J.P. Morgan Comments on CAISO Issue Paper Post-Five Day Price Corrections

Submitted by	Company	Date Submitted
Steve Greenleaf *(916) 802-5420*	*J.P. Morgan*	*February 19, 2010*

J.P. Morgan Ventures Energy Corporation and BE CA, LLC (collectively, "J.P. Morgan") appreciates this opportunity to provide comments on the California ISO's (CAISO's) February 5, 2010, Issue Paper entitled Post-Five Day Price Corrections ("Issue Paper").

J.P. Morgan supports the CAISO's effort to establish a clear and transparent post-five day price correction policy and process. Post-five day price corrections can significantly impact not only market participants directly participating in the CAISO's markets, but also those that entered into bilateral trades that are based on posted CAISO prices. J.P. Morgan supports development of a clear and transparent price correction process that appropriately limits price corrections outside the current five-day price correction window. While J.P. Morgan supports post-five day adjustments to settlement statements and invoices that occur through the CAISO's established settlement dispute process, J.P. Morgan does not support a post-five day price correction process with an extended look-back period.

In general, J.P. Morgan agrees that the CAISO has identified the correct set of trade-offs in the Issue Paper. While J.P. Morgan urges the CAISO to develop and implement the processes necessary to avoid price corrections made outside the established price correction window, J.P. Morgan understands the need to establish a policy for addressing price corrections that may have a significant settlement impact on a large number of market participants. Of course, J.P. Morgan realizes the difficulty in defining "significant" and "large" in this context. While frequently used thresholds, such as 10%, are useful, J.P. Morgan would not necessarily want to foreclose price corrections below any such arbitrary measure. Moreover, the CAISO would need to specify whether price corrections would only occur if the 10% threshold is exceeded from both a financial impact and scope (number of market participants) perspective. However, in such instances when only a small (less than 10%) portion of the market is directly impacted, it may be appropriate to pursue settlement adjustments through the CAISO's dispute process.

J.P. Morgan also recommends that, when developing a post-five day price correction policy, the CAISO consider the impact on bilateral trades that occur and are settled outside of the CAISO's markets. While the current Western Systems Power Pool (WSPP) contract permits corrections indefinitely with no defined time period within which a notice must be sent, a standard ISDA allows corrections if corrections are made within 30 days of original publication and demand for an adjustment to an invoice is made within 30 days of publication or correction. While J.P. Morgan recognizes that this provision does frequently get negotiated on a one-off basis to extend the period to one year, the standard contract does not so provide. Finally, the standard EEI contract identifies price corrections as an optional provision. EEI has two contract versions, one which is modeled off of the ISDA contract but allows for adjustments by Regional Transmission Organizations (RTOs), relying not on the 30 days but the time period established by the applicable RTO for price corrections. The other and older EEI contract allows two years for corrections, but requires that parties make a demand for recalculation within 30 days of the price correction. Based on these provisions, while price corrections can generally be accommodated, the effort involved can be significant and burdensome and J.P. Morgan therefore recommends that the CAISO consider a limited look-back period, perhaps no greater than 30-days.

J.P. Morgan appreciates the opportunity to provide these comments on the CAISO's Issue Paper.