

J.P. Morgan Comments on CAISO Issue Paper and Straw Proposal Ex Post Price Correction “Make Whole” Payments for Accepted Demand Bids

Submitted by	Company	Date Submitted
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As a follow-up to the discussion during the November 4 stakeholder conference call, the ISO is requesting written comments on the Issue Paper and Straw Proposal for Ex Post Price Correction Make-Whole Payments for Accepted Demand Bids (“Issue Paper/Straw Proposal”) dated October 28, 2009. This template is offered as a guide for formulating stakeholder comments and for any additional comments that participants may have based on the discussion during the call. Documents related to this meeting are posted at: <http://caiso.com/2453/2453ab8e10ff0.html>.

Written comments should be submitted by close of business on Wednesday, November 11, 2009 to: dliu@caiso.com.

Based on the discussion during the November 4 stakeholder conference call, the ISO will extend the stakeholder process to allow more time to incorporate stakeholder input to develop the proposal and present it to the ISO Board of Governors for approval in **February, 2010**. An updated straw proposal incorporating stakeholders’ written comments will be posted for additional stakeholder input and discussion.

Please comment on the following design issues and the proposed solutions discussed in the Issue Paper/Straw Proposal.

General Comments

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) October 28, 2009, Issue Paper and Straw Proposal entitled Ex Post price Correction “Make Whole” Payments for Accepted Demand Bids (“Issue Paper”).

J.P. Morgan supports the CAISO’s proposal to compensate market participants for any adverse financial impacts when CAISO market prices are corrected in a way that is not consistent with the participant’s accepted demand bids.

Consistent with J.P. Morgan's earlier submitted comments regarding a request to modify the CAISO's Business Practice Manuals (BPM) to establish a similar make whole payment, J.P. Morgan supports adoption of a make whole payment in these circumstances. Such a payment will alleviate the adverse financial consequences and related market uncertainty inherent in CAISO ex post market price adjustments.

1) What is your entity's view on the make-whole calculation methods discussed in Scenario 1 and Scenario 2 when 1) price is corrected upward to be outside of the bid curve, or 2) price is corrected upward but is still within the range of the bid curve. Please also submit any other calculation method your entity would like to propose.

As outlined on pages 3-4 of the Issue Paper, J.P. Morgan supports the CAISO's approach to calculating the proposed make whole payments identified in Scenario 1, when the CAISO corrected price is greater than the originally posted market clearing price and outside the applicable bid curve of the market participant.

As understood by J.P. Morgan, under Scenario 1, where a price is corrected beyond (higher) than the bid price range specified by a market participant for a given amount of cleared load, the CAISO would base the make-whole payment calculation on the bid price specified by the market participant for the given amount of cleared load. This calculation method appears reasonable and consistent with the bid of the market participant.

Under Scenario 2, the price is corrected upward but still within the range of the market participant's demand bid curve. In this case, the CAISO proposes to settle at the corrected price the amount of load that would have cleared at the corrected price pursuant to the market participant's submitted bid curve. The amount of additional load that actually cleared but that is now uneconomic based on the corrected price would be settled consistent with the price at the end of the participant's bid curve. While purportedly consistent with the participant's bid curve, J.P. Morgan is concerned that the participant would be worse off than in Scenario 1 and would be settled on a basis different than its bid, based on the amount of load that actually cleared in the market. In other words, Scenario 2 may result in a participant having to pay more for energy than it was willing to pay at a given (cleared) amount of load.

2) What is your entity's view on making participants whole on a per-interval basis versus a daily basis?

J.P. Morgan is supportive of the CAISO's proposal to calculate the make whole payments on a per-interval basis. While J.P. Morgan may also be able to support a "whole-day" make whole settlement adjustment analogous to that calculated for internal supply resources, J.P. Morgan supports a per-interval calculation, as

such an approach will ensure that participants are shielded from any adverse financial impacts.

3) Does your entity have other proposals to make participants whole other than those discussed in the Issue Paper/Straw Proposal?

J. P. Morgan does not have any other proposed mechanism by which to make participants whole. However, J.P. Morgan requests that whatever mechanism the CAISO fashions to make participants whole apply to all situations where the CAISO intervenes in the market and where the CAISO selects a participant's offer to buy/sell at a level inconsistent with their submitted bid.

4) What is your entity's view on the appropriate approach to allocate the revenue imbalance caused by make-whole payments?

With respect to the impact on revenue neutrality and the allocation of costs associated with any make-whole payments, J.P. Morgan recommends that such costs be allocated to CAISO Measured Demand (Load plus Exports). While such a cost allocation methodology may in fact allocate certain costs to those participants receiving make whole payments, such allocated costs should be small compared potential make whole payments. Moreover, it is appropriate that such make whole payments be allocated as broadly as possible. J.P. Morgan does not support the allocation of such costs to suppliers.

5) Other comments:

J.P. Morgan has no other comments.

J.P. Morgan appreciated the opportunity to submit these comments and looks forward to the continued participation in this effort.