

Credit Adder Proposal

DC Energy Comments

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DC ENERGY
QUANTITATIVE TRADING

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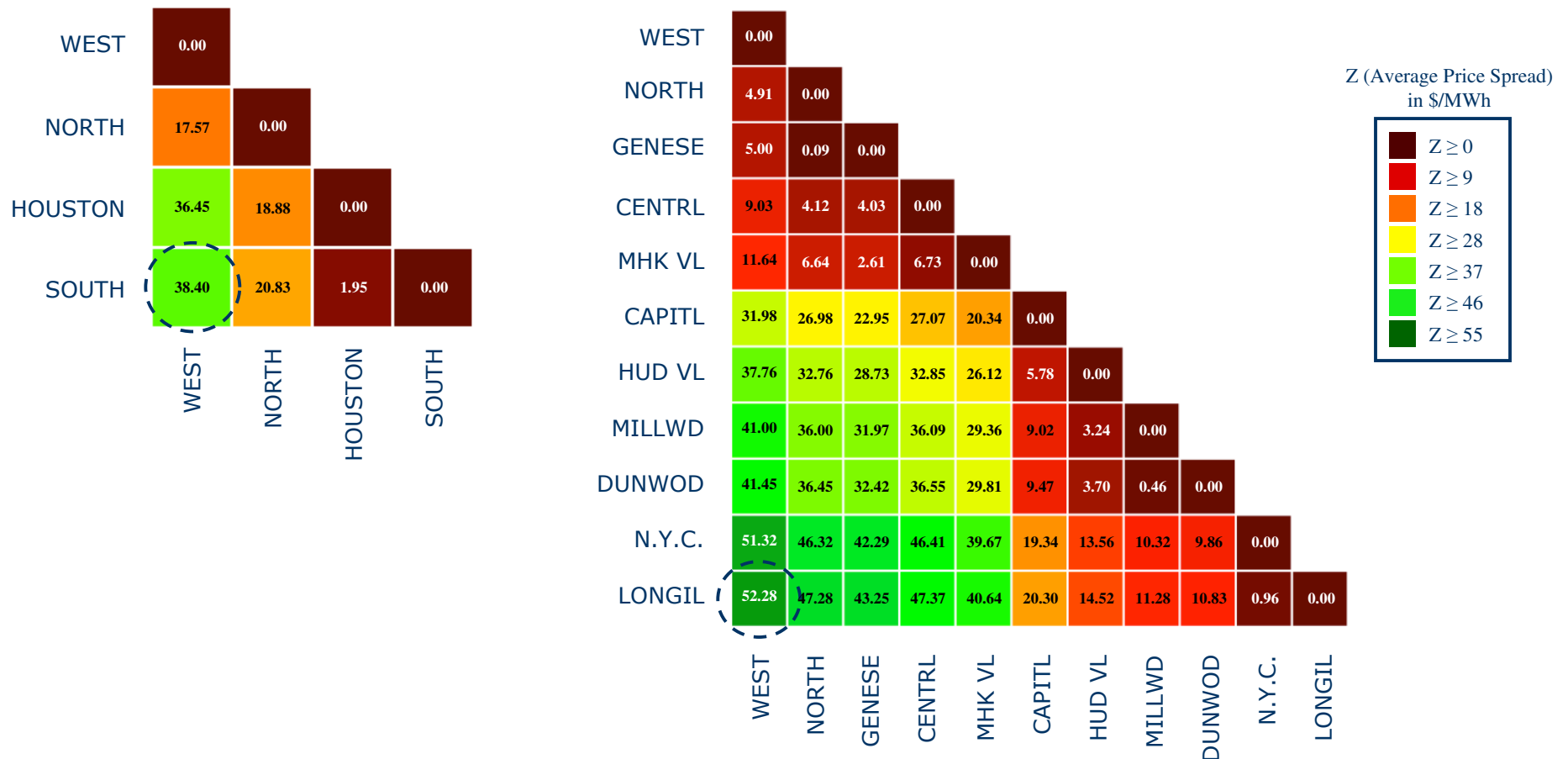
Credit Adder Proposal

