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August 9, 2006

The Honorable Magalie R. Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

**Re: California Independent System Operator Corporation
Supplemental Compliance Filing
Docket No. ER06-700-____**

Dear Secretary Salas:

The California Independent System Operator Corporation ("CAISO")¹ submits an original and five copies of the instant supplemental compliance filing. This filing is submitted to modify the ISO Tariff to provide for alternative measures of determining Unsecured Credit Limits for non-profit entities, pursuant to the Commission's "Order Conditionally Accepting Tariff Revisions Governing Credit Policy," 115 FERC ¶ 61,170, issued on May 12, 2006 in the captioned docket ("Credit Policy Order"). As explained below, if the Commission elects not to treat the instant filing as a supplemental compliance filing, the CAISO will have no objection to the Commission's treating the instant filing as a filing under Section 205 of the Federal Power Act.

I. Background

In the Credit Policy Order, the Commission stated that it found the CAISO's proposed revisions to the credit requirements and procedures in the ISO Tariff to be generally reasonable, subject to certain conditions set forth in

¹ Capitalized terms not otherwise defined herein have the meanings set forth in the Master Definitions Supplement, Appendix A to the ISO Tariff.

that Order.² The Commission directed the CAISO to make certain specified revisions to the credit provisions of the ISO Tariff and the ISO Credit Policy & Procedures Guide ("Credit Guide"), to file the Credit Guide as an attachment to the ISO Tariff, and to explain what provisions of the Credit Guide the CAISO recommends removing from the ISO Tariff.³ Pursuant to these directives, the CAISO submitted a compliance filing in this proceeding on July 11, 2006 ("July 11 Compliance Filing").⁴

In the Credit Policy Order, the Commission also "strongly encouraged" the CAISO to work with its stakeholders to develop alternative measures for calculating the Unsecured Credit Limits of non-profit entities. The Commission directed the CAISO to report to the Commission the progress made in this regard on an informational basis.⁵ Accordingly, the CAISO provided the required progress report in the July 11 Compliance Filing.⁶

As described in the July 11 Compliance Filing, the CAISO has worked with stakeholders to develop an alternative approach to determine Unsecured Credit Limits applicable to Local Publicly Owned Electric Utilities as well as an

² Credit Policy Order at P 20.

³ *Id.* at PP 22, 32, 34-36, 42-44, 46-47. The Credit Policy Order also directed the CAISO to add Section A-3 of the Credit Guide, describing the eight-step process by which Unsecured Credit Limits are calculated, to Section 12.1.1 of the ISO Tariff. *Id.* at P 22.

⁴ The July 11 Compliance Filing contains two sets of changes. The first set of changes, which was contained in Attachment A to the July 11 Compliance Filing ("Attachment A Changes"), was provided to conform with the Commission's directives to make revisions to the ISO Tariff and the Credit Guide and to file the Credit Guide as an attachment to the ISO Tariff. The second set of changes, which was contained in Attachment B to the July 11 Compliance Filing ("Attachment B Changes"), was provided to conform with the Commission's directives to make revisions to the ISO Tariff and the Credit Guide and to explain what provisions the CAISO recommends removing from the ISO Tariff; the Attachment B Changes show what provisions of the Guide the CAISO recommends including in the Tariff and which provisions of the Credit Guide the CAISO recommends be removed from the Tariff. As the CAISO explained in the July 11 Compliance Filing, the two sets of changes are mutually exclusive, *i.e.*, if the Commission accepts the Attachment B Changes it should not accept the Attachment A Changes, and vice versa. In the July 11 Compliance Filing, the CAISO explained that the Commission should accept the Attachment B Changes rather than the Attachment A Changes because including all of the Credit Guide as part of the ISO Tariff (rather than only those portions the CAISO proposes to add to the ISO Tariff under the Attachment B Changes), will create a substantial burden for the CAISO as many of the remaining portions of the Guide contain implementation details that the CAISO may need to adjust frequently in response to changing market conditions and the experience it gains in applying its credit policies. The Commission has not yet issued an order regarding the July 11 Compliance Filing.

⁵ Credit Policy Order at P 35.

⁶ Transmittal Letter for July 11 Compliance Filing at 10-11.

alternative approach applicable to “Unrated Governmental Entities.”⁷ The CAISO posted a draft of these proposed alternative measures on the ISO Home Page on June 26, 2006, and that same day the CAISO issued a market notice announcing that it would conduct a conference call with stakeholders to discuss the proposed measures on July 5, 2006. The CAISO’s alternative proposal for Local Publicly Owned Electric Utilities is based in large part on a proposal offered by the Northern California Power Agency (“NCPA”), which is based on Commission-approved credit provisions utilized by the New York ISO.⁸ On July 3, 2006, Silicon Valley Power (“SVP”) provided written questions to the CAISO regarding the proposed alternative measures. On July 5, 2006, the CAISO conducted the conference call with stakeholders to discuss the proposed measures. During that call, the CAISO explained that it had not yet had the opportunity to develop responses to SVP’s questions.

