ATTACHMENT E

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Margaret A. Rostker, Esq.
California Independent System Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630

Dear Ms. Rostker:

This letter provides the positions of Potomac Economics on the development of reference prices and automated mitigation by the California Independent System Operator ("CAISO") under the $250 per MWh soft price cap mandated by the Federal Energy Regulatory Commission ("FERC").

Application of Mitigation to Bids with Prices Greater than $250 per MWh

It is appropriate to apply the mitigation measures to bids greater than $250/MWh if they fail both the conduct test and the market impact test The existence of the soft bid cap does not provide a reasonable basis for excluding bids above $250/MWh Only accepted bids must be filed with and justified to FERC Therefore, resources bid above $250/MWh that are intended to raise prices by causing it to not be dispatched would not have to be justified to FERC and could therefore be successfully withheld.

To provide additional protection to the suppliers, if there are cases where a resource with a bid price above $250 that exceeds both the conduct and the impact test and is mitigated but is later able to justify the bid to the FERC, the supplier could be compensated by the ISO to the full extent of its unmitigated bid

Market Impact Test

Bids at prices above $250 cannot set market clearing prices under the soft bid cap measure. For purposes of conducting the market impact test, however, it would be reasonable to model the system as if these bids could set prices above $250. Although the clearing price cannot be set by these bids, this test will indicate whether the bids that exceed the economic withholding thresholds cause the ISO to dispatch higher cost units above $250 that must be paid their bid price (that would not have been economic but for the withheld resource).

Reference Levels greater than $250

Reference levels above $250 are appropriate and should be allowed For a variety of reasons, resources may have marginal costs that substantially exceed their variable operating costs and, in some cases, may exceed $250 per MWh. In these cases, the participants currently have the option of providing justification to Potomac Economics for reference prices in this range.

In addition, if bids are accepted above $250 that are subsequently justified to the Commission, it is reasonable to include these bids in the bid-based referenced prices This may reduce the need for participants to consult directly with Potomac Economics regarding the need to offer resources with bid prices above $250

Please contact me if you have any questions regarding these provisions

Sincerely,

David B. Patton

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