The CAISO is requesting written comments on the Straw Proposal for Convergence Bidding Cost Allocation that was discussed at the February 8th MSC/Stakeholder meeting. This template is offered as a guide for entities to submit comments; however participants are encouraged to submit comments in any form.

All documents related to cost allocation for Convergence Bids are posted on the CAISO Website at the following link:

http://www.caiso.com/1807/1807996f7020.html

Upon completion of this template please submit (in MS Word) to convergencebidding@caiso.com. Submissions are requested by close of business on Friday February 29, 2008.

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

1. The proposed refinements to the cost allocation proposal described in the 2/9 Straw Proposal:
   a) Allocates costs for IFM tier 1 and RUC Tier 1 based on each SC’s gross cleared virtual bids rather than the net of each SC’s virtual transactions, and

   While Dynegy views the CAISO’s most recent cost allocation proposal as a positive step, Dynegy remains unconvinced that costs should be allocated to virtual bids on a gross position basis rather than on a net position basis.

   b) Allocates IFM Tier 1 Uplift to virtual demand only in the case where physical demand plus virtual demand exceeds the CAISO Forecast.

Submitted by

| Brian Theaker | Dynegy, Inc. | 2/29/08 |

[Deleted: ease fill in name and contact number of specific person who can respond to any questions on these comments.]
Dynegy strongly supports this modification. IFM or RUC commitment costs should only be allocated to virtual demand in those instances in which virtual demand increased the IFM/RUC commitment over the level that would have been required to meet the CAISO’s Forecast of CAISO Demand.

c) Allocates RUC Tier 1 Uplift to virtual supply based on the quantity of physical supply that was displaced by virtual supply in the DAM resulting in the need for the CAISO to procure additional supply in RUC. This quantity is equal to the net of all cleared virtual demand and all cleared virtual supply if the net virtual supply is positive.

Dynegy agrees that it is reasonable to allocate RUC costs to virtual supply if virtual supply displaces physical units and increases RUC costs. Further, Dynegy agrees with the use of net virtual supply as the indicator of when virtual supply increases RUC commitment costs. Ultimately, it is the net, not gross, virtual position that will determine if the CAISO must commit additional units in the IFM or RUC, and, as mentioned above, Dynegy supports the use of net, not gross, virtual positions as the basis for allocating market uplift costs.

Is this proposal a reasonable assessment of the uplift costs that should be imposed upon virtual transactions? How might it be improved?

This proposal is largely a positive step towards rational allocation of IFM and RUC uplifts to virtual transactions, though Dynegy finds unsupported the CAISO’s proposal to base cost allocation on gross, instead of net, virtual positions.

2. Is a flat fee a workable alternative for cost allocation to convergence bids as an initial starting point until the CAISO has market data available to analyze the impact convergence bids have on uplift costs?

While Dynegy remains open to a discussion about using a flat fee in lieu of more sophisticated cost allocation methodologies, Dynegy’s and other parties’ agreement to the use of a flat fee for allocating costs to virtual bids will, of course, depend on the level of the flat fee.

3. Other suggestions for methodology by which to allocate bid cost recovery uplift costs to convergence bids?

No.