As of July 11, 2006, the CAISO was still developing the proposed measures in light of comments provided by stakeholders and thus the proposed measures were not ready to be submitted to the Commission as part of the initial compliance filing required by the Credit Policy Order. In the July 11 Compliance Filing, the CAISO stated that it would file the proposed alternative measures as soon as practicable and estimated that it would be able to file them in the very near future.

On July 14, 2006, the CAISO issued a market notice in which it provided an electronic link to the CAISO’s posted responses to SVP’s questions on the ISO Home Page and announced that it would conduct another conference call with stakeholders on July 24, 2006, to discuss the responses to SVP and any other comments received in advance of that conference call. On July 17, 2006, the CAISO proposed a revised draft of the proposed alternative measures on the ISO Home Page, with a number of revisions based on stakeholder questions. Specifically, these revisions clarified how a Local Publicly Owned Electric Utility could assign a portion of its Unsecured Credit Limit to a “Joint Powers Authority” of which the Local Publicly Owned Electric Utility is a member. On the July 24, 2006, conference call, the CAISO discussed the remaining issues that

⁷ In the July 11 Compliance Filing, the CAISO included a definition of the term “Unrated Governmental Entity” in the Credit Guide as part of the Attachment A Changes, and included the same definition of that term in Appendix A to the ISO Tariff as part of the Attachment B Changes. An Unrated Governmental Entity was defined to mean “[a] municipal utility or state or federal agency that does not hold an issuer, counterparty, or underlying credit rating by a Nationally Recognized Statistical Rating Organization.” July 11 Compliance Filing, Attachment A-1, at Original Sheet No. 1777, and Attachment B-1, at Alternate First Revised Sheet No. 536. The CAISO explained that the definition of an Unrated Governmental Entity follows the definition of that same term found in the Credit Guide prior to the submission of the July 11 Compliance Filing. Transmittal Letter for July 11 Compliance Filing at 8.

⁸ See Section IV.C of Attachment K to the New York ISO Market Services Tariff.

stakeholders had raised concerning the proposed alternative measures. The CAISO also stated that it intended to submit the instant supplemental compliance filing in the near future.

On August 1, 2006, the CAISO posted a further revised draft of the proposed alternative measures on the ISO Home Page, reflecting discussions with stakeholders on the July 24, 2006, conference call. Specifically, these revisions clarified the ability of a public entity that is not a Local Publicly Owned Electric Utility to seek to establish an Unsecured Credit Limit, to assign any portion of its Unsecured Credit Limit to a Joint Powers Authority, or to aggregate any portion of its Unsecured Credit Limit with one or more other Local Publicly Owned Electric Utilities that operates through a "Joint Powers Agreement" or similar agreement. This is the language that the CAISO is submitting for filing today (described further below), with one minor change. In the first sentence of the paragraph that begins with the words "Public entities, including Local Publicly Owned Electric Utilities . . .", the phrase "shall be entitled to aggregate their Unsecured Credit Limits subject to the following limitations and requirements" is changed to "shall be entitled to aggregate or assign their Unsecured Credit Limits subject to the following limitations and requirements."

II. Proposed Modifications

The CAISO proposes the following alternative measures for determining Unsecured Credit Limits for Local Publicly Owned Electric Utilities and for Unrated Governmental Entities.

The CAISO proposes that a Local Publicly Owned Electric Utility that has a governing body with ratemaking authority and that has submitted an application for an Unsecured Credit Limit will be entitled to an Unsecured Credit Limit of \$1 million without regard to its Net Assets. Such a Local Publicly Owned Electric Utility will be entitled to request an Unsecured Credit Limit based on Net Assets as provided in Section 12.1.1 of the ISO Tariff in order to establish an Unsecured Credit Limit as the greater of \$1 million or the amount as provided in Section 12.1.1 of the ISO Tariff. A public entity that is not a Local Publicly Owned Electric Utility is not entitled to an Unsecured Credit Limit of \$1 million under the provisions described herein but may seek to establish an Unsecured Credit Limit as provided in Section 12.1.1 of the ISO Tariff or any other provision of the ISO Tariff that may apply.

