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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<td>August 24, 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?

SCE supports the implementation of Convergence (Virtual) Bidding at the LAP levels after a successful implementation of MRTU, and SCE believes that the primary benefits of Virtual Bidding are as follows:

a) Virtual Bidding provides a tool that transparently identifies explicit virtual transactions and it is better for the CAISO to have visibility over virtual
transactions rather than having them "guess" if a transaction is physical or
virtual.

b) The presence of Virtual Bidding puts to rest concerns that Load Serve Entities
may "underschedule" to depress the day-ahead prices once and for all.
c) In some cases, Virtual Bidding provides a legitimate tool to mitigate the
generation risks between the day-ahead and real-time markets.

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)?

SCE has provided detailed comments on this topic on July 28, 2006 and November
15, 2006, as well as a recent presentation on August 10, 2007. In summary, SCE
believes that Virtual Bidding should be implemented at the LAP levels for the
following reasons:

a) It is consistent with the MRTU design that the LSEs will bid and settle their
load at the LAP levels

b) Allowing virtual bids at nodes will reduce the market liquidity whereas LAP
bidding concentrates liquidity

c) Allowing virtual bids at nodes will create loopholes for market manipulation
d) Allowing virtual bids at nodes will produce infeasible schedules, and one of
the main objectives in MRTU is to produce feasible schedules in the day-
ahead market

In sum, nodal virtual bidding appears to put at risk key design objectives of
MRTU (feasible schedules, efficient optimization based on three-part bids,
effective local market power mitigation, effective market monitoring and a market
design that is less susceptible to manipulation). The risks created by introducing
nodal virtual bids is not justified in light of the limited potential benefits. In
contrast, LAP virtual bidding may actually help MRTU better achieve its
foundational design goals.

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

SCE does not support the implementation of Virtual Bidding at nodes as mentioned
above. However, if nodal bidding is adopted, additional market mitigation measures,
including position limits, will be necessary. Even with position limits, the CAISO will
require additional tools to comprehensively and effectively monitor virtual
participation at all of 3000+ nodes in the grid. This is a non-trivial task and nodal
virtual bidding should not be implemented until the CAISO has such monitoring
capabilities.

4. What are your entity’s views on allocating costs to virtual bids?
Virtual bids should be treated as physical bids and should be allocated the uplift costs such as RUC costs, and bid cost recovery in both day-ahead and real-time markets. SCE provided detailed comments on this topic in its July 28, 2006 comments to the CAISO.

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

This will require a stakeholder process that should be sensitive to both technical issues and goals established by stakeholders and policy makers.