

Chronology of Events Leading to Suspension and Default of Lehman Brothers Commodity Services

1. On July 15, the CAISO notes that Lehman Brother's overall financial outlook is uncertain based on press articles and increases in their Moody's Expected Default Frequency (EDF). CAISO closely monitors news stories about Lehman over the next two months.
2. August 22, CAISO notes that Lehman Brother's financial outlook has grown increasingly uncertain and provides notice to Lehman Brothers Commodity Services (LBCS) that the CAISO is considering invalidating its corporate guaranty.
3. On September 10, CAISO notified LBCS that it would no longer consider its guaranty from Lehman Brothers Holdings valid, as the parent company was facing substantial financial uncertainty as reflected in headlines, and in the Moody's KMV default probability figure CAISO reviews in making credit decisions. Accordingly, CAISO requested that LCBS post alternative financial security.
4. On September 11, LCBS notified the CAISO that it would post additional collateral in a form reasonably acceptable to the CAISO that would cover existing obligations plus a substantial margin. Later that day, LBCS indicated they would post only the amount to cover the existing liabilities. On the same day, the CAISO in fact received the additional collateral covering the existing liabilities.
5. On September 11, CAISO noted a news article with the heading "Lehman Brothers Holdings Inc was forced into talks about a possible sale after the Wall Street investment bank's shares plunged more than 40 percent on Thursday, raising questions about its survival."
6. On September 15, Lehman Brothers Holdings filed for bankruptcy.
7. On September 15, 2008, CAISO requested LBCS Services to post additional collateral. CAISO requested this additional collateral using one of the more conservative methods of estimating LBCS's liabilities as permitted in Section 12.1.5A.1 resulting an estimate greater than current liabilities.
8. On September 16, LBCS informed the CAISO that it would provide the additional collateral as requested.
9. On September 18, 2008, a representative from LBCS informed the CAISO that it was not making any payments to anyone. Accordingly, the CAISO provided a last warning that scheduling would be suspended the next day unless collateral was posted by COB September 18.

10. After 5:00 PM on September 18, 2008, CAISO took actions to prevent LBCS from scheduling as of September 19, 2008. This action was taken pursuant to Section 12.5(b) of the CAISO tariff, which allows the CAISO to limit trading if a market participant's Estimated Aggregate Liability (EAL), as calculated by the CAISO, exceeds its aggregate credit limit. Although the CAISO has authority to limit trading whenever a market participant's EAL exceeds its credit limit under Section 12.5, the market participant still has five business days to post the security pursuant to Section 12.4 before it is considered in technical default under the tariff.

11. On September 19, 2008, CAISO notified the Market that LBSC had been suspended from participating in the CAISO's markets pursuant to Section 12.5.

12. On September 24, 2008, the CAISO notified LBCS that it was in default pursuant to Section 4.5.4.4(a)(i) because LBCS failed to post security within five days of the CAISO's request. CAISO indicated that unless the default was cured by October 1, 2008, the CAISO would issue a notice of termination.

12. On September 25, 2008, the CAISO issued a market notice indicating that LBCS was now in formal default and unless the default was cured by October 1, 2008, the CAISO would terminate LBCS.