Public entities, including Local Publicly Owned Electric Utilities, that operate through a "Joint Powers Agreement" (as defined below) or a similar agreement acceptable to the CAISO with the same legal force and effect, will be entitled to aggregate or assign their Unsecured Credit Limits subject to the following limitations and requirements. A Local Publicly Owned Electric Utility that operates through a Joint Powers Agreement 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" (as defined below) will 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 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 the Joint Powers Agreement or similar agreement or to assign any portion of its Unsecured Credit Limit to the Joint Powers Authority, will be required to provide documentation that is acceptable to the CAISO and that demonstrates that 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. A public entity that is a party to a Joint Powers Agreement or similar agreement and that is also participating independently in the CAISO's markets with an established Unsecured Credit Limit will 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's markets.

Unsecured Credit Limits established through the provisions described above or through Section 12.1.1 of the ISO Tariff will be subject to the CAISO's consideration of the same qualitative factors that apply to all other Market Participants and FTR Bidders as set forth in the ISO Tariff, and accordingly, the CAISO may adjust their Unsecured Credit Limits pursuant to Section 12.1.1 of the ISO Tariff.

Further, the CAISO recognizes the need for another method to assign Unsecured Credit Limits for certain not-for-profit entities. This is warranted because certain entities are creditworthy, but would not qualify for an Unsecured Credit Limit under either the approach described above or the approaches set forth in the existing Tariff language. Accordingly, the CAISO proposes that an Unrated Governmental Entity that receives appropriations from the federal government or a state government that has submitted an application for an Unsecured Credit Limit will be entitled to an Unsecured Credit Limit of the lower of the cap of \$250 million on Unsecured Credit Limits 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 these provisions will be required to provide documentation establishing its annual appropriations. Unsecured Credit Limits established pursuant to these provisions or through Section 12.1.1 of the ISO Tariff will be subject to the CAISO's consideration of the same qualitative factors that apply to all other Market Participants and FTR Bidders as set forth in the ISO Tariff, and accordingly, the CAISO may adjust their Unsecured Credit Limits pursuant to Section 12.1.1 of the ISO Tariff.

Depending on which alternative in the July 11 Compliance Filing the Commission accepts, the CAISO proposes different locations for the provisions regarding the two new means for public entities to establish Unsecured Credit Limits. If the Commission accepts the Attachment B Changes, the CAISO proposes to include these provisions in new Sections 12.1.1.4 and 12.1.1.5 of the ISO Tariff (and to re-number Section 12.1.1.4 of the ISO Tariff). If the Commission accepts the Attachment A Changes, the CAISO proposes to include these provisions in new Sections A-4 and A.5 of the Credit Guide (which, in the Attachment A Changes, the CAISO has filed as a new Appendix Z to the ISO Tariff).

The CAISO also proposes to add a pair of new definitions to Appendix A to the ISO Tariff. The CAISO proposes to add the new defined term "Joint Powers Agreement," which means "an agreement governing a Joint Powers Authority that is subject to the California Joint Exercise of Powers Act (California Government Code, Section 6500, *et seq.*)" The CAISO also proposes to add the new defined term "Joint Powers Authority," which means "an authority authorized by law through which two or more public entities jointly exercise their powers." These new definitions are required to support the provisions regarding the determination of Unsecured Credit Limits for Local Publicly Owned Electric Utilities described above.

In the Credit Policy Order, the Commission "strongly encouraged" the CAISO to work with stakeholders to develop alternative measures for calculating Unsecured Credit Limits for non-profit entities, to be included in the Credit Guide, but did not specifically direct the CAISO to submit such proposed measures in a compliance filing.⁹ The CAISO believes the Commission intended for the CAISO to submit the proposed measures as a compliance item. However, if the Commission does not treat the instant filing as supplementing the July 11 Compliance Filing, but instead treats it as a set of new proposed changes, the CAISO will have no objection to the Commission's treating the instant filing as a filing under Section 205 of the Federal Power Act. In order to ensure that all interested parties are on notice of this filing, the CAISO has served this filing not

⁹ Credit Policy Order at P 35.

only on the official service list in Docket No. ER06-700 but also on all CAISO Scheduling Coordinators, California state agencies, and other parties who receive copies of Section 205 filings to amend the ISO Tariff.

III. Effective Date

Pursuant to Section 35.11 of the Commission's regulations, 18 C.F.R. § 35.11, the CAISO respectfully requests waiver of the prior notice requirement so that the ISO Tariff changes contained in the instant filing be made effective on May 14, 2006. The CAISO submits that good cause exists for its request. May 14, 2006, is the effective date the Commission granted for the revisions to the CAISO's credit requirements and procedures it approved in the Credit Policy Order. See Credit Policy Order at Ordering Paragraph (A). Granting that effective date for the instant filing would permit Local Publicly Owned Electric Utilities and Unrated Governmental Entities to be subject to the alternative measures for determining Unsecured Credit Limits described herein from the time that the revisions to the CAISO's credit requirements and procedures went into effect. If, on the other hand, the instant filing were made effective subsequent to May 14, 2006, there would be a gap in time during which it could be unclear what the credit status was for Local Publicly Owned Electric Utilities and Unrated Governmental Entities that would at a later date be subject to the alternative measures contained in the instant filing.¹⁰

IV. Listing of Materials Provided in the Instant Filing

The instant filing consists of this transmittal letter and the following attachments:

- Attachment A, which contains Attachments A-1 and A-2 to reflect the additions described above to the Attachment A Changes.
- Attachment A-1 contains clean ISO Tariff sheets showing the additions to the Attachment A Changes.
- Attachment A-2 shows the additions described above in red-line format.

