needs/requirements be transparently identified and priced through the market. Once priced through the market, both load and supply and can make informed decisions regarding procurement of resources and investments in generating/demand-based resources. Consistent with J.P. Morgan's previous comments in this process, J.P. Morgan recommends that the CAISO adhere to the following market design principles:

1) endeavor to price in its markets all known and observable CAISO operating requirements (and thus reduce out-of-market operator actions like Exceptional Dispatch and transmission limit biasing);

2) endeavor to transparently reflect the true costs of meeting all operational requirements (such as the need to commit units at minimum load) in market prices; and

3) ensure that resources needed to satisfy CAISO market and operating requirements are fairly compensated and that such compensation establishes appropriate incentives for new and existing resources (be they generation or demand-based) to make themselves available to satisfy the CAISO's requirements.

Once defined and priced by the CAISO, these operating requirements can be appropriately factored into and influence necessary forward planning efforts and contracting. These efforts include evolution and refinement of the CPUC's/CAISO's resource adequacy requirements, refinement of the CPUC's Long-Term Procurement Plan ("LTPP") rules, CAISO market design enhancements, and the process for replacement of resources that rely on Once Through Cooling (OTC) technology.

However, J.P. Morgan urges the CAISO to not rely exclusively on these planning efforts to satisfy its operating and reliability requirements. The CAISO market and tariff pricing provisions are an invaluable tool in informing forward contracting decisions. J.P. Morgan therefore recommends that the CAISO establish a CONE-based CPM pricing methodology that establishes appropriate incentives for new and existing resources (be they generation or demand-based) to make themselves available to satisfy the CAISO's reliability requirements.