– 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

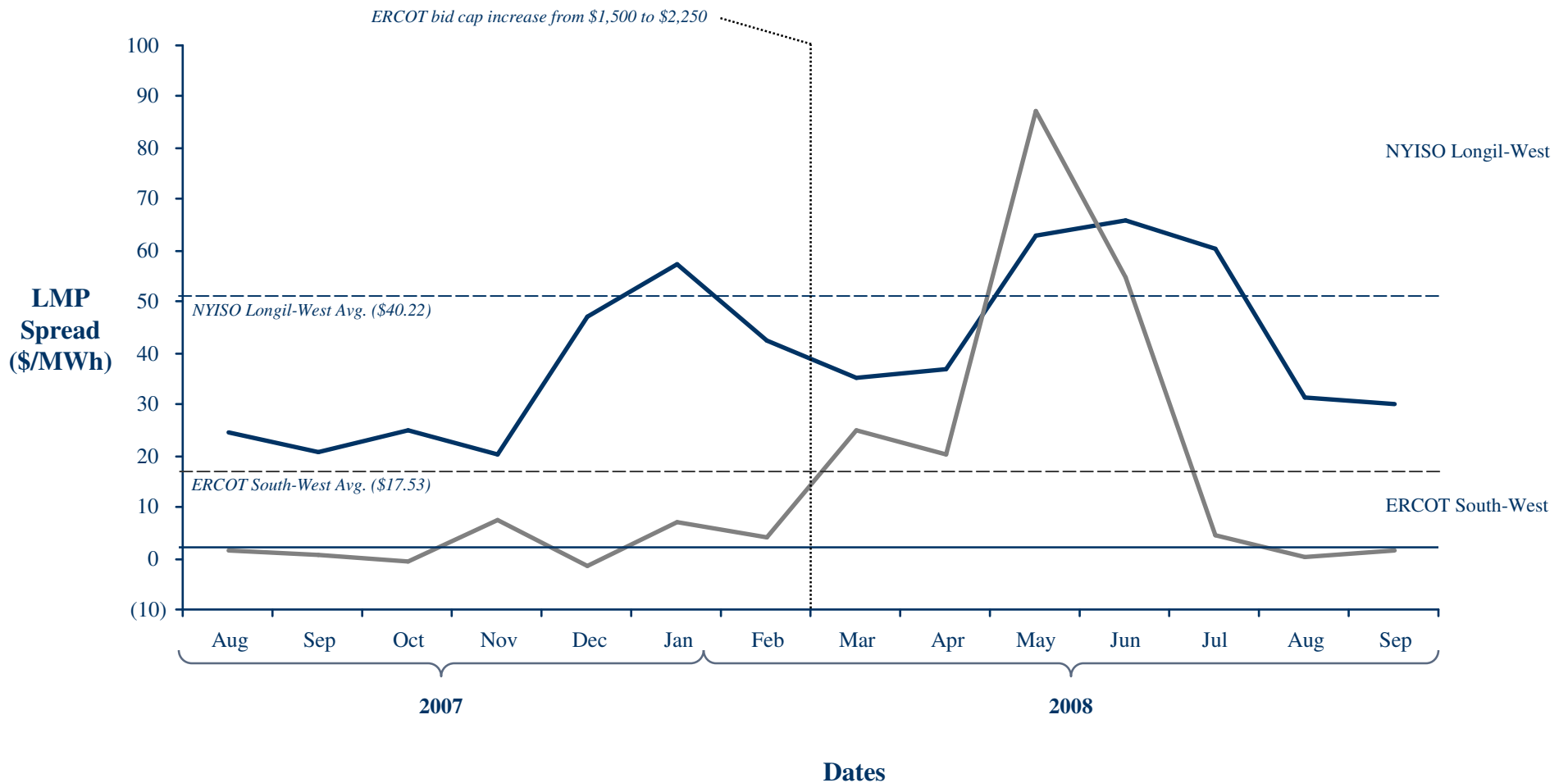
Maximum average inter-zonal price spread in ERCOT (West – South: \$38.40/MWh) is significantly lower than NYISO (West - Long Island: \$52.28/MWh)