¹⁰ The clean ISO Tariff sheets contained in Attachments A-1 and B-1 to the instant filing (described in Section IV below) include two versions of Sheet No. 509. The first version of Sheet No. 509 bears an effective date of May 14, 2006; that is the ISO Tariff sheet needed to implement changes contained in the instant filing. The second version of Sheet No. 509, which will now be the most current version, bears an effective date of May 31, 2006; that ISO Tariff sheet includes the changes contained in the first version of Sheet No. 509, and is provided as the successor ISO Tariff sheet to a clean ISO Tariff sheet (bearing an effective date of May 31, 2006) that was contained in a previous CAISO errata filing in a different proceeding. See Errata to Compliance Filing, Docket No. ER06-723-003 (July 13, 2006), Attachment C, at First Revised Sheet No. 509.

- Attachment B, which contains Attachments B-1 and B-2 to reflect the additions described above to the Attachment B Changes.
 - Attachment B-1 contains clean ISO Tariff sheets showing the additions to the Attachment B Changes.
 - Attachment B-2 shows the additions described above in red-line format.
- Attachment C, which shows the CAISO's responses, as posted on the ISO Home Page, to the questions provided by stakeholders regarding the CAISO's proposed alternative measures for determining Unsecured Credit Limits for non-profit entities.

Two additional copies of this filing are enclosed to be date-stamped and returned to our messenger. If there are any questions concerning the filing, please contact the undersigned.

Respectfully submitted,



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ATTACHMENT A

ATTACHMENT A-1

- a) Governance policies;
- b) Financial and accounting policies;
- c) Risk management and credit policies;
- d) Market risk including price exposures, credit exposures and operational exposures;
- e) Event risk; and
- f) The state or local regulatory environment.

Material negative information in these areas may result in a reduction of up to 100% in the Unsecured Credit Limit that would otherwise be granted based on the methodology described in Section A-2.2. A Market Participant or FTR Bidder, upon request, will be provided a written analysis as to how the provisions of Section A-2.2 were applied in setting its Unsecured Credit Limit.

Notwithstanding the considerations described above, Market Participants and FTR Bidders are obligated to provide the ISO timely information regarding any Material Change in Financial Condition, i.e., an adverse change that could affect its or one of its affiliated entities ability to pay its debt or meet its Financial Security obligations as they become due. Examples of Material Changes in Financial Condition may include but are not limited to:

- a) Credit agency downgrades;
- b) Being placed on a credit watch list by a major rating agency;
- c) A bankruptcy filing;
- d) Insolvency;
- e) The filing of a material lawsuit that could significantly and adversely affect past, current or future financial results; or
- f) Any change in the financial condition of the Market Participant or FTR Bidder that exceeds a five percent (5%) reduction in the Market Participant's or FTR Bidder's Tangible Net Worth or Net Assets for the Market Participant's or FTR Bidder's preceding fiscal year, calculated in accordance with generally accepted accounting practices.

A-2. Unsecured Credit Limit Calculation

See Section 12.1.1A, 12.1.1A.1, 12.1.1A.2 and 12.1.1A.3 of the ISO Tariff.

A-3. Unsecured Credit Limit Issues for Affiliated Entities

As provided in Section 12.1.1.1 of the ISO Tariff, if any Market Participant or FTR Bidder requesting or maintaining an Unsecured Credit Limit is affiliated with one or more other entities subject to the credit requirements of Section 12 of the ISO Tariff, the ISO may consider the overall creditworthiness and financial condition of such Affiliates when determining the applicable Unsecured Credit Limit. The ISO may determine that the maximum Unsecured Credit Limit calculated in accordance with Section A-2 of this document applies to the combined activity of such Affiliates.

