

ALSTON & BIRD LLP

The Atlantic Building
950 F Street, NW
Washington, DC 20004-1404

202-756-3300
Fax: 202-756-3333

Bradley R. Miliauskas

Direct Dial: 202-756-3405

Email: bradley.miliauskas@alston.com

September 4, 2009

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, DC 20426

**Re: California Independent System Operator Corporation
Docket No. ER09-____-000
Amendment to the ISO Tariff to Reduce the Maximum
Unsecured Credit Limit**

Dear Secretary Bose:

The California Independent System Operator Corporation ("ISO") submits this amendment to the ISO tariff to reduce the maximum Unsecured Credit Limit for market participants to \$50 million, in connection with the planned implementation of the ISO's payment acceleration program.¹ The ISO requests that the tariff changes contained in this filing be made become effective January 5, 2010.

Two extra copies of this filing are also enclosed. Please stamp these copies with the date and time filed and return them to the messenger.

I. Background

Section 12 of the ISO tariff requires each market participant to secure its financial transactions with the ISO by maintaining an Unsecured Credit Limit

¹ The ISO submits this filing pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d, and Section 35.13 of the Commission's regulations, 18 C.F.R. § 35.13. Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the ISO tariff. The ISO is also sometimes referred to as the CAISO.

and/or posting Financial Security in a total amount that is equal to or greater than the market participant's Estimated Aggregate Liability.² Sections 12.1.1 and 12.1.1.1 of the tariff contain provisions regarding the maximum Unsecured Credit Limit. Currently, the maximum Unsecured Credit Limit for any market participant is \$150 million.³

The ISO previously lowered the maximum Unsecured Credit Limit for any market participant from \$250 million to \$150 million pursuant to a tariff amendment filed in January 2009 in Docket No. ER09-589. In the transmittal letter for that tariff amendment, the ISO also stated that it anticipated making a further tariff amendment in the future to reduce the maximum Unsecured Credit Limit to \$50 million effective after the start of a program under development to shorten the time period in which the ISO invoices and settles market transactions (the "payment acceleration program").⁴ In a memorandum to the ISO Governing Board ("Board") dated December 8, 2008 ("Memorandum"), the ISO explained that reducing the maximum Unsecured Credit Limit to \$50 million "is reasonable since the cash clearing cycles and, correspondingly, outstanding liabilities [*i.e.*, Estimate Aggregate Liabilities⁵] will be reduced by about 70% with payment acceleration (and the reduction from \$150 million to \$50 million provides a comparable reduction)."⁶ Prior to presenting its proposal to the Board, the ISO discussed the planned reduction of the maximum Unsecured Credit Limit to \$50 million with stakeholders.⁷ The Board authorized the further reduction of the Unsecured Credit Limit to \$50 million at its December 2008 meeting.⁸

² Further implementation details regarding the credit provisions in Section 12 are found in the applicable Business Practice Manuals available on the ISO's website.

³ The maximum Unsecured Credit Limit is the largest Unsecured Credit Limit that any market participant can possibly receive, but it is not necessarily the case that every market participant that applies for an Unsecured Credit Limit will receive the maximum. See ISO tariff, Sections 12.1.1.1, 12.1.1.1.1, and 12.1.1.1.2 (setting forth the ISO's methodology for calculating the Unsecured Credit Limits of market participants).

⁴ Transmittal Letter for ISO Tariff Amendment, Docket No. ER09-589-000 (Jan. 29, 2009), at 4 n.7.

⁵ Estimated Aggregated Liability is defined in Appendix A to the ISO tariff as "[t]he sum of a Market Participant's or CRR Holder's known and reasonably estimated potential liabilities for a specified time period arising from charges described in the CAISO Tariff, as provided for in Section 12."

⁶ Memorandum at 3. The Memorandum is available on the ISO's website at <http://www.caiso.com/2098/20988a9a1ea70.html>.

⁷ See ISO white paper entitled "California ISO Credit Policy Enhancements Final Proposal" (dated December 1, 2008), which is available on the ISO's website at <http://www.caiso.com/2090/2090d5ef44b10.pdf>.

⁸ The Board motion approving this reduction is available on the ISO's website at <http://www.caiso.com/20a0/20a0e6283aca0.pdf>.

