Credit Adder Proposal

DC Energy Comments

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DC ENERGY

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Credit Adder Proposal
– Executive Summary –

- **Relative price caps across markets are a good way to adjust for credit adders across markets; however, it may be possible to refine numbers further by looking at price spreads directly**

- **DCE believes Inter-zonal price spreads relations across ISOs might be better indicators of credit adder adjustments than relative generator offer caps**
  - — CRR settlements are on spreads, so looking at spreads should provide a clearer picture
  - — Implicit assumption is that inter-zonal spreads are reflective of intra-zonal spreads

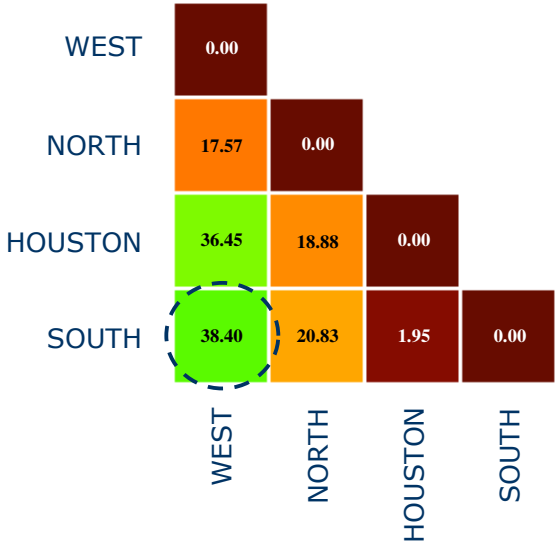
- **NYISO's inter-zonal spreads have historically been larger than ERCOT's**
  - — Average inter-zonal price spread since 2004 has been greater in NYISO than in ERCOT
  - — Since offer cap increase in March 2008 the average inter-zonal price spreads in ERCOT were less than that in NYISO with, the exception of May 2008
  - — The price spreads in May 2008 represent an exceptional event resulting from severe price spikes caused by intra-zonal congestion that is not expected to recur once the nodal market comes online

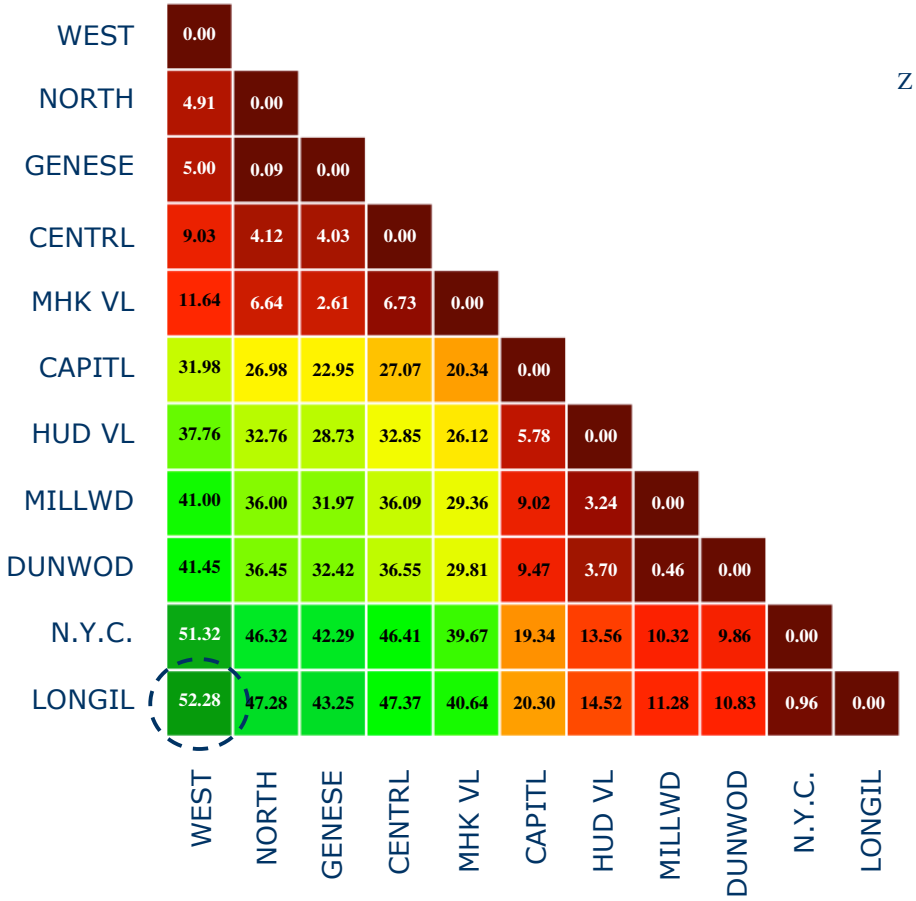
- **Given NYISO's inter-zonal spreads are greater than ERCOT's, there should not be a need to use credit adders for ERCOT greater than NYISO's**
  - — DC Energy would support the use of $600/MWmonth ($0.83/MWh) for the initial monthly auctions