A-4. Unsecured Credit Limit for a Local Publicly Owned Electric Utility

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 one million dollars (\$1,000,000) 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 of the ISO Tariff in order to establish an Unsecured Credit Limit as the greater of one million dollars (\$1,000,000) or the amount determined as provided in Section 12.1.1 of the ISO Tariff. A public entity that is not a Local Publicly Owned Electric Utility is not entitled to an Unsecured Credit Limit of one million dollars (\$1,000,000) under this Section but may seek to establish an Unsecured Credit Limit as provided in Section 12.1.1 of the ISO

Tariff or any other provision of the ISO 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 ISO 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 ISO's 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 ISO's markets. A Local Publicly Owned Electric Utility that operates through a Joint Powers Agreement or similar agreement that desires to aggregate a portion of its Unsecured Credit Limit that is equal to or less than one million dollars (\$1,000,000) 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 one million dollars (\$1,000,000) 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 one million dollars (\$1,000,000), 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 ISO and that demonstrates the Local Publicly Owned Electric Utility or public entity will assume responsibility for the financial liabilities of the Joint Powers Agency associated with the assigned or aggregated portion of the Unsecured Credit Limit. Such documentation may include a guaranty or similar instrument acceptable to the ISO.

Unsecured Credit Limits established through this section or through Section 12.1.1 of the ISO Tariff shall be subject to the ISO's consideration of the same qualitative factors that apply to all other Market Participants and FTR Bidders as set forth in Section A-1.3 of the ISO Credit Policy & Procedures Guide, Appendix Z to the ISO Tariff, and accordingly, the ISO may adjust their Unsecured Credit Limits pursuant to Section 12.1.1 of the ISO Tariff.

A. 5 Unsecured Credit Limit for an Unrated Governmental Entity that Receives Appropriations from the Federal Government or a State Government

An Unrated Governmental Entity that receives appropriations from the federal government or a state government that has submitted an application for an Unsecured Credit Limit shall be entitled to an Unsecured Credit Limit of the lower of the cap of 250 million dollars (\$250,000,000) 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. Unsecured Credit Limits established pursuant to this section or through Section 12.1.1 of the ISO Tariff shall be subject to the ISO's consideration of the same qualitative factors that apply to all other Market Participants and FTR Bidders as set forth in Section A-1.3 of the ISO Credit Policy & Procedures Guide, Appendix Z to the ISO Tariff, and accordingly, the ISO may adjust their Unsecured Credit Limits pursuant to Section 12.1.1 of the ISO Tariff.

PART B: APPROVED FORMS OF FINANCIAL SECURITY

In accordance with Section 12.1.2 of the ISO Tariff, a Market Participant or FTR Bidder, at its own expense, may submit one or more of the following forms of Financial Security to meet its posting requirement (pro-forma templates are located at <http://www.caiso.com/docs/2005/06/14/200506141656326466.html>):

- An irrevocable and unconditional letter of credit issued by a bank or financial institution that is reasonably acceptable to the ISO;

<u>ISP (Internet Service Provider)</u>	An independent network service organization engaged by the ISO to establish, implement and operate WEnet.
<u>Joint Powers Agreement</u>	An agreement governing a Joint Powers Authority that is subject to the California Joint Exercise of Powers Act (California Government Code, Section 6500, <i>et seq.</i>).
<u>Joint Powers Authority</u>	An authority authorized by law through which two or more public entities jointly exercise their powers.
<u>Large Generating Facility</u>	A Generating Facility having a Generating Facility Capacity of more than 20 MW.
<u>Line Loss Correction Factor</u>	The line loss correction factor as set forth in the Technical Specifications.
<u>Load</u>	An end-use device of an End-Use Customer that consumes power. Load should not be confused with Demand, which is the measure of power that a Load receives or requires.
<u>Load Shedding</u>	The systematic reduction of system Demand by temporarily decreasing the supply of Energy to Loads in response to transmission system or area capacity shortages, system instability, or voltage control considerations.
<u>Local Furnishing Bond</u>	Tax-exempt bonds utilized to finance facilities for the local furnishing of electric energy, as described in section 142(f) of the Internal Revenue Code, 26 U.S.C. § 142(f).
<u>Local Furnishing Participating TO</u>	Any Tax-Exempt Participating TO that owns facilities financed by Local Furnishing Bonds.
<u>Local Publicly Owned Electric Utilities</u>	A municipality or municipal corporation operating as a public utility furnishing electric service, a municipal utility district furnishing electric service, a public utility district furnishing electric services, an irrigation district furnishing electric services, a state agency or subdivision furnishing electric services, a rural cooperative furnishing electric services, or a joint powers authority that includes one or more of these agencies and that owns Generation or transmission facilities, or furnishes electric services over its own or its members' electric Distribution System.
<u>Local Regulatory Authority</u>	The state or local governmental authority responsible for the regulation or oversight of a utility.
<u>Local Reliability Criteria</u>	Reliability Criteria unique to the transmission systems of each of the PTOs established at the later of: (1) ISO Operations Date, or (2) the date upon which a New Participating TO places its facilities under