The Commission accepted the January 2009 tariff amendment in its entirety. The Commission found that the reduction of the maximum Unsecured Credit Limit to \$150 million was “a logical step in the CAISO’s plan to eventually reduce the maximum unsecured credit limit to \$50 million upon the implementation of the CAISO’s payment acceleration program.”⁹

In June 2009, the ISO filed a tariff amendment in Docket No. ER09-1247 to implement the payment acceleration program effective November 1, 2009. The Commission has not yet issued an order regarding the tariff amendment.¹⁰

Assuming the Commission authorizes the ISO to implement the payment acceleration program effective November 1, there will be a transition period consisting of approximately two months following November 1 during which the ISO’s settlement system will still be clearing the financial liabilities that were accrued by market participants prior to the implementation of the payment acceleration program. As a result, the reduction in Estimated Aggregated Liabilities caused by the payment acceleration program will not be fully seen until January 5, 2009, when invoices for the last pre-payment acceleration period and the first post-payment acceleration period are cleared. Accordingly, the ISO is proposing an effective date of January 5, 2009, the date the last invoice from the pre-payment acceleration period is cleared, for the reduction of the maximum Unsecured Credit Limit.

II. Proposed Tariff Changes

The ISO proposes to modify Sections 12.1.1 and 12.1.1.1 to reduce the maximum Unsecured Credit Limit for any market participant from \$150 million to \$50 million. As noted above, this reduction is appropriate because, the cash clearing cycles and, correspondingly, the Estimated Aggregate Liabilities of market participants will be reduced by approximately 70 percent after the payment acceleration program is implemented.

III. Effective Date and Request for Waiver

The ISO requests that the Commission make the tariff revisions contained in the instant filing effective as of January 5, 2010, which is approximately two months after November 1, 2009, the date for which the ISO has requested Commission authorization to implement the payment acceleration program. As explained above, the effects of the payment acceleration program will not be fully realized until January 5, 2010. When the transition period ends, Estimated Aggregate Liabilities are expected to be approximately 70 percent lower than

⁹ *California Independent System Operator Corp.*, 126 FERC ¶ 61,285, at P 36 (2009).

¹⁰ The ISO will be seeking Board approval for certain relatively minor modifications to the payment acceleration program at its September 10-11, 2009 meeting.

their current levels, and the maximum Unsecured Credit Limit should likewise be reduced by about 70 percent. Therefore, it is appropriate to make the reduction of the maximum Unsecured Credit Limit from \$150 million to \$50 million effective January 5.

Because this tariff amendment is being submitted more than 120 days prior to the requested January 5 effective date, the ISO respectfully requests waiver of the Commission's regulations in order to permit that effective date.¹¹ For the reasons explained above, granting the requested waiver is appropriate.

IV. Communications

Communications regarding this filing should be addressed to the following individuals, whose names should be put on the official service list established by the Commission with respect to this submittal:

Nancy Saracino
General Counsel
Sidney M. Davies
Assistant General Counsel
California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630
Tel: (916) 351-4400
Fax: (916) 608-7296
E-mail: nsaracino@caiso.com
sdavies@caiso.com

Sean A. Atkins
Bradley R. Miliauskas
Alston & Bird LLP
The Atlantic Building
950 F Street, NW
Washington, DC 20004
Tel: (202) 756-3300
Fax: (202) 756-3333
E-mail: sean.atkins@alston.com
bradley.miliauskas@alston.com

V. Service

The ISO has served copies of this transmittal letter, and all attachments, on the California Public Utilities Commission, the California Energy Commission, and all parties with effective Scheduling Coordinator Service Agreements under the ISO tariff. In addition, the ISO is posting this transmittal letter and all attachments on the ISO's website.

¹¹ Specifically, the ISO requests waiver, pursuant to Section 35.11 of the Commission's regulations (18 C.F.R. § 35.11), of Section 35.3 of the Commission's regulations (18 C.F.R. § 35.3), in order to permit the requested January 5 effective date.

VI. Attachments

The following attachments, in addition to this transmittal letter, support the instant filing:

- | | |
|--------------|---|
| Attachment A | Revised ISO tariff sheets that incorporate the proposed changes described above |
| Attachment B | The proposed changes to the ISO tariff shown in black-line format |

VII. Conclusion

For the foregoing reasons, the Commission should accept the proposed tariff changes contained in the instant filing to become effective on January 5, 2010. Please contact the undersigned if you have any questions regarding this matter.

