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>
<td>Mark J Smith  (925) 688-8817</td>
<td>FPLE</td>
<td>8/27/2007</td>
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As a follow-up to the discussion at the August 10 meeting of the Market Surveillance Committee (MSC), the CAISO is requesting additional written comments on convergence bidding, especially the level of granularity at which virtual bidding should be introduced within the CAISO markets.

A number of parties have already submitted comments on this granularity issue, and those comments will remain posted and part of the record for stakeholder process. This template is offered as a guide for any additional comments that participants may have based on the MSC discussion. Documents related to this meeting are posted at: [http://www.caiso.com/1807/1807996f7020.html](http://www.caiso.com/1807/1807996f7020.html).

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?

   Yes. Convergence Bidding would definitely enhance our ability to, and interest in, participating in the CAISO markets. FPLE’s experience in eastern markets is that the implementation of virtual (or convergence) bidding creates fewer price distortions, enhances trade confidence and drives greater liquidity.

   But the key benefit of virtual bidding is that it creates a market-based, self-correcting discipline on all market participants. Financial opportunities presented by anomalous or even rational price differences – both within the market, and between sequential markets – are fleeting and quickly extinguished through the actions of...
market participants rather than constantly changing rules. Administrative rules (for instance on load underscheduling) become unnecessary, or much diminished in significance or impact.

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)?

FPLE supports the immediate implementation of ubiquitous virtual bidding. Allowing all parties to see and react to anomalous or anticipated price differences on a nodal level will allow for beneficial market-based reactions to resolve the price spreads and drive to convergent prices, particularly between DA and RT markets. Allowing virtual bidding also allows for prudent hedging on a network basis – hedging that may not be available if the CASIO were to allow only LAP-based virtual bids.

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

FPLE takes no position at this time.

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

Virtual bids will not cause cost associated with physical imbalances such as RUC, ancillary services or reserves-based shortage costs since they are purely financial in nature. Indeed, underlying inaccuracies in physical scheduling cause these costs. FPLE supports the allocation of administrative costs related to processing virtual bids to the bidders. However, in line with cost-causation principles, the CAISO should, in no manner attribute the costs of physical demand/supply imbalances to virtual bids.

5. What are your entity’s views about the optimal number of LAPs in California?

FPLE does not view this issue as germane to the issue of virtual bidding. Decisions as to the form and number of LAPs should be done based on reliability, the intended transparency of price signals, incentives for demand response, conservation and siting of facilities.

If the CAISO is suggesting that a modest increase in the number of LAPs – while maintaining the restriction on VB at the LAPs – might be a reasonable compromise, FPLE disagrees.