

**From:** Sadao Milberg [mailto:milberg@dc-energy.com]  
**Sent:** Friday, March 27, 2009 3:53 PM  
**To:** crrdata  
**Subject:** Comments on Process to Reevaluate CRR Credit Requirements

DC Energy supports proper collateralization of CRRs under Extraordinary Circumstances. However, DC Energy opposes CAISO using models to set collateral requirements for the following reasons:

Difficulty of implementation:

<!--[if !supportEmptyParas]-->Currently the DAM team reserves three hours to run the DAM. Given the CAISO intends to model every hour of the Extraordinary Circumstance (at least according to comments on last Friday's call), how will the CRR team model a 30 day Extraordinary Circumstance starting 20 days in the future? Presumably the model run that attempts to predict the future will be substantially more complicated than the DAM run as the CAISO will have to predict fuel prices, changes in participant behavior (both internal and external), and weather at a minimum. Can the CAISO realistically run these simulations? Does CAISO have the expertise to predict future values of the various inputs required for the model? Does CAISO have the resources required to run, validate, and interpret what could be 30 days, or perhaps more, worth of DAM models results per Extraordinary Circumstance?

The CAISO must balance the appeal of collateralization-to-model with the difficulty of implementation of such a concept.

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Market prices are better than modeled prices for setting collateral requirements:

One area that the CAISO does have extensive expertise in is the running of auctions. Further, the CAISO already leverages auction pricing to set credit requirements. If the CAISO were to run reconfiguration/balancing auctions with enough frequency, these would reflect the impact of the extraordinary events as they are announced. In effect, the market prices would capture the collective information of the market in addition to the CAISO's view of the grid under Extraordinary Circumstances.

An added benefit is that the incremental effort required to run the additional auctions should be substantially smaller than that required to develop and implement collateralization -to-model.

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Even under the assumption that collateralization-to-model is the right approach, CAISO may not be the right entity to implement it:

If the the drivers for the Extraordinary Circumstance are made public, and the resulting values used for collateralization-to-model are also made public, it follows CAISO should

outsource the modeling function to a third party with the appropriate expertise. CAISO should issue an RFP and retain at least two independent third parties to separately evaluate the impact of the Extraordinary Circumstance.

If the CAISO chooses to forge ahead with an in-house collateralization-to-model approach, the CAISO should be transparent enough about the information and methodology used to derive Extraordinary Circumstance collateral requirements that CRR holders would be able to estimate those requirements themselves.

Best regards,

Sadao Milberg.

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