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 Zonal Spreads – August 2007 to September 2008 –

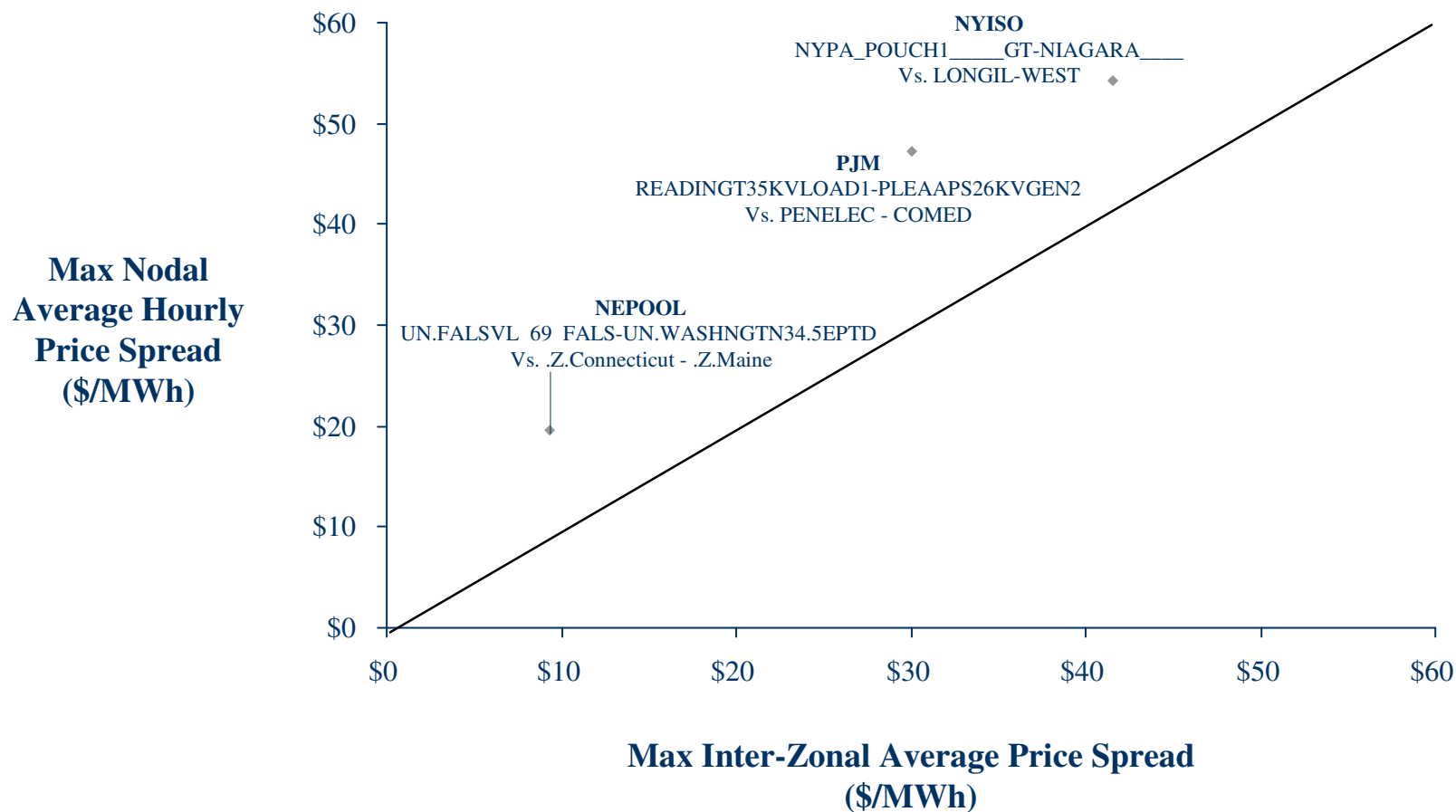


Note: 2008/08/01-2008/08-05, inclusive, were excluded from ERCOT analysis due to data unavailability.

