

ISO Board of Governors

September 12, 2012

Dear Board Members:

Powerex is pleased to have the opportunity to provide comments to the CAISO Board on the CAISO's Intertie pricing and settlement stakeholder process and recommended course of action. Powerex provides the following comments.

For well over a year, the CAISO and a broad range of stakeholders have engaged in a thorough stakeholder process on intertie pricing and settlement, including the potential reinstatement of convergence bidding on the interties. During this stakeholder process, numerous proposals were brought forward by both the CAISO and several stakeholders to address a myriad of relevant intertie issues.

In Powerex's view, the stakeholder process was very productive from several perspectives. First, several of the root causes of price divergence, real-time uplift costs and market inefficiency were identified and substantively discussed. Second, through the course of the stakeholder process, it became increasingly apparent that there simply was no "quick fix" possible that would enable the prudent reinstatement of convergence bidding on the interties, in a manner consistent with CAISO's reliability and market efficiency objectives. Third, it became clear to Powerex, CAISO, DMM and several other stakeholders, that the disparate dispatch and settlement treatment of intertie and internal resources in real-time was one of the central issues that requires the CAISO to pursue a much more substantive re-design of its real-time market.

Powerex fully supports the CAISO's decision to suspend the current stakeholder process and continue the suspension of intertie convergence bidding while it focuses its efforts on aligning internal and intertie resources under a unified 15-minute real-time dispatch and settlement framework. This change in direction is both appropriate and necessary. Powerex believes this change in direction will enable the CAISO to pursue a real-time market framework that will significantly reduce price divergence and real-time uplift costs while enhancing market efficiency. This change in direction is also consistent with the CAISO's need to meet FERC's recent order on variable energy resources, requiring 15-minute intertie scheduling availability.

There will undoubtedly be numerous objections to the CAISO's decision to continue its suspension of intertie convergence bidding. However, Powerex believes it is important to recognize that the primary purpose of intertie convergence bidding is to significantly improve physical market efficiency – an objective that was not, and cannot, be achieved without substantial changes to the CAISO's real-time market design.

Respectfully yours,



Mark Holman, Managing Director
Powerex Corp.