<u>ISO Website</u>	The ISO internet home page at http://www.aiso.com or such other internet address as the ISO shall publish from time to time.
<u>ISP (Internet Service Provider)</u>	An independent network service organization engaged by the ISO to establish, implement and operate WEnet.
<u>Joint Powers Agreement</u>	An agreement governing a Joint Powers Authority that is subject to the California Joint Exercise of Powers Act (California Government Code, Section 6500, <i>et seq.</i>).
<u>Joint Powers Authority</u>	An authority authorized by law through which two or more public entities jointly exercise their powers.
<u>Large Generating Facility</u>	A Generating Facility having a Generating Facility Capacity of more than 20 MW.
<u>Line Loss Correction Factor</u>	The line loss correction factor as set forth in the Technical Specifications.
<u>Load</u>	An end-use device of an End-Use Customer that consumes power. Load should not be confused with Demand, which is the measure of power that a Load receives or requires.
<u>Load-Serving Entity (LSE)</u>	Any entity (or the duly designated agent of such an entity, including, e.g. a Scheduling Coordinator), including a load aggregator or power marketer; (i) serving End Users within the ISO Control Area and (ii) that has been granted authority or has an obligation pursuant to California State or local law, regulation, or franchise to sell electric energy to End Users located within the ISO Control Area or (iii) is a Federal Power Marketing Authority that serves retail Load.
<u>Load Shedding</u>	The systematic reduction of system Demand by temporarily decreasing the supply of Energy to Loads in response to transmission system or area capacity shortages, system instability, or voltage control considerations.
<u>Local Furnishing Bond</u>	Tax-exempt bonds utilized to finance facilities for the local furnishing of electric energy, as described in section 142(f) of the Internal Revenue Code, 26 U.S.C. § 142(f).
<u>Local Furnishing Participating TO</u>	Any Tax-Exempt Participating TO that owns facilities financed by Local Furnishing Bonds.

ATTACHMENT A-2

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A.4 Unsecured Credit Limit for a Local Publicly Owned Electric Utility

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 one million dollars (\$1,000,000) 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 of the ISO Tariff in order to establish an Unsecured Credit Limit as the greater of one million dollars (\$1,000,000) or the amount determined as provided in Section 12.1.1 of the ISO Tariff. A public entity that is not a Local Publicly Owned Electric Utility is not entitled to an Unsecured Credit Limit of one million dollars (\$1,000,000) under this Section but may seek to establish an Unsecured Credit Limit as provided in Section 12.1.1 of the ISO Tariff or any other provision of the ISO 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 ISO 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 ISO's 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 ISO's markets. A Local Publicly Owned Electric Utility that operates through a Joint Powers Agreement or similar agreement that desires to aggregate a portion of its Unsecured Credit Limit that is equal to or less than one million dollars (\$1,000,000) 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 one million dollars (\$1,000,000) 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 one million dollars (\$1,000,000), 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 ISO and that demonstrates the Local Publicly Owned Electric Utility or public entity will assume responsibility for the financial liabilities of the Joint Powers Agency associated with the assigned or aggregated portion of the Unsecured Credit Limit. Such documentation may include a guaranty or similar instrument acceptable to the ISO.

Unsecured Credit Limits established through this section or through Section 12.1.1 of the ISO Tariff shall be subject to the ISO's consideration of the same qualitative factors that apply to all other Market Participants and FTR Bidders as set forth in Section A-1.3 of the ISO Credit Policy & Procedures Guide, Appendix Z to the ISO Tariff, and accordingly, the ISO may adjust their Unsecured Credit Limits pursuant to Section 12.1.1 of the ISO Tariff.

A.5 Unsecured Credit Limit for an Unrated Governmental Entity that Receives Appropriations from the Federal Government or a State Government

An Unrated Governmental Entity that receives appropriations from the federal government or a state government that has submitted an application for an Unsecured Credit Limit shall be entitled to an Unsecured Credit Limit of the lower of the cap of 250 million dollars (\$250,000,000) 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. Unsecured Credit Limits established pursuant to this section or through Section 12.1.1 of the ISO Tariff shall be subject to the ISO's consideration of the same qualitative factors that apply to all other Market Participants and FTR Bidders as set forth in Section A-1.3 of the ISO Credit Policy & Procedures Guide, Appendix Z to the ISO Tariff, and accordingly, the ISO may adjust their Unsecured Credit Limits pursuant to Section 12.1.1 of the ISO Tariff.

