Comments of J.P. Morgan Ventures Energy Corporation

Subject: CAISO Proposed Credit Policy Enhancements

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the topics covered in the September 22, 2008 Credit Policy Enhancements stakeholder meeting. Upon completion of this template, please email your comments (as an attachment in MS Word format) to CreditPolicyComments@caiso.com. All comments will be posted to CAISO's Credit Policy Stakeholder Process webpage at http://www.caiso.com/docs/2003/04/21/2003042117001924814.html.

Submissions are requested by close of business on October 7, 2008 or sooner.

Please submit your comments to the following questions for each topic in the spaces indicated.

J.P. Morgan Ventures Energy Corporation (J.P. Morgan) appreciates this opportunity to submit comments to the California ISO (CAISO) on the CAISO's proposed enhancements to its established credit policies. As a general matter, J.P. Morgan strongly supports the CAISO's proposal to strengthen its credit policies and align its policies with the "best practices" in place in both other organized electricity markets as well as other financial markets. In addition, J.P. Morgan believes that the best means to reduce market risk is to finalize and implement the CAISO's Payment Acceleration proposal, thus significantly reducing the amount of required credit in the CAISO's market. J.P. Morgan looks forward to participating in the CAISO's upcoming meetings on Credit Policy Enhancements (week of October 20th) and Payment Acceleration (October 16th) and encourages the CAISO to proceed quickly to finalize and implement each of these proposals.

1. Do you support CAISO's proposal (Alternative 3) to replace the use of Credit Rating Default Probabilities and Moody's KMV Default Probabilities with the use of agency issuer ratings and Moody's KMV Spot Credit Rating in its eight-step process credit assessment process? Do you agree that these ratings should be blended according to the same percentages already established in the eight-step process? Do you agree that Moody's KMV Spot Credit Rating should be used,

according to the same blending percentages, to assess whether a financial institution meets CAISO's "reasonably acceptable" test for accepting a Letter of Credit or an Escrow Account (i.e., the blending must yield a result greater than or equal to four (4.00) to be "reasonably acceptable"?)

J.P. Morgan supports identified Alternative 3. J.P. Morgan generally supports efforts and mechanisms that will enable the CAISO to flexibly and responsibly respond to changed circumstances in the market and the specific financial situation of individual market participants. Specifically, J.P. Morgan supports the CAISO's proposal to utilize the Moody's KMV Spot Credit Category so as to take into consideration current market events and other indicators and supports the proposed 50%/50% weighting of Moody's KMV and the average of all available credit agency issuer ratings so as to obtain a blended perspective on an entity's financial condition.

2. Do you support CAISO's proposal to expand the definition of Tangible Net Worth to exclude assets that are earmarked for a specific purpose such as restricted assets and assets related to affiliated entities? Do you also agree that CAISO should also exclude highly volatile assets such as derivative assets?

J.P. Morgan supports the CAISO's proposal to refine the definition of Tangible Net Worth to exclude restricted assets and assets related to affiliated entities and otherwise exclude volatile assets. Moreover, J.P. Morgan believes the proposed change is consistent with "best practices" in place in other organized markets (e.g., MISO).

3. Do you support CAISO's proposal (Alternative 2) to reduce the maximum amount of unsecured credit that it will assign to the most creditworthy party to $100 million?

J.P. Morgan strongly supports the CAISO's proposal to reduce its Unsecured Credit Limit from $250 million to $100 million. Based on the exigent circumstances in the financial markets and increasingly limited access to credit in general, J.P. Morgan supports either substantially reducing or eliminating altogether the extension of unsecured credit to market participants.

4. Do you support CAISO's proposal (Alternative 2) to allow Guarantees and other forms of Financial Security to be issued from Canadian entities? Do you support expanding this policy to accept Financial Security from non-US / non-Canadian based entities using rules similar to those adopted by ISO New England if CAISO can clear the legal hurdles and complexities of developing the necessary processes and agreement language for accepting Financial Security from foreign entities? Are ISO-NE's restrictions sufficient and necessary? Should other safeguards be put in place? Should CAISO consider extending this policy to other types of Financial Security such as Letters of Credit?

