

Dynegy Comments on Draft Final Proposal for Convergence Bidding Data Release
January 27, 2010

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- **Dynegy continues to oppose the CAISO's proposal regarding release of nodal virtual bidding information.**

Dynegy remains concerned that the immediate release of nodal-specific virtual bidding information, even just the net cleared virtual position, will disclose commercially sensitive information. Dynegy opposes this aggressive data release proposal. Not one of the other ISOs – which, unlike the CAISO, have actually been running convergence bidding markets – has found it necessary or beneficial to release this kind of information.

While the CAISO asserts that publishing only net cleared virtual quantities will not disclose individual parties' behavior, Dynegy does not agree. Dynegy agrees that, under the CAISO's proposed nodal convergence bidding design, market participants may submit virtual bids at any permitted nodes. However, in the absence of congestion, when nodal energy prices are the same or very similar (differing only by losses), Dynegy does not understand why any market participant other than a physical supplier with a generating unit at a particular node would choose to bid at that particular node. The possibility that any market participant may bid at a physical supplier's individual generating unit node does not negate the reality that the participant most likely to be bidding at the node is the physical supplier.

SCE's involved analysis, apparently intended to justify that Dynegy could hedge real-time price risk at Morro Bay 3 by bidding at a host of other nodes, demonstrates a high degree of correlation for a particular time period. But it does not demonstrate that any other node has a perfect correlation to the Morro Bay 3 node. Nor does it guarantee that such a high degree of correlation will continue in the future. Moreover, SCE's analysis applies only to one particular generating unit node, when there are hundreds of generating units within the network under the CAISO's control. Dynegy doubts that every single generating unit node will show such a high degree of correlation to many other nodes. Moreover, the event which the physical supplier is trying to hedge against – the real-time loss of the unit at the node – is more likely to create nodal price differences; such differences would make hedging a unit by bidding at other nodes a risky proposition. Physical suppliers seeking to hedge real-time price risk should not have to choose to submit virtual bids at other nodes with the hopes that the prices at other nodes will correlate to their physical nodes in order to keep their risk hedging strategies confidential. Physical demand bidders are allocated CRRs to hedge their congestion (i.e., nodal price difference) risk. Why should suppliers have to take on nodal price difference risk, by submitting virtual bids at locations other than their physical generating unit nodes to hedge their real price risk, to prevent disclosing their hedging strategy? Suppliers should be able to fully hedge their real time price risk by

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submitting convergence bids at their own generator nodes without fear that their hedging strategies will be publically disclosed.

- **Dynegy urges the CAISO to defer any decision on convergence bidding data release to Phase 3.**

It is clear from the discussion at the Market Surveillance Committee that not all market participants agree with the MSC's perspective regarding the release of data. For example, PG&E and SCE do not fully agree on publishing LDFs. Additionally, while convergence bidding is a financial product, the CAISO's market prices are a result of the interaction between physical and convergence bids. Consequently, the CAISO should consider its markets information release policies as a whole.

In light of the fact that the CAISO does not intend to implement convergence bidding for more than a year, Dynegy sees no reason to aggressively press for a decision regarding the implementation of nodal convergence bidding data now. Instead, Dynegy urges the CAISO to defer the discussion regarding the release of nodal data to the next phase of the stakeholder process, which Dynegy expects to be a comprehensive discussion on market data release. Even assuming that effort took half a year or more, the CAISO could still reach a conclusion regarding the right position for releasing convergence bidding data well before the scheduled implementation of convergence bidding. Moreover, it would be more effective for the CAISO's unique proposal for aggressive disclosure of nodal data to be considered as part of a more comprehensive examination of its data release policies than as a stand-alone issue related solely to convergence bidding.

- **Dynegy urges the CAISO to receive FERC acceptance of its information release policy.**

Should the CAISO decide to press ahead with its convergence bidding data release proposal, which is unique among ISOs, Dynegy respectfully requests that the CAISO make a Section 205 filing with the Commission to implement its aggressive data release proposal so that FERC must approve the CAISO's proposal before it takes effect.