* * * *

Appendix A

<u>Joint Powers Agreement</u>	<u>An agreement governing a Joint Powers Authority that is subject to the California Joint Exercise of Powers Act (California Government Code, Section 6500, et seq.).</u>
<u>Joint Powers Authority</u>	<u>An authority authorized by law through which two or more public entities jointly exercise their powers.</u>

* * * *

ATTACHMENT B

ATTACHMENT B-1

- b. If privately held or governmentally owned:
- i. Management's Discussion & Analysis (if available)
 - ii. Report of Independent Accountants (if available)
 - iii. Financial Statements, including:
 - Balance Sheet
 - Income Statement
 - Statement of Cash Flows
 - Statement of Stockholder's Equity
 - iv. Notes to Financial Statements

If the above information is available electronically on the Internet, the Market Participant or FTR Bidder may indicate in written or electronic communication where such statements are located for retrieval by the ISO or the ISO's designee.

12.1.1.3 Determination of Unsecured Credit Limits for Affiliates.

If any Market Participant or FTR Bidder requesting or maintaining an Unsecured Credit Limit is affiliated with one or more other entities subject to the credit requirements of this Section 12, the ISO may consider the overall creditworthiness and financial condition of such Affiliates when determining the applicable Unsecured Credit Limit. The ISO may determine that the maximum Unsecured Credit Limit specified in Section 12.1.1 applies to the combined activity of such Affiliates. In the event the ISO determines that the maximum Unsecured Credit Limit applies to the combined activity of the Affiliates and the Market Participant, the ISO shall inform the Market Participant in writing.

12.1.1.4 Unsecured Credit Limit for a Local Publicly Owned Electric Utility

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 one million dollars (\$1,000,000) 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 of the ISO Tariff in order to establish an Unsecured Credit Limit as the greater of one million dollars (\$1,000,000) or the amount determined as provided in Section 12.1.1 of the ISO Tariff. A public entity that is not a Local Publicly Owned Electric Utility is not entitled to an Unsecured Credit Limit of one million dollars (\$1,000,000) under this Section but may seek to establish an Unsecured Credit Limit as provided in Section 12.1.1 of the ISO Tariff or any other provision of the ISO 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 ISO 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 ISO's 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 ISO's markets. A Local Publicly Owned Electric Utility that operates through a Joint Powers Agreement or similar agreement that desires to aggregate a portion of its Unsecured Credit Limit that is equal to or less than one million dollars (\$1,000,000) 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 one million dollars (\$1,000,000) 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 one million dollars (\$1,000,000), 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 ISO and that demonstrates the Local Publicly Owned Electric Utility or public entity will assume responsibility for the financial liabilities of the

Joint Powers Agency associated with the assigned or aggregated portion of the Unsecured Credit Limit. Such documentation may include a guaranty or similar instrument acceptable to the ISO.

Unsecured Credit Limits established through this section or through Section 12.1.1 of the ISO Tariff shall be subject to the ISO's consideration of the same qualitative factors that apply to all other Market Participants and FTR Bidders as set forth in Section 12.1.1.1 of the ISO Tariff and, accordingly, the ISO may adjust their Unsecured Credit Limits pursuant to Section 12.1.1 of the ISO Tariff.

12.1.1.5 Unsecured Credit Limit for an Unrated Governmental Entity that Receives Appropriations from the Federal Government or a State Government

An Unrated Governmental Entity that receives appropriations from the federal government or a state government that has submitted an application for an Unsecured Credit Limit shall be entitled to an Unsecured Credit Limit of the lower of the cap of 250 million dollars (\$250,000,000) 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. Unsecured Credit Limits established pursuant to this section or through Section 12.1.1 of the ISO Tariff shall be subject to the ISO's consideration of the same qualitative factors that apply to all other Market Participants and FTR Bidders as set forth in Section 12.1.1.1 of the ISO Tariff and, accordingly, the ISO may adjust their Unsecured Credit Limits pursuant to Section 12.1.1 of the ISO Tariff.

12.1.1.6 Notification of Material Change in Financial Condition.

Each Market Participant or FTR Bidder shall notify the ISO in writing of a Material Change in Financial Condition, within five (5) Business Days of when the Material Change in Financial Condition is known or reasonably should be known by the Market Participant or FTR Bidder. The provision to the ISO of a copy of a Form 10-K, 10-Q, or Form 8-K filed with the U.S. Securities and Exchange Commission shall satisfy