J.P. Morgan supports the CAISO's proposal to allow Canadian entities, that otherwise meet CAISO's creditworthiness standards, to provide Guarantees. In addition, to the extent not so otherwise provided and consistent with the rules in place in PJM, J.P. Morgan supports adding a requirement that provides that to the extent that any Canadian entities are provincial utilities, the Canadian entities should be required to submit to the jurisdiction of US Courts and waive any claims of sovereign immunity. See http://www.pjm.com/committees/members/downloads/20070927-item-02b-oa-revisions-regarding-foreign-credit-guar.pdf]

In addition, J.P. Morgan supports expanding the CAISO's policy to non-US/non-Canadian based entities using rules similar to those in place at ISO New England. Specifically, J.P. Morgan supports the acceptance of a Foreign Guaranty so long as the Foreign Guarantor satisfies all requirements that apply to a Non-Foreign Guarantor including: 1) maintaining a specific rating from S&P and Moody's; 2) having a reciprocity agreement with the US that is acceptable to the CAISO; 3) providing financial statements that are consistent with GAAP or international accounting standards; 4) American Depository Receipts listed on NYSE, ASE or NASDAQ; and 5) the amount guaranteed cannot exceed US $10,000,000.

5. Do you agree that an Affiliate Guaranty, where a Guarantor backing the obligations of one Affiliate must provide the same Guaranty for all of its Affiliates in the CAISO market, is essential to help mitigate the risk of a payment default by an under-secured and thinly capitalized Affiliate? Does the concept presented present regulatory issues for non-regulated parents backing regulated and non-regulated affiliates?

J.P. Morgan supports the CAISO proposal to draft a Form Guaranty that requires a Guarantor backing the activities of one Affiliate to back all Affiliates participating in the CAISO market under the same Guaranty. J.P. Morgan agrees with the CAISO's recommendation that the Guaranty must have a limit sufficient to cover the aggregate Estimated Aggregate Liabilities of all of the Affiliates regardless of individual credit limits the Guarantor may wish to assign in the CAISO credit management system and a provision that CAISO has the authority to reallocate individual Affiliate credit limits in the credit management system up to the Guaranty limit, to cover a potential call to an individual Affiliate for additional Financial Security.

6. Do you support CAISO's proposal (Alternative 1) to reduce the time to post additional Financial Security from five (5) Business Days to three (3) Business Days?

J.P. Morgan agrees with the CAISO's concern that the time lag associated with both the CAISO's process for making a Financial Security call (trade date plus seven days) and a long cure period Market Participants exposes CAISO market participants (creditors) to risk. Therefore, J.P. Morgan supports the CAISO proposal to reduce the cure period for satisfying a request for additional Financial Security from five (5) Business Days to no more than three (3) Business Days. J.P. Morgan would prefer to further reduce the cure period to one (1) Business Day, recognizing that market participants have the ability to post cash immediately and then subsequently replace such cash deposits with financial instruments (e.g., letters of credit).

7. Should CAISO change its policy allowing 100% of Market Participant's available credit (i.e., Aggregate Credit Limit minus Estimated Aggregate Liability) to be available for a Congestion Revenue Rights ("CRR") auction? Is setting the amount of available credit at 90% of available credit a reasonable approach to ensure some buffer remains in place for a Market Participant's other market activities? Should a lower threshold be considered?

Recognizing the CAISO's implementation constraints, J. P. Morgan supports the CAISO recommendation to reestablish the available credit limit for the CAISO Congestion Revenue Rights (CRR) auction at 90% of available credit.

8. Are you in favor of the CAISO funding a reserve account as a means of providing a source of funds in the case of a payment default? How would you propose that such an account be funded?