Maximum average inter-zonal price spread in ERCOT (West – South: $38.40/MWh) is significantly lower than NYISO (West - Long Island: $52.28/MWh)

Heat Maps of Average Inter-zonal Price Spreads

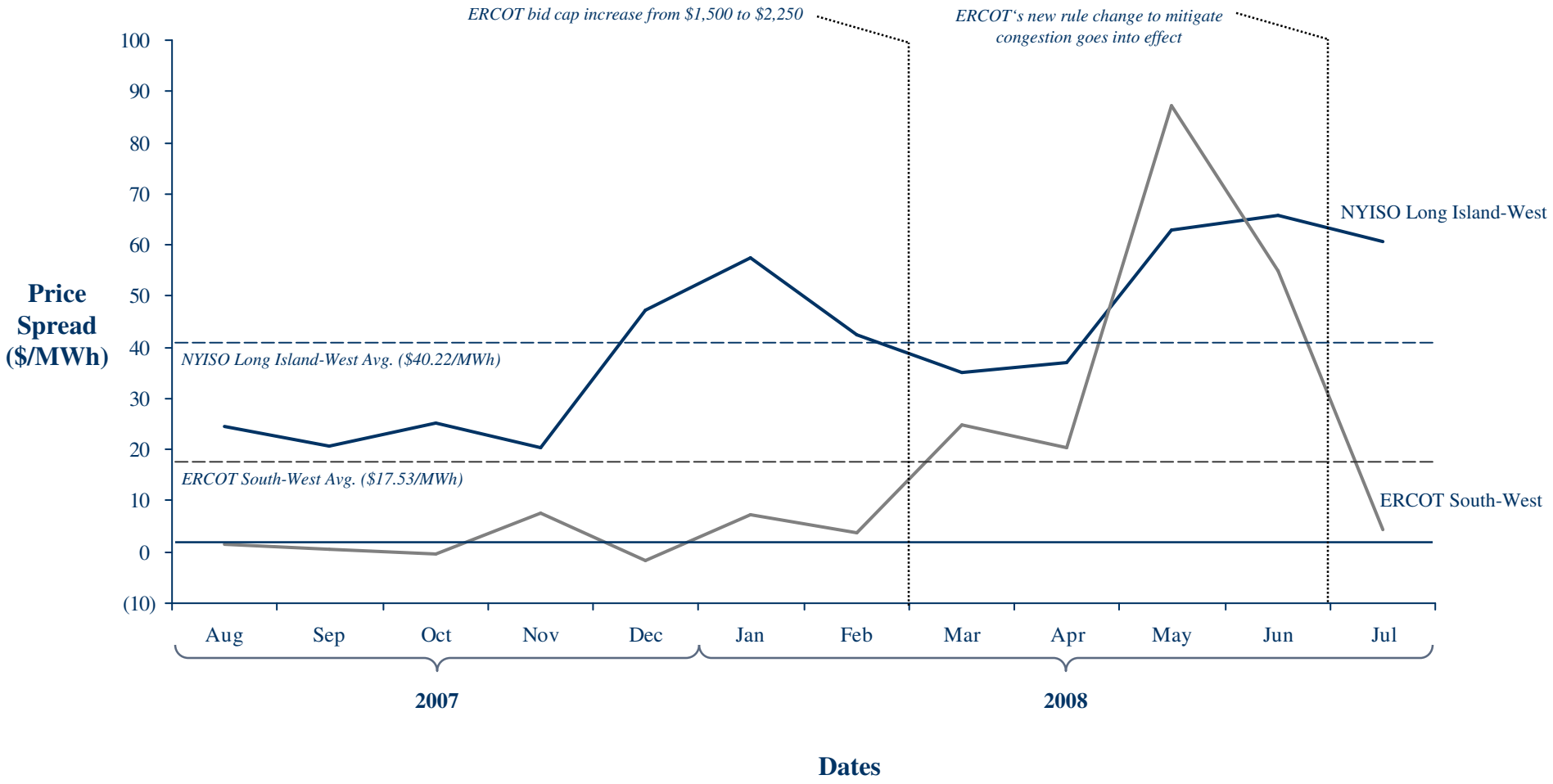
– March 2008 to July 2008 –





Recent high prices in ERCOT are the result of a few price spikes which are not expected once the nodal market starts, due to efficient congestion management.