Respectfully submitted,



Nancy Saracino
General Counsel
Sidney M. Davies
Assistant General Counsel
California Independent System
Operator Corporation
151 Blue Ravine Road
Folsom, CA 95630

~~Sean A. Atkins~~
Bradley R. Miliauskas
Alston & Bird LLP
The Atlantic Building
950 F Street, NW
Washington, DC 20004

Counsel for the California Independent System Operator Corporation

**Attachment A – Clean Sheets
Unsecured Credit Limit Amendment
Fourth Replacement CAISO Tariff
September 4, 2009**

12 CREDITWORTHINESS.

12.1 Credit Requirements.

The creditworthiness requirements in this section apply to the CAISO's acceptance of, any transaction in a CAISO Market, to the payment of charges pursuant to the CAISO Tariff (including the Grid Management Charge), and to establish credit limits for participation in any CAISO auction of CRRs and to CRR Holders for the holding of CRRs. Each Market Participant (including each Scheduling Coordinator, UDC, MSS, CRR Holder, or Candidate CRR Holder) shall secure its financial transactions with the CAISO (including its participation in any auction of CRRs and for the holding of CRRs) by maintaining an Unsecured Credit Limit and/or by posting Financial Security, the level of which constitutes the Market Participant's Financial Security Amount. For each Market Participant, the sum of its Unsecured Credit Limit and its Financial Security Amount shall represent its Aggregate Credit Limit. Each Market Participant shall have the responsibility to maintain an Aggregate Credit Limit that is at least equal to its Estimated Aggregate Liability.

12.1.1 Unsecured Credit Limit.

Each Market Participant requesting an Unsecured Credit Limit shall submit an application to the CAISO in the form specified on the CAISO Website. The CAISO shall determine the Unsecured Credit Limit for each Market Participant in accordance with the procedures set forth in the applicable Business Practice Manual. The maximum Unsecured Credit Limit for any Market Participant shall be \$50 million. In accordance with the procedures described in the applicable Business Practice Manual, each Market Participant requesting or maintaining an Unsecured Credit Limit is required to submit to the CAISO or its agent financial statements and other information related to its overall financial health as directed by the CAISO. Each Market Participant is responsible for the timely submission of its latest financial statements as well as other information, including but not limited to information concerning all entities that are Affiliates or become Affiliates, that may be reasonably necessary for the CAISO to conduct its evaluation. The CAISO shall determine the Unsecured Credit Limit for each Market Participant as described in Sections 12.1.1.1, 12.1.1.1.1, and 12.1.1.1.2.

As a result of the CAISO's credit evaluation, a Market Participant may be given an Unsecured Credit Limit by the CAISO or denied an Unsecured Credit Limit with the CAISO. Following the initial application and the establishment of an Unsecured Credit limit, the CAISO will review each Market Participant's Unsecured Credit Limit on a quarterly basis, unless that entity does not prepare quarterly statements, in which case the review will occur on an annual basis, and no entity shall be required to submit a new application. In addition, the CAISO may review the Unsecured Credit Limit for any Market Participant whenever the CAISO becomes aware of information that could indicate a Material Change in Financial Condition. In the event the CAISO determines that the Unsecured Credit Limit of a Market Participant must be reduced as a result of a subsequent review, the CAISO shall notify the Market Participant of the reduction, and shall, upon request, also provide the Market Participant with a written explanation of why the reduction was made.

12.1.1.1 Unsecured Credit Limit Calculation.

An Unsecured Credit Limit (UCL) for each Market Participant that is a Rated or Unrated Public/Private Corporation, a Rated or Unrated Governmental Entity, or a Local Publicly Owned Electric Utility and that requests an Unsecured Credit Limit is calculated as follows:

1. For each Rated Public/Private Corporation, the Unsecured Credit Limit is the lesser of \$50 million or an amount equal to the Market Participant's Tangible Net Worth multiplied by a calculated percentage of Tangible Net Worth. The Tangible Net Worth percentage is comprised of fifty percent (50%) of the Market Participant's lowest credit agency issuer rating and fifty percent (50%) of the Moody's KMV Equivalent Rating, if reasonably applicable. If a Moody's KMV Equivalent Rating is not reasonably applicable, the Tangible Net Worth percentage is comprised of one hundred percent (100%) of the Market Participant's lowest credit agency issuer rating.