J.P. Morgan supports CAISO efforts to enhance its credit policies to limit the risk exposure to a market participant default. In the first instance, and as expressed above, J.P. Morgan supports the CAISO's efforts to strengthen credit requirements and further restrict a market participant's ability to rely on unsecured credit. In addition, and as further outlined in response to item (10) below, J.P. Morgan strongly supports changing the CAISO's current payment default allocation methodology so that all market participants, not just net creditors, are allocated the costs of a payment default. J.P. Morgan generally supports the tiered risk mitigation structure and approach. However, at this juncture, rather than establish a dedicated market participant funded reserve account, J.P. Morgan supports mechanisms similar to those in place in ISO New England. Specifically, J.P. Morgan can support establishment of a late payment penalty fund and, depending on the cost, a line of credit that could be used to offset payment defaults. (See also J.P. Morgan comments on items 9-12, below).

9. Are there other payment default risk mitigation strategies, of those that were presented, that you support and would want CAISO to investigate further such as a Line of Credit, credit insurance, establishing a captive insurance company, developing a blended finite risk program or a capital market transfer to provide potential funding sources in the case of payment default? Are there other strategies that were not covered that CAISO should investigate and/or pursue?

As noted above, and depending on the implementation costs, J.P. Morgan supports establishing a line of credit to be accessed to pay payment defaults only after all posted financial security of the defaulting market participant is exhausted. In addition, J.P. Morgan supports establishment of late payment and late posted financial security fund that can be accessed in instances of a payment default. Subject to more information on the potential cost of such measures, J.P. Morgan does not support procuring credit insurance or establishing a captive insurance company.

10. Do you support CAISO changing its loss sharing/chargeback mechanism to include the allocation of a payment default to all Market Participants – not just net creditors during the default month? What measure should be used to apportion exposure to the chargeback?

J. P. Morgan strongly supports CAISO changing its loss sharing/chargeback mechanism to a *pro rata* allocation of a payment default to all Market Participants - rather than just creditors - as determined by each market participant's participation gross billings in the CAISO markets during the default month. J.P. Morgan believes that such a default allocation methodology is equitable, fair, and consistent with the practices of other RTOs.

11. Do you agree with CAISO's proposal to assess financial penalties on Market Participants who are late in paying their invoices two or more times in a rolling 12 month period? Are the financial penalties sufficient to ensure compliance with the payment provisions of the CAISO Tariff? Do you agree that Market Participants who are late a third time in a rolling 12 month period should also have to post cash in lieu of any unsecured credit for a period of 12 months of on-time payments? Do you agree that any penalties collected should fund a reserve account that can be used as a source of funds in the case of a payment default?

J.P. Morgan supports assessing financial penalties on market participants that are late in paying their invoices. J. P. Morgan supports the imposition of the CAISO's proposed penalty levels in all instances of late payment and the requirement to post cash in lieu of security after a third late payment.

12. Do you agree with CAISO's proposal to assess a financial penalty on a Market Participant who is late in posting additional collateral on the third and each subsequent time in a rolling 12 month period? Are the financial penalties sufficient to ensure compliance with the collateral posting provisions of the CAISO Tariff? Do you agree that any penalties collected should fund a reserve account that can be used as a source of funds in the case of a payment default?

J.P. Morgan supports assessing financial penalties on market participants that are late in posting additional collateral, as requested by the CAISO. Since market participants should be able to post cash as collateral within the newly proposed three-day cure period (with the possibility of later substituting an appropriate financial instrument), J. P.

Morgan supports the assessing financial penalties on any late posting of additional collateral.

13. Do you support the creation of a Credit Working Group ("CWG") as a means to formalize the CAISO's approach to managing credit policy change? How do you envision the CWG adding value to CAISO's existing stakeholder process (e.g., regularity of meetings, membership, etc.)?

J.P. Morgan supports the formation of a Credit Working Group or advisory group at least for purposes of guiding and refining the CAISO's credit policies over the next year. Over the next year and half, the CAISO is scheduled to implement significant changes to its market design (MRTU, with a day-ahead financial market, Congestion Revenue Rights, Convergence Bidding, Scarcity Pricing, potential new products like a Standard Capacity Product). These changes may significantly increase credit risk in the market and will require the development of robust and durable CAISO credit policies. J.P. Morgan therefore commits to support CAISO efforts to formulate and implement appropriate credit policies and procedures.