

The following comments are incremental to the original comments submitted ahead of the September 8th meeting.

Additional consideration for non credit enhancements: a Balance of Annual CRR Auction

DC Energy proposes that a worthwhile addition to the non-credit enhancements is a Balance of Annual CRR Auction to be held concurrently with the monthly auctions. This auction will allow participants to bid for CRRs in any of the quarters or portion of quarters of the prior auction that have not yet elapsed. For example, when holding the August monthly CRR auction, the ISO would also run auctions for September and Q4 (October-December).

There are a number of benefits to such an auction:

- Participants can manage their annual positions
- The CAISO obtains refreshed market pricing for use in credit requirement calculations
- The CAISO obtains a fresh set of bids for use in extraordinary circumstances credit requirements that span beyond the prompt month
- There would be a venue for liquidation of defaulted portfolios that span beyond the prompt month

The added burden of such an enhancement would be limited as the existing CAISO infrastructure can already run such an auction. In effect, the Balance of Annual CRR Auction is a smaller annual auction without a CRR allocation process.

DC Energy believes the clear benefits of a Balance of Annual CRR Auction and its straightforward implementation make such an auction an outstanding candidate for consideration as a near term CRR enhancement.

Liquidation of Defaulted portfolios:

DC Energy is concerned about the desire to set reserve prices for the sale of defaulted portfolios. The primary concern is that these reserve prices are tantamount to the CAISO making an explicit declaration on the value of the defaulted portfolio. The implication is that the CAISO becomes an active participant in the sale of the defaulted portfolio. If the auction prices do not reach the reserve price, the CAISO will beat other bidders and win the defaulted portfolio. DC Energy believes the role of the ISO should be to manage the markets under its purview, not to actively participate in them.

A second concern with reserve prices is the high likelihood that such price will not reflect the market value of the portfolio being liquidated. For example, the liquidation of a defaulted annual portfolio in July will require the use of reserve prices derived from an auction that is eight months old. As the change in natural gas prices over the past eight months demonstrates, such auction prices would be inappropriate.

The best way to avoid a reserve price is to place the defaulted portfolio for sale in a liquid auction. CAISO's monthly and annual auctions fit the bill. Some participants raised concerns that the CAISO CRR auctions might not be liquid enough to support such a sale. As a participant in the CRR auctions, DC Energy can attest that the auctions are liquid. In addition, the CAISO uses auction pricing to set credit requirements, and would be willing to use past auction prices to set reserve prices. This suggests the CAISO implicitly accepts that CRR prices are the result of liquid auctions and can be used to make financially binding determinations.

As noted earlier, CAISO could establish a Balance of Annual Auction and use it to liquidate defaulted annual CRRs.

Auction Revenue Rights:

DC Energy supports the concept of using ARR to replace CRR allocations. DC Energy encourages CAISO to examine all current ARR implementations (e.g. ISO-NE and PJM) and to involve stakeholders in the decision process.