

J.P. Morgan Ventures Energy Corporation Comments on Standard Capacity Product Process

General Comments on Process

J.P. Morgan Ventures Energy Corporation (J.P. Morgan) appreciates this opportunity to comment on the California ISO's (CAISO's) Standard Capacity Product (SCP) initiative. J.P. Morgan supports the CAISO's proposal to conduct a stakeholder process so that a SCP can be adequately defined for approval at a January 2009 CAISO Governing Board meeting and the necessary CAISO tariff changes filed at the Federal Energy Regulatory Commission (FERC) shortly thereafter. While the CAISO's proposed SCP Development Timeline is aggressive, J.P. Morgan recommends that the CAISO plan, and hold to, that general schedule. Necessary adjustments to the schedule can be made along the way.

J.P. Morgan also urges the CAISO to assume and take a leadership role in driving this process to conclusion. While stakeholders will play an important contributing role, it is imperative that the CAISO lead, manage and facilitate the process. First, as discussed on October 20th, certain of the SCP-related issues are and will be contentious and the CAISO will need to serve as an impartial arbiter. Second, as stated by California Forward Capacity Market Advocates and supported by others, the CAISO has a unique and important perspective on the operational and reliability requirements that will underlie the SCP. As a next step, J.P. Morgan recommends that the CAISO develop and release a detailed project schedule within the next week that satisfies both the CAISO's general timeline as well as the process requirements outlined in the October 20th presentation. Once the detailed schedule is developed, hopefully both the CAISO and stakeholders can work together on meeting logistics. J.P. Morgan appreciates the difficulty of scheduling and facilitating the requisite number of meetings over the next several months, but is confident that stakeholders will step forward to sponsor certain of the meetings once a schedule is outlined.

Priority Issues

J.P. Morgan generally supports the presentation and process recommendations made by Strategic Energy on the CAISO's October 20, 2008, SCP conference call. J.P. Morgan agrees that the primary issues that need to be addressed during the CAISO stakeholder process include: 1) definition of performance/availability standards; 2) definition of appropriate penalties for non-performance (financial, capacity derate, or replacement capacity); 3) definition of "capacity tag" and 4) establishing appropriate transition mechanisms. (See slide 2 of October 20th presentation). As stated in J.P. Morgan's previous comments on this issue, J.P. Morgan does not recommend that the CAISO expend a large amount of effort on establishing new or SCP-specific credit requirements. First, the parties (suppliers) likely to be exposed to financial penalties under a SCP regime are generally net creditors in the market. Second, a party's exposure to

potential financial penalties can be considered as part of the CAISO's existing Estimated Aggregate Liability determination. Finally, to the extent that specific SCP credit related issues need to be addressed, J.P. Morgan suggests that these issues be discussed in the context of the CAISO's newly (or soon to be) formed Credit Working Group. J.P. Morgan recommends that the CAISO SCP personnel closely coordinate with the CAISO's internal credit group on this issue.

Specific Comments on Process

J.P. Morgan also generally agrees with the process estimates outlined in the October 20, 2008, presentation (see summary slide p. 11). Regarding order of priority, J.P. Morgan recommends that the CAISO focus on performance obligations and penalties first, then focus on the definition of a capacity tag and then finally address transition issues. The CAISO recommended on the October 20th conference call that stakeholders step forward with transition proposals. J.P. Morgan suggests that it is premature to address that issue now, prior to understanding the general structure of the SCP and thus the scope of the "problem." While J.P. Morgan's earlier comments recommended appropriate grandfathering of existing resource adequacy contracts, J.P. Morgan acknowledges that it is important to fully understand the nature of the SCP prior to determining the need for and nature of any transition plan.

As detailed in a October 24, 2008, Market Notice, the CAISO has scheduled a stakeholder meeting for November 18, 2008, to discuss a CAISO straw proposal to be released November 11, 2008. J.P. Morgan recommends that the primary focus of both the straw proposal and November 18th meeting be on performance obligations. While the CAISO usually endeavors to be as complete and comprehensive as possible when developing "straw proposals", J.P. Morgan suggests that it is more important that the CAISO focus on the priority issues of performance obligations and penalties. J.P. Morgan recommends that the CAISO focus its initial proposal on the operational/reliability requirements that need to be satisfied under any SCP proposal. It is important to establish up front these standards and criteria so that both the CAISO and stakeholders can evaluate different performance obligation recommendations. In addition to criterion such as the nature of an offer obligation (energy, energy and AS, etc.) and the availability period (all hours or critical peak hours), J.P. Morgan posits that "simplicity" or "ease of implementation" also be considered. While complex performance obligations that include, for example, both an offer obligation and performance metrics regarding response to dispatch instructions, may be considered, J.P. Morgan is concerned that development of such performance metrics may unnecessarily complicate this effort and not deliver substantive benefits.

J.P. Morgan recommends that the CAISO focus its straw proposal on outlining its requirements and evaluation criteria and provide a preliminary assessment of previously submitted performance obligation proposals (CFCMA, Calpine) against the criteria. J.P. Morgan also recommends that proponents of such proposals be asked to present and discuss their proposals at the November 18th meeting. (At present, JP Morgan is only aware of specific proposals by Calpine

(Joint Parties) and CFCMA. To the extent there are other parties with specific performance obligation proposals, JP Morgan suggests that the CAISO immediately solicit submission of those proposals to the CAISO for posting and evaluation).

Finally, J.P. Morgan recommends that the CAISO adopt an issue-staggered biweekly process so that the priority SCP issues can be addressed in parallel. For example, the November 18th meeting should focus on performance obligations. The following week (perhaps early in the week since it is Thanksgiving week), a conference call could be scheduled to initially scope the penalties issue (discuss possible approaches and options identified in CAISO straw proposal). A follow up meeting regarding performance obligations could then be scheduled the first week of December. It is evident that weekly meetings are required if the CAISO and stakeholders are to drive to resolution by January. Recognizing the coordination (among many efforts, including the priority of MRTU) and logistical challenges of weekly meetings, the CAISO should solicit parties willing to sponsor or host specific meetings.

J.P. Morgan appreciates the opportunity to provide these comments and looks forward to participating further in the SCP process.

Submitted by

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