2. For each Unrated Public/Private Corporation, the Unsecured Credit Limit is the lesser of \$50 million or an amount equal to the Market Participant's Tangible Net Worth multiplied by a calculated percentage of Tangible Net Worth. The Tangible Net Worth percentage is comprised of one hundred percent (100%) of the Moody's KMV Equivalent Rating.
3. For each Rated Governmental Entity, the Unsecured Credit Limit is the lesser of \$50 million or an amount equal to the Market Participant's Net Assets multiplied by a calculated percentage of Net Assets. The Net Assets percentage is comprised of one hundred percent (100%) of the Market Participant's lowest credit agency issuer rating.
4. (a) For each Unrated Governmental Entity other than one that receives appropriations from the federal government or a state government, the Unsecured Credit Limit is the lesser of \$50 million or an amount equal to a specified percentage of the Market Participant's Net Assets if the Market Participant has a minimum of \$25 million in Net Assets and its Times Interest Earned, Debt Service Coverage and Equity to Assets ratios (as those ratios are defined in the applicable Business Practice Manual) meet or exceed minimums specified in the applicable Business Practice Manual.

(b) For each Unrated Governmental Entity that receives appropriations from the federal government or a state government, the Unsecured Credit Limit is the lesser of \$50 million or the amount appropriated by the federal or relevant state government for the purpose of procuring Energy and Energy-related products and services for the applicable fiscal year. The Unrated Governmental Entity seeking to establish an Unsecured Credit Limit pursuant to this section shall provide documentation establishing its annual appropriations.

**Attachment B – Blacklines
Unsecured Credit Limit Amendment
Fourth Replacement CAISO Tariff
September 4, 2009**

* * *

12.1.1 Unsecured Credit Limit.

Each Market Participant requesting an Unsecured Credit Limit shall submit an application to the CAISO in the form specified on the CAISO Website. The CAISO shall determine the Unsecured Credit Limit for each Market Participant in accordance with the procedures set forth in the applicable Business Practice Manual. The maximum Unsecured Credit Limit for any Market Participant shall be \$450 million. In accordance with the procedures described in the applicable Business Practice Manual, each Market Participant requesting or maintaining an Unsecured Credit Limit is required to submit to the CAISO or its agent financial statements and other information related to its overall financial health as directed by the CAISO. Each Market Participant is responsible for the timely submission of its latest financial statements as well as other information, including but not limited to information concerning all entities that are Affiliates or become Affiliates, that may be reasonably necessary for the CAISO to conduct its evaluation. The CAISO shall determine the Unsecured Credit Limit for each Market Participant as described in Sections 12.1.1.1, 12.1.1.1.1, and 12.1.1.1.2.

As a result of the CAISO's credit evaluation, a Market Participant may be given an Unsecured Credit Limit by the CAISO or denied an Unsecured Credit Limit with the CAISO. Following the initial application and the establishment of an Unsecured Credit limit, the CAISO will review each Market Participant's Unsecured Credit Limit on a quarterly basis, unless that entity does not prepare quarterly statements, in which case the review will occur on an annual basis, and no entity shall be required to submit a new application. In addition, the CAISO may review the Unsecured Credit Limit for any Market Participant whenever the CAISO becomes aware of information that could indicate a Material Change in Financial Condition. In the event the CAISO determines that the Unsecured Credit Limit of a Market Participant must be reduced as a result of a subsequent review, the CAISO shall notify the Market Participant of the reduction, and shall, upon request, also provide the Market Participant with a written explanation of why the reduction was made.

12.1.1.1 Unsecured Credit Limit Calculation.

An Unsecured Credit Limit (UCL) for each Market Participant that is a Rated or Unrated Public/Private Corporation, a Rated or Unrated Governmental Entity, or a Local Publicly Owned Electric Utility and that requests an Unsecured Credit Limit is calculated as follows:

1. For each Rated Public/Private Corporation, the Unsecured Credit Limit is the lesser of \$450 million or an amount equal to the Market Participant's Tangible Net Worth multiplied by a calculated percentage of Tangible Net Worth. The Tangible Net Worth percentage is comprised of fifty percent (50%) of the Market Participant's lowest credit agency issuer rating and fifty percent (50%) of the Moody's KMV Equivalent Rating, if reasonably applicable. If a Moody's KMV Equivalent Rating is not reasonably applicable, the Tangible Net Worth percentage is comprised of one hundred percent (100%) of the Market Participant's lowest credit agency issuer rating.
2. For each Unrated Public/Private Corporation, the Unsecured Credit Limit is the lesser of \$450 million or an amount equal to the Market Participant's Tangible Net Worth multiplied by a calculated percentage of Tangible Net Worth. The Tangible Net Worth percentage is comprised of one hundred percent (100%) of the Moody's KMV Equivalent Rating.
3. For each Rated Governmental Entity, the Unsecured Credit Limit is the lesser of \$450 million or an amount equal to the Market Participant's Net Assets multiplied by a calculated percentage of Net Assets. The Net Assets percentage is comprised of one hundred percent (100%) of the Market Participant's lowest credit agency issuer rating.
4. (a) For each Unrated Governmental Entity other than one that receives appropriations from the federal government or a state government, the Unsecured Credit Limit is the lesser of \$450 million or an amount equal to a specified percentage of the Market Participant's Net Assets if the Market Participant has a minimum of \$25 million in Net Assets and its Times Interest Earned, Debt Service Coverage and Equity to Assets ratios (as those ratios are

