



CALIFORNIA ISO

# **Effectiveness of Credit Management Tools During a Credit Crisis**

**Finance Committee Meeting  
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**Ben Arikawa  
Senior Financial Analyst**



# Finance Committee

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- Presentation of changes to ISO Credit Policy
  - Governor Cazalet
    - Unresolved issue of potential market defaults
    - Full collateral against market liabilities
  - Committee request to frame issue
    - Describe credit crisis scenario
    - Describe tools, options and regulatory climate



# Credit Crisis

- Credit Crisis of 2000-2001
  - A period of high market prices
  - Regulatory inaction not allowing pass-through of market costs to retail customers
  - Insufficient cash flow to load serving entity
  - Eventual default or bankruptcy
- Possibility of default not related to ISO market costs



# Credit Management Tools

- Monitoring SC liabilities
  - Scheduling Coordinator Aggregate Liability Estimator (SCALE)
- Collateral requests
  - Finance determines appropriate level
  - Customer Service requests from SC
- Credit insurance (not purchased)



# Continuing Issues

- Enforcement protocol
  - Tariff requirement to post collateral
  - Lack of effective sanctions
- Provider of Last Resort
  - Issue for all ISOs/RTOs
- Current lengthy billing cycle
  - Being addressed by payment acceleration



# Legislative/Regulatory Changes

- AB 57 – 2002 (applies to IOUs)
  - IOUs develop and submit procurement plans to CPUC
  - CPUC reviews and approves plans and forecasted procurement costs
- CPUC
  - Procurement Review Group reviews procurement activity
  - Deviations from forecast cost flow into Energy Resources Recovery Account (balancing account)



# Summary

- “Normal” times
  - ISO credit management tools sufficient
  - Changes in credit policy enhance ISO’s capability
- Preparation for potential crisis
  - Pursuing enforcement measures at the FERC
  - Consulting/opening dialogue with CPUC
  - Accelerating payment to market (MSC)