

ISO Board of Governors

May 15, 2013

Dear Board Members:

Powerex appreciates the opportunity to provide comments to the CAISO Board on the CAISO's FERC Order 764 Market Changes final proposal. Powerex provides the following comments.

Powerex is strongly supportive of the direction that CAISO has taken with respect to the core re-design of its real-time market. Powerex believes the CAISO proposal includes many elements that will provide vast improvements to the current market design that will both reduce uplift costs and improve overall market efficiency. These design changes will also provide for significant improvements in the efficient integration of variable energy resources.

However, Powerex does have some remaining concerns that were raised during this stakeholder process. First, Powerex is not supportive of the reinstatement of convergence bidding on the interties as part of this initiative. Both the substantive nature of this physical real-time market redesign, as well as the ongoing uplift problems attributable to internal convergence bidding, as highlighted by DMM in its recent annual report, make reinstatement of convergent bidding on the interties imprudent at this time. Powerex believes that a more holistic review of convergence bidding in CAISO markets should be undertaken and urges the CAISO to initiate a new stakeholder process on this topic.

Second, Powerex remains troubled that the CAISO continues to take a highly tolerant approach to participant's failures to deliver on physical energy awards on the interties. Powerex believes the CAISO market rules lack sufficient incentives to deliver reliable and flexible resources on the interties, thereby undermining market efficiency and potentially reliability. Powerex urges the CAISO to take steps over the coming year to address intertie delivery requirements and intertie resource sufficiency, and associated price incentives.

Powerex reiterates its overall support for the CAISO's final proposal and appreciates this opportunity to share its comments.

Respectfully yours,

Powerex Corp.