# J.P. Morgan Comments
# Subject: CAISO GMC Charge Code 4537 – Market Usage Forward Energy Straw Proposal

| Submitted by (Name and phone number) | Company or Entity | Date Submitted |
|---|---|---|
| Steve Greenleaf<br>(916) 802-5420 | J.P. Morgan Ventures Energy Corporation and BE CA, LLC. (together, JP Morgan) | September 4, 2009 |

J. P. Morgan appreciates this opportunity to provide comments on the CAISO's GMC Charge Code 4537 Market Usage Forward Energy (MUFE) Straw Proposal, dated August 28, 2009. J.P. Morgan also appreciates the CAISO moving ahead and quickly addressing stakeholder concerns regarding the application of the CAISO's GMC MUFE to Inter-Scheduling Coordinator Trades (ISTs).

The CAISO seeks stakeholder input on the following:

1. <u>Do you support the ISO's straw proposal to eliminate ISTs from the MUFE calculation? Please explain why.</u>

Yes. J.P. Morgan supports the ISO's straw proposal to eliminate ISTs from the MUFE calculation and application of the MUFE to ISTs. The costs of supporting the CAISO's IST functionality is already appropriately included in the Forward Scheduling Charge for ISTs. Moreover, ISTs do not directly give rise the costs collected under the GMC MUFE. Therefore, J.P. Morgan supports the CAISO's proposal to remove ISTs from the calculation of the MUFE.

2. <u>If you do not support removing ISTs from the MUFE calculation, what alternative do you propose? Please explain why your alternative is preferable to the ISO's straw proposal.</u>

N/A.

3. <u>Do you support the ISO's straw proposal to continue netting physical energy in the MUFE calculation? Please explain why.</u>

J.P. Morgan supports development of a MUFE rate based on the gross amount of physical energy in the CAISO market. Gross energy is a better measure of an entity's participation in the CAISO's markets and thus is more aligned with cost-causation principles. As noted in the CAISO's Straw Proposal on page 10, "…there is general agreement among stakeholders that assessing the MUFE charge to gross energy in the day ahead market better reflects cost causation principles…" Alternatively, a netting-based methodology results in an inappropriate and unfair cost shift to those entities without both load and generation in their portfolio. Under a netting approach, an entity with 100MW of generation would pay more than an entity with 100MW of generation and load. Clearly, the entity with the balanced portfolio is a significant participant in the market yet under a netting approach would incur no MUFE charges. That result makes no sense.

The CAISO appears to support retaining the current netting methodology based on the "billing impact" on participants. J.P. Morgan does not support that rationale. As the CAISO recognizes, a gross methodology is more aligned with cost-causation than a netting-based approach. In addition, it is not at all clear from the CAISO's analysis what the "billing impact" of implementing a gross energy based charge would be. While it is a given that a certain amount of costs would be appropriately re-allocated to those participants with the greatest level of participation in the market, the CAISO's own analysis indicates that the new gross energy based per unit MUFE rate may be as low as one-tenth the size of the pre-existing MUFE charge. J.P. Morgan therefore recommends that the CAISO GMC MUFE charge be based on, and applied to, gross energy.

4. <u>If you do not support the netting option, what alternative do you propose? Please explain why your alternative is preferable to the ISO's straw proposal.</u>

See answer to (3) above.