Stakeholder Comments Template

Subject: Convergence Bidding

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<th>Submitted by (name and phone number):</th>
<th>Company or Entity:</th>
<th>Date Submitted:</th>
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<tbody>
<tr>
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<td>California Public Utilities Commission</td>
<td>August 27, 2007</td>
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Comments should be submitted in any format by close of business on Friday, August 24, 2007 to: convergencebidding@caiso.com.

The CAISO offers the following questions as a guide for formulating stakeholder comments:

1. Would convergence bidding enhance your organization’s business needs. If so, how? What does your entity view as the primary benefits of convergence bidding to the CAISO’s energy markets?

The California Public Utilities Commission (CPUC) regulates retail electricity markets in California which serve 10.48 million customers with 32,347 miles of transmission lines and 239,112 miles of distribution lines for a total economic value of $17.8 billion. The many responsibilities of the CPUC include setting electric rates, protecting consumers, promoting the development and use energy efficiency, demand response and renewable technologies, and ensuring long term electric system reliability through resource adequacy.

The introduction of convergence bidding scheduled within 12 months from the start date of California Independent System Operator’s new Market Redesign and Technology Upgrade (MRTU) is expected to ameliorate load underscheduling incentives in the Day-Ahead market. It is believed that by underscheduling in the Day-Ahead load can depress energy prices in CAISO’s Day-Ahead market. CPUC staff support a least-cost market that is efficient, competitive, and reliable. Overall, the CPUC sees that the primary benefit of convergence bidding will help the level playing field for both buyers and suppliers. CPUC supported convergence bidding conditionally to help create an efficient Day-Ahead market, encourage competition, and lower consumer costs.
2. What are your entity’s views on the level of granularity at which the CAISO should introduce convergence bidding (LAP-level virtual bidding or nodal-level virtual bidding)?

The CPUC believes, consistent with its earlier filed comments, that within 12 months of the implementation of MRTU, convergence bidding should be introduced only at the Load Aggregation Point (LAP) level. At the August 10, 2007, the CAISO’s Market Surveillance Committee meeting Department of Market monitoring (DMM) staff pointed out with illustrative examples that mitigation of virtual supply bids using Local Market Power Mitigation provisions appears to be infeasible and highly problematic. At the CAISO’s November 6, 2006, Market Surveillance Committee meeting, CAISO staff pointed out that introducing convergence bidding at the nodal level will create the potential for market manipulation. Further, the CAISO DMM staff pointed out that at the beginning of MRTU, introducing convergence bidding at LAP level will be simple, easy to monitor and will essentially capture most of the benefit of convergence bidding including deterring “strategic” load underscheduling problem. The CAISO DMM also pointed out in its October 24, 2006, paper that allowing convergence bidding only at the LAP level will limit the ability of the participants to exercise market power by manipulating the value of congestion revenue rights because convergence demand bids submitted at the LAPS will blunt instruments for creating congestion between specific nodes.

Several market participants have pointed out potential benefits of nodal convergence bidding. Thus, once the market with convergence bidding at the LAP level becomes stable and functional, the CAISO should consider implementation of nodal convergence bidding. For all of the above reasons, the CPUC believes that convergence bidding introduced at the LAP, and not at the nodal level, will protect California consumers from potential market risks and market manipulation uncertainty during the initial months of MRTU operation.

3. What are your entity’s views on position limits (limiting virtual bidding to a percentage of the MW volume at each node)?

CPUC staff believe that restricting position limits is a great market power mitigation tool if and when Convergence Bidding is introduced at the nodal level. However, CPUC staff does not oppose setting position limits while convergence bidding is introduced at the LAP level.

4. What are your entity’s views on allocating costs to virtual bids?

Costs arising from Convergence Bidding should be borne jointly both by virtual demanders and virtual suppliers. Any virtual transaction may have the potential to displace physical generation and load. As a consequence, virtual players should not be exempted from the Real-Time Market Uplift Charges. An exemption from uplift costs for virtual supply and demand bidders would likely raise cost to California ratepayers.

5. What are your entity’s views about the optimal number of LAPs in California?
The CPUC supports that initially convergence bidding should be introduced in three LAP areas to coincide with the traditional Investor Owned Utility service areas. CPUC staff are, however, supportive of exploring the possibility of increasing the granularity of convergence bidding zones as Locational Marginal Pricing provides the more robust and efficient outcomes promised by this new system.