Stakeholder Comments Template

Subject: Convergence Bidding

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<th>Submitted by (name and phone number):</th>
<th>Company or Entity:</th>
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<tbody>
<tr>
<td>Chris Carpenter, 703-760-4351</td>
<td>DC Energy LLC</td>
<td>December 2, 2007</td>
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As a follow-up to the discussion at the November 14 stakeholder meeting, the CAISO is requesting additional written comments on convergence bidding.

This template is offered as an easy guide for entities to submit comments; however, any participant should feel free to submit comments in any format. Submitted comments will remain posted and part of the record for this stakeholder process, unless participants expressly ask that their comments not be posted.

All documents related to this convergence bidding stakeholder process are posted at: http://www.caiso.com/1807/1807996f7020.html

Stakeholder comments should be submitted by close of business on Friday, November 30, 2007 to: convergencebidding@caiso.com.

The CAISO offers the following topics as a structure for stakeholder comments:

1. Does your entity have suggestions or comments on the process by which the CAISO will resolve the nodal versus zonal granularity issue?

   DC Energy certainly understands the sensitive political environment and the need to ensure all participants’ concerns are fully vetted – as well as the benefit in gathering actual market data -- however DC Energy continues to consistently advocate for CAISO to include nodal bidding in market release 1A,. As CAISO has noted (and DC Energy agrees) it’s important to build the system and software capability to support nodal bidding now in order to ensure that this level of granularity is possible whenever the decision is actually made.
DC Energy continues to believe it and others have demonstrated sufficiently that nodal convergence bidding is far superior to a LAP-level solution – and that having a healthy, robust, liquid market depends on it. If this is not readily apparent to certain market participants today, it surely will be within a few months of market launch via inspection of DA and RT prices. Over the past year, thanks to CAISO’s efforts to educate market participants, the number of opponents to nodal granularity has decreased significantly (and the tenor of their objections softened), and we expect this trend to continue with even further education. In addition the number of participants that support such granularity grows.

In addition to allowing convergence bidding at individual internal nodes, we also encourage CAISO to gain comfort with the idea of allowing convergence bidding at hubs and interface nodes (two areas of concern raised in the November 14 stakeholder meeting) by studying how the Eastern ISOs address such bids.

2. What are your entity’s views on the proposed characteristics of virtual bids (that were reviewed at the November 14th meeting)?

DC Energy agrees with CAISO’s proposed characteristics of virtual bids. The proposal is logical, straightforward, and clears up several misconceptions (e.g., the need to mitigate convergence bids / offers).

3. What are your entity’s views on proposed changes to the Day Ahead market which are needed to facilitate convergence bidding?

DC Energy supports the proposed changes. They ensure a true market-driven solution.

With respect to the proposed same-day posting timeframe for convergence bid data, DC Energy encourages CAISO to consider a longer lag time. DC Energy believes that 3 months of lag represents a good compromise between the benefit of additional transparency and the harm of compromising proprietary trading strategies. This is consistent with a recent FERC decision in Docket No. ER07-1245-000\(^1\) as well as comments FERC made suggesting a three-month lag in its ANOPR in Docket Nos. RM07-19-000 and AD07-7-000\(^2\). Most importantly though, whatever the time lag ultimately used, DC Energy believes that physical bid data (both generator and price-sensitive load) should be published contemporaneously with convergence bid data.

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\(^1\) Regarding a joint ISO-NE/NEPOOL 205 filing issued October 18, 2007.

\(^2\) Issued June 22, 2007.
4. What are your entity’s views on the proposed credit policy and processes for virtual bids?

DC Energy applauds CAISO’s recent decision to revamp its proposal and offer a dollar-based system similar to ISO-NE’s approach. This system will offer CAISO the greatest flexibility for matching credit requirements with actual risk.

5. What are your entity’s views on the CAISO’s proposal (explained at the November 14th meeting) for allocating costs for virtual transactions?

While CAISO’s proposal does not address cost causation at a very detailed level, the overall principles are sound. As CAISO describes, virtual offers should only be allocated a share in the Reliability Unit Commitment (RUC) charges when they collectively contribute to the need for additional RUC commitments. Similarly, virtual bids should only be allocated a share of IFM uplift when they collectively cause additional commitments there.

Although we approve overall, we do make the following two suggestions:

(i) As DC Energy suggested in the last stakeholder meeting, the calculation methodology should be slightly revised to be consistent with the intent of the charge. CAISO clearly intends for there to be a two-step allocation of IFM uplift – where the first step involves deciding what the overall share of costs should be for convergence bids, and the second step involves allocating that overall amount to individual participants. The relevant virtual volume to use in the denominator for the first step of this allocation is the net system-wide virtual demand (in the CAISO-provided example, 2000 mw) not the sum of each individual participant’s net virtual demand (which totaled 3100 mw in the example). The same principle applies for allocation of RUC costs to virtual supply.

(ii) We also encourage CAISO to evaluate if it may make sense to reduce or eliminate the share of RUC charges virtual offers bear in those cases where RT load comes in below the RUC commitment (as this additional commitment was then a result of a greater than necessary commitment by the ISO vs. a shortage induced by virtual offers). In these cases physical load (not virtual supply) should bear all RUC uplift cost. (Note: this is how NYISO currently handles cost allocation).

Separately, we’d like to comment on the concerns expressed by one participant in the November 14 stakeholder meeting that CAISO’s proposal was likely to fall victim to the same attacks that MISO’s did (in the prolonged and ongoing dispute at FERC). The issue there stemmed from a lack of clarity in MISO’s cost allocation...
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proposal, and a mismatch between the tariff and the business practice manual. We see no lack of clarity in CAISO’s proposal.

6. What are your entity’s views on the potential interaction of nodal convergence bidding and Inter-SC Trades?

We agree with CAISO’s perspective that the proper way to address such potential interactions is to explicitly monitor them and take action to limit any activity that results in DA/RT price divergence. This potential problem could only exist at specific nodes and for specific participants, so any more expansive monitoring would be unnecessary and any additional restrictions would be counterproductive for the market’s health.