

J.P. Morgan Comments

CAISO Revised Straw Proposal and Options for an Intermediate Term Solution – Redesign of Real-Time Imbalance Energy Offset

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”) paper entitled “Redesign of the Real-Time Imbalance Energy Offset Revised Straw Proposal and Options for an intermediate Term Solution.”

Background

On April 27, 2011, the CAISO issued a paper entitled “Impact of Convergence Bidding on Real-Time Imbalance Energy Offset.” As explained by the CAISO, the real-time imbalance energy offset is a neutrality adjustment - either a charge or a payment to demand -based on whether the CAISO has sufficient revenue from real-time demand market charges to compensate supply procured in the real-time market, which includes the hour ahead scheduling process (HASP). If revenues are insufficient, the CAISO must charge demand. If revenues exceed the amount needed to pay supply, the excess is returned to demand. In that paper the CAISO stated that since HASP prices are generally and consistently lower than real-time dispatch (RTD) prices, that this price difference encourages arbitrage between intertie supply and internal demand. The CAISO proposed a new settlement rule that reverses HASP to RTD revenues for the balanced portion of a Scheduling Coordinator’s portfolio.

On May 18, 2011, the CAISO issued a “Revised Straw Proposal and Options for an Intermediate Term Solution” (“CAISO Paper”). The CAISO Paper states that the CAISO has been working on improvements to address the HASP-RTD price differential, that these efforts have resulted in a significant reduction in offset costs and therefore that, “...the ISO believes it prudent to take additional time to develop a more comprehensive intermediate term solution instead of moving ahead with the proposed short-term settlement rule.” As stated by the CAISO, “The intermediate term solution now being contemplated will address the different timing for establishing the binding prices for imports/exports and internal demand/generation in the real-time market and

evaluate additional changes to the allocation methodology.” The CAISO Paper also states that a longer-term redesign of the real-time market will be addressed in the Renewable Integration Phase 2 stakeholder initiative.

Comments

J.P. Morgan supports the CAISO decision to not move forward with implementation of the previously proposed short-term settlement rule. For the reasons stated in its previous comments on this issue, J.P. Morgan does not support the proposed settlement rule. For those same reasons, J.P. Morgan also does not support implementation of the rule on an emergency basis. While J.P. Morgan is not opposed to consideration of intermediate-term solutions, J.P. Morgan urges the CAISO to devote its resources to the design and implementation of long-term solutions, such as the redesign of the real-time market. Such an effort is large and complex and must be completed in a timeframe that not only addresses the instant issue but supports the CAISO’s larger renewable integration effort. J.P. Morgan urges the CAISO to move forward expeditiously with the Renewable Integration Phase 2 effort and to actively engage the CAISO’s Market Surveillance Committee in these discussions.

J.P. Morgan also cautions the CAISO to not move too quickly to implement temporary intermediate-term solutions. As acknowledged by the CAISO, real-time imbalance offset charges have decreased (trended down) in recent weeks, thus market conditions and related market activity appear to be obviating the need for any short-term or intermediate-term solutions or market rule changes. At this juncture, J.P. Morgan does not support implementation of either a “Pay as Bid” or “Bid or Better” pricing methodology (both based on establishing an indicative HASP price and settling on the bid or RTD price, respectively). Nor does J.P. Morgan support changes to the offset allocation methodology. These alternatives appear to be second-best alternatives to a longer-term solution, would create further differences between the treatment of internal and external resources, and therefore may have unintended consequences. Rather, as expressed above, the CAISO should focus its effort on the long-term redesign of the real-time market.

Finally, consistent with its recommendation to address the longer-term systemic issues that give rise to HASP-RTD price differences, J.P. Morgan supports consideration of the issues raised, and the related proposal put forth, by Powerex regarding when internal virtual bids are liquidated and how they are considered when assessing CAISO system needs (see <http://www.caiso.com/2b7c/2b7c82444d660.pdf>).

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