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

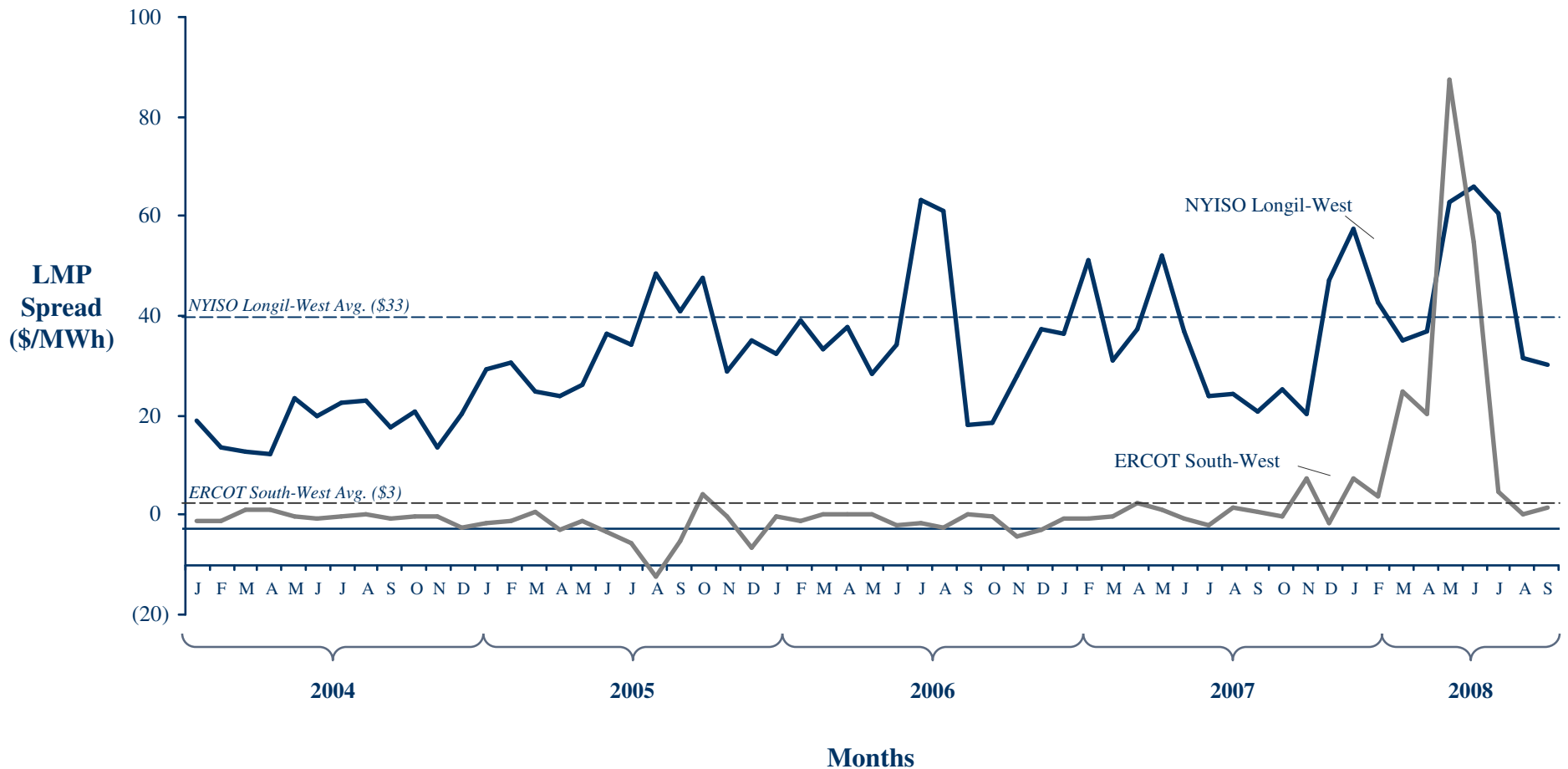
Highest Average Nodal vs. Inter-zonal Price Spread – August 2007 – July 2008 –



Backup

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

Monthly Average Zonal Spreads – 2004 to July 2008 –



Note: 2008/08/01-2008/08-05, inclusive, were excluded from ERCOT analysis due to data unavailability.

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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 –