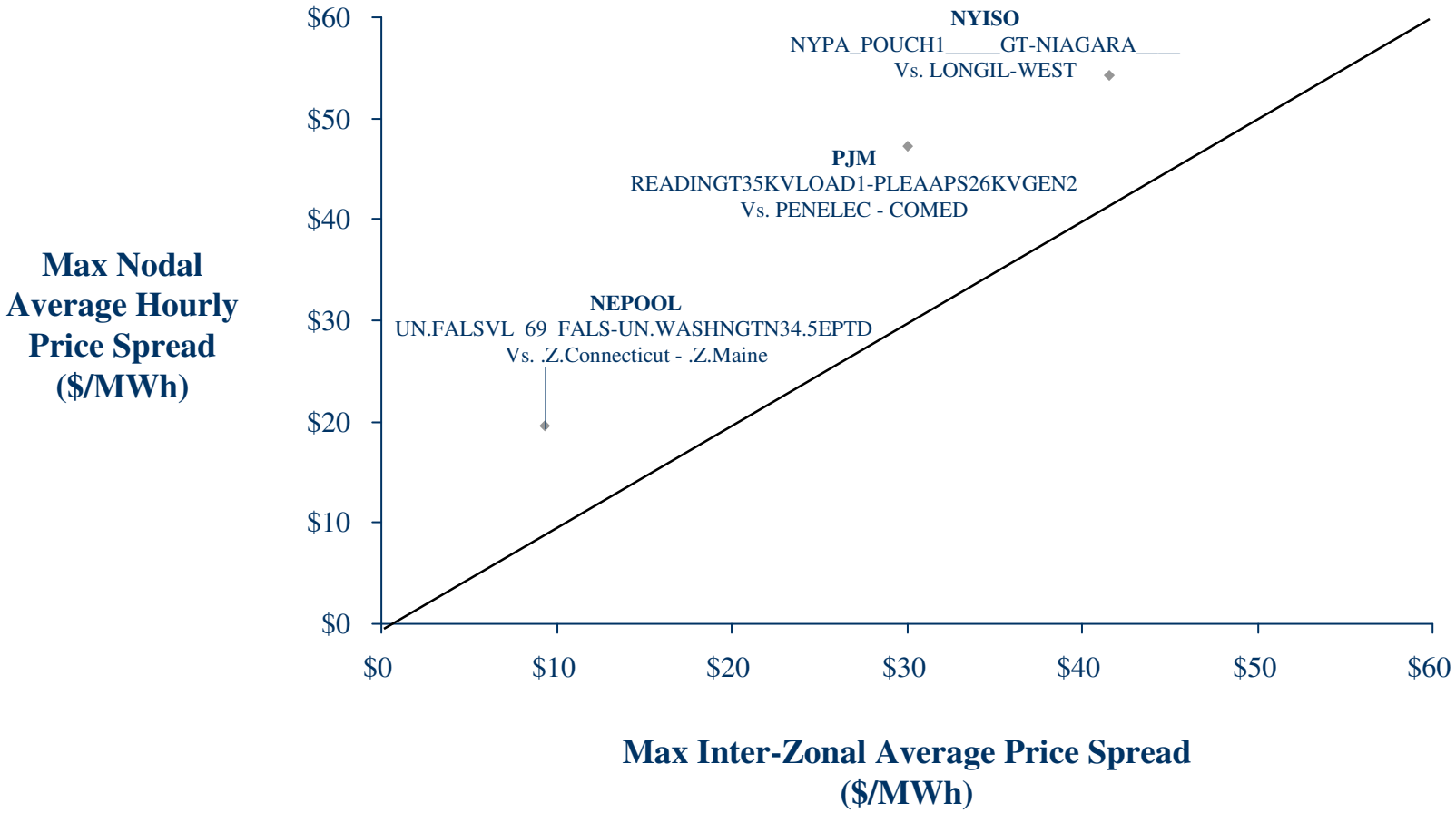
Monthly Average Inter-Zonal Price Spreads
– August 2007 to July 2008 –



ISOs with higher interzonal spreads have higher internodal spreads, and vice versa

