Brookfield Renewable Power

Brookfield Energy Marketing Inc.
480 de la Cité Blvd
Gatineau, Quebec J8T 8R3

Tel 819 561-2722
Fax 819 561-7188
www.brookfieldpower.com

August 24, 2011

CAISO Board of Governors
250 Outcropping Way
Folsom, CA 95630

RE: Decision on Eliminating Convergence Bidding on the Interties

Governors;

Brookfield Energy Marketing LP ("Brookfield") is a subsidiary of Brookfield Renewable Power Inc. which is one of the largest independent producers of renewable power in North and South America. Our current portfolio includes about 170 generating stations which are primarily hydro electric facilities and several wind farms, one of each technology located within the CAISO controlled grid. We also have a number of hydropower and wind projects under construction or in development. We are very active in the Eastern ISO markets and can attest to the benefits convergence bidding provides to those markets. As a new market participant to California, we seek to retain convergence bidding on the intertie points as a valuable hedging and arbitrage tool that will provide more flexibility to manage our current and prospective portfolio. We recognize there are specific market design issues that are unique to CAISO that led to this proposal and agree they must be addressed. However, the complete elimination of virtual bidding on the interties is not the right solution to the address the problems.

Brookfield appreciates the opportunity to communicate our concerns through this memo regarding the proposed Decision to Eliminate Virtual Bidding on the Interties. We respectfully request the Board to reject the CAISO's proposal. We urge the Board to instead direct the CAISO to implement the following:

- Implement the prior CAISO proposed settlement rule as a short term measure to reduce the real-time imbalance offset charge;
- Retain existing 5% position limits on the interties;
- Accelerate resolution of medium to long term market design enhancements that will address root causes and eliminate the uplift.

The CAISO proposes to eliminate virtual bidding on the interties even though this approach has little stakeholder support, much opposition and provides minimal benefit towards addressing the problem of the Real-Time Imbalance Uplift and the root market deficiencies that drive it. Considering the uplift charge has reached dollar volumes even higher prior to virtual bidding being implemented, eliminating virtual bidding on the interties may provide little to no relief. Brookfield along with other stakeholders have expressed in comments that eliminating virtual bidding on the intertie points is the last choice of options and that a number of less severe approaches, such as those outlined above, could be taken by the CAISO in the short term to help mitigate the problem. It seems inefficient to completely throw out convergence bidding on the interties which provides legitimate benefits to the market, after only six-months of its initial inception, in order to achieve only a 10% - 30% reduction in the Real-Time Imbalance Uplift.

The settlement rule previously proposed by the CAISO is clearly not an ideal solution but is preferred as a short-term solution to complete elimination of virtual bidding on the interties. We recognize that the proposed settlement rule will only address revenues gained from arbitrage between the HASP and Real-Time price that occur within an individual market participant's portfolio and will not capture cross portfolio affects from one market participant placing a virtual demand bid internally that may offset a virtual supply bid on an intertie point placed by another market participant. However, since individual market participant positions comprise approximately 80% of the dollar volume of balanced convergence bidding contribution to the uplift[1], the settlement rule could be a reasonably effective measure to reduce the uplift.

The CAISO currently has limits in place that cap the MW volume of virtual bids that can be placed by individual market participants at each internal node and intertie points. These limits were created to be used as safeguards to provide a slow transition for the California markets to nodal virtual bidding. The existing limit at each intertie point is 5% and is scheduled to increase automatically to 25% in October. We request the Board to direct the CAISO to utilize this existing tool as an option to mitigate volumes of virtual bids on the interties while continuing to address longer-term market design fixes.

Lastly, we request the Board to direct the CAISO to accelerate their efforts to address the known real-time market deficiencies that drive the Real-Time Imbalance Offset. Efforts are already underway through the Renewable Integration Market & Product Review stakeholder process and can be given higher priority with a goal for completion of design by December 2011 and implementation as soon as feasible thereafter.

In conclusion, we believe there are a number of less severe alternatives that can be implemented for the short-term to mitigate the potential impact virtual bidding may have on the Real-Time Imbalance Uplift. We urge the Board to consider the alternatives described herein in lieu of complete elimination of virtual bidding on the interties. These alternatives would leave virtual bidding on the interties active to be utilized as a tool by market participants for legitimate purposes such as hedging of physical positions and arbitrage between the Day-Ahead and HASP prices.

Sincerely,

Margaret Miller

Director, Regulatory Affairs West Coast

Brookfield Energy Marketing, LP

---

[1] *CAISO Market Performance & Planning Meeting*, Slide 12 at: http://www.caiso.com/Documents/Agenda-MarketPerformance-PlanningForum_Aug_3_2011.pdf