defined in the applicable Business Practice Manual) meet or exceed minimums specified in the applicable Business Practice Manual.

(b) For each Unrated Governmental Entity that receives appropriations from the federal government or a state government, the Unsecured Credit Limit is the lesser of \$450 million or the amount appropriated by the federal or relevant state government for the purpose of procuring Energy and Energy-related products and services for the applicable fiscal year. The Unrated Governmental Entity seeking to establish an Unsecured Credit Limit pursuant to this section shall provide documentation establishing its annual appropriations.

5. A Local Publicly Owned Electric Utility with a governing body having ratemaking authority that has submitted an application for an Unsecured Credit Limit shall be entitled to an Unsecured Credit Limit of \$1 million without regard to its Net Assets. Such Local Publicly Owned Electric Utility shall be entitled to request an Unsecured Credit Limit based on Net Assets as provided in Section 12.1.1.1(3) or 12.1.1.1(4) in order to establish an Unsecured Credit Limit as the greater of \$1 million or the amount determined as provided in this Section 12.1.1.1(5). A public entity that is not a Local Publicly Owned Electric Utility is not entitled to an Unsecured Credit Limit of \$1 million under this Section 12.1.1.1(5) but may seek to establish an Unsecured Credit Limit as provided in any other provision of the CAISO Tariff that may apply.

Public entities, including Local Publicly Owned Electric Utilities, that operate through a Joint Powers Agreement, or a similar agreement acceptable to the CAISO with the same legal force and effect, shall be entitled to aggregate or assign their Unsecured Credit Limits subject to the following limitations and requirements. A public entity that is a party to a Joint Powers Agreement or similar agreement and that is also participating independently in the CAISO Markets with an established Unsecured Credit Limit shall not be entitled to assign or aggregate any portion of its Unsecured Credit Limit that the public entity is

using to support financial liabilities associated with its individual participation in the CAISO Markets. A Local Publicly Owned Electric Utility that operates through a Joint Powers Authority or similar agreement that desires to aggregate a portion of its Unsecured Credit Limit that is equal to or less than \$1 million with one or more other Local Publicly Owned Electric Utilities that operate through that Joint Powers Agreement or similar agreement or to assign a portion of its Unsecured Credit Limit that is equal to or less than \$1 million to the Joint Powers Authority shall be entitled to do so. A Local Publicly Owned Electric Utility that operates through a Joint Powers Agreement or similar agreement that desires to aggregate its Unsecured Credit Limit with one or more other Local Publicly Owned Electric Utilities that operate through that Joint Powers Agreement or similar agreement or to assign a portion of its Unsecured Credit Limit to the Joint Powers Authority that exceeds \$1 million, and any public entity that is not a Local Publicly Owned Electric Utility that operates through a Joint Powers Agreement or similar agreement that desires to aggregate its Unsecured Credit Limit with one or more other Local Publicly Owned Electric Utilities that operate through that Joint Powers Agreement or similar agreement or to assign any portion of its Unsecured Credit Limit to the Joint Powers Authority, shall provide documentation that is acceptable to the CAISO and that demonstrates the Local Publicly Owned Electric Utility or public entity will assume responsibility for the financial liabilities of the Joint Powers Authority associated with the assigned or aggregated portion of the Unsecured Credit Limit. Such documentation may include a guaranty or similar instrument acceptable to the CAISO.

Unsecured Credit Limits established pursuant to this Section 12.1.1.1 shall be subject to the CAISO's consideration of the same qualitative factors that apply to all Market Participants as set forth in Section 12.1.1.2 and, accordingly, the CAISO may adjust their Unsecured Credit Limits pursuant to Section 12.1.1.

* * *