Highest Average Nodal vs. Inter-zonal Price Spread

– August 2007 – July 2008 –

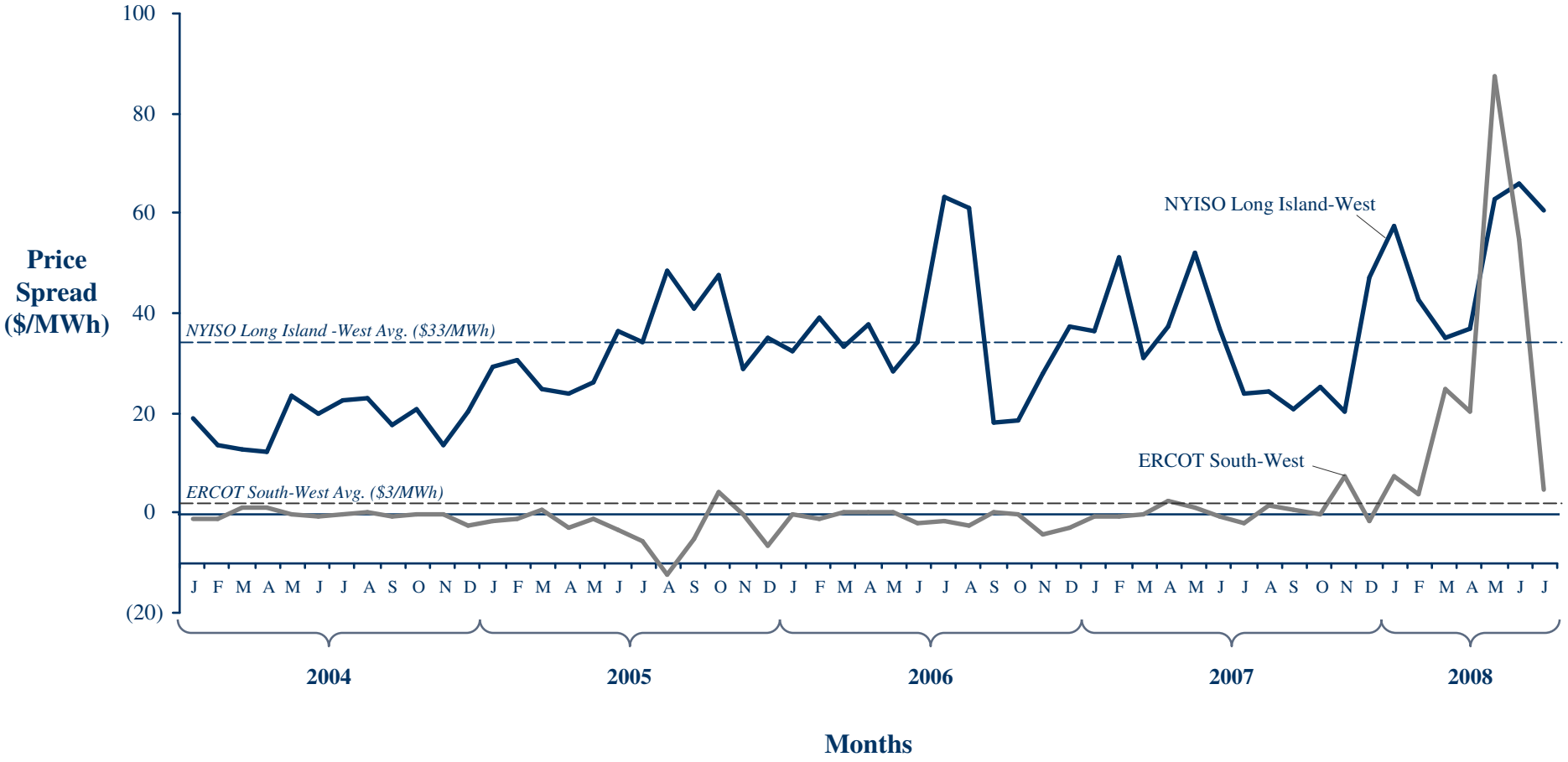


Backup

ERCOT'S average zonal spreads have been significantly lower than NYISO, suggesting that a Credit Adder similar to NYISO should be sufficient for ERCOT.

Monthly Average Inter-Zonal Price Spreads

– January 2004 to July 2008 –



Highest average intra-zonal (zone to member node) price spreads in all deregulated markets have been lower than inter-zonal (zone to zone) spreads.

Highest Average Intra-zonal vs. Inter-zonal Price Spread

– August 2007 – July 2008 –