

J.P. Morgan Comments

CAISO Issue Paper & Straw Proposal - Price Inconsistency Caused by Intertie Constraints

Submitted by	Company	Date Submitted
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J.P. Morgan Ventures Energy Corporation and BE CA LLC (together, "J.P. Morgan") appreciates the opportunity to submit these comments on the California ISO's ("CAISO's") Price Inconsistency Caused by Intertie Constraints proposal.

Background

On April 27, 2011, the CAISO issued a paper entitled "Price Inconsistency Caused by Intertie Constraints." The paper identified options for addressing certain intertie dispatch/pricing inconsistencies that have occurred in the market since the start of Convergence Bidding. The CAISO has identified two options for addressing the issue: 1) use different settlement LMPs for physical and virtual awards (if the physical constraint is binding); and 2) enforce both constraints, use economic curtailment to ensure that participants whose bids are selected in a range outside their offer. At this point in time, the CAISO currently favors option 1. The CAISO also stated that it did not favor the a bid cost recovery ("BCR") based approach because it implicitly, rather than explicitly, creates two different prices.

Comments

At this juncture, and based solely on the options presented by the CAISO, J.P. Morgan supports option 2, economic curtailment. J.P. Morgan is concerned that option 1, under which the CAISO would use different LMPs to settle virtual and physical awards at the same location, may obviate the benefits of convergence bidding at the ties and may create unintended market consequences, such as reducing imports/exports since importers/exporters may be unable to establish an effective hedge against their physical position..

Prior to concluding on or implementing any solution, J.P. Morgan requests that the CAISO provide more specific information on the applicable WECC requirements (and thus the basis for the CAISO's scheduling limit constraint), including all applicable standards and the timeline that such requirements must be satisfied, i.e., day-ahead, hour-ahead/prior to real-time. In addition, J.P. Morgan requests that the CAISO provide more information on how other RTOs/ISOs with

virtual bidding address this issue since, J.P. Morgan presumes, they operate under comparable NERC/regional reliability council standards.

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