<u>ISP (Internet Service Provider)</u>	An independent network service organization engaged by the ISO to establish, implement and operate WEnet.
<u>Joint Powers Agreement</u>	An agreement governing a Joint Powers Authority that is subject to the California Joint Exercise of Powers Act (California Government Code, Section 6500, <i>et seq.</i>).
<u>Joint Powers Authority</u>	An authority authorized by law through which two or more public entities jointly exercise their powers.
<u>Large Generating Facility</u>	A Generating Facility having a Generating Facility Capacity of more than 20 MW.
<u>Line Loss Correction Factor</u>	The line loss correction factor as set forth in the Technical Specifications.
<u>Load</u>	An end-use device of an End-Use Customer that consumes power. Load should not be confused with Demand, which is the measure of power that a Load receives or requires.
<u>Load Shedding</u>	The systematic reduction of system Demand by temporarily decreasing the supply of Energy to Loads in response to transmission system or area capacity shortages, system instability, or voltage control considerations.
<u>Local Furnishing Bond</u>	Tax-exempt bonds utilized to finance facilities for the local furnishing of electric energy, as described in section 142(f) of the Internal Revenue Code, 26 U.S.C. § 142(f).
<u>Local Furnishing Participating TO</u>	Any Tax-Exempt Participating TO that owns facilities financed by Local Furnishing Bonds.
<u>Local Publicly Owned Electric Utilities</u>	A municipality or municipal corporation operating as a public utility furnishing electric service, a municipal utility district furnishing electric service, a public utility district furnishing electric services, an irrigation district furnishing electric services, a state agency or subdivision furnishing electric services, a rural cooperative furnishing electric services, or a joint powers authority that includes one or more of these agencies and that owns Generation or transmission facilities, or furnishes electric services over its own or its members' electric Distribution System.
<u>Local Regulatory Authority</u>	The state or local governmental authority responsible for the regulation or oversight of a utility.
<u>Local Reliability Criteria</u>	Reliability Criteria unique to the transmission systems of each of the PTOs established at the later of: (1) ISO Operations Date, or (2) the date upon which a New Participating TO places its facilities under

<u>ISO Website</u>	The ISO internet home page at http://www.caiso.com or such other internet address as the ISO shall publish from time to time.
<u>ISP (Internet Service Provider)</u>	An independent network service organization engaged by the ISO to establish, implement and operate WEnet.
<u>Joint Powers Agreement</u>	An agreement governing a Joint Powers Authority that is subject to the California Joint Exercise of Powers Act (California Government Code, Section 6500, <i>et seq.</i>).
<u>Joint Powers Authority</u>	An authority authorized by law through which two or more public entities jointly exercise their powers.
<u>Large Generating Facility</u>	A Generating Facility having a Generating Facility Capacity of more than 20 MW.
<u>Line Loss Correction Factor</u>	The line loss correction factor as set forth in the Technical Specifications.
<u>Load</u>	An end-use device of an End-Use Customer that consumes power. Load should not be confused with Demand, which is the measure of power that a Load receives or requires.
<u>Load-Serving Entity (LSE)</u>	Any entity (or the duly designated agent of such an entity, including, e.g. a Scheduling Coordinator), including a load aggregator or power marketer; (i) serving End Users within the ISO Control Area and (ii) that has been granted authority or has an obligation pursuant to California State or local law, regulation, or franchise to sell electric energy to End Users located within the ISO Control Area or (iii) is a Federal Power Marketing Authority that serves retail Load.
<u>Load Shedding</u>	The systematic reduction of system Demand by temporarily decreasing the supply of Energy to Loads in response to transmission system or area capacity shortages, system instability, or voltage control considerations.
<u>Local Furnishing Bond</u>	Tax-exempt bonds utilized to finance facilities for the local furnishing of electric energy, as described in section 142(f) of the Internal Revenue Code, 26 U.S.C. § 142(f).
<u>Local Furnishing Participating TO</u>	Any Tax-Exempt Participating TO that owns facilities financed by Local Furnishing Bonds.

ATTACHMENT B-2

12.1.1.4 Unsecured Credit Limit for a Local Publicly Owned Electric Utility

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 one million dollars (\$1,000,000) 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 of the ISO Tariff in order to establish an Unsecured Credit Limit as the greater of one million dollars (\$1,000,000) or the amount determined as provided in Section 12.1.1 of the ISO Tariff. A public entity that is not a Local Publicly Owned Electric Utility is not entitled to an Unsecured Credit Limit of one million dollars (\$1,000,000) under this Section but may seek to establish an Unsecured Credit Limit as provided in Section 12.1.1 of the ISO Tariff or any other provision of the ISO 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 ISO 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 ISO's 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 ISO's markets. A Local Publicly Owned Electric Utility that operates through a Joint Powers Agreement or similar agreement that desires to aggregate a portion of its Unsecured Credit Limit that is equal to or less than one million dollars (\$1,000,000) 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 one million dollars (\$1,000,000) 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 one million

dollars (\$1,000,000), 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 ISO and that demonstrates the Local Publicly Owned Electric Utility or public entity will assume responsibility for the financial liabilities of the Joint Powers Agency associated with the assigned or aggregated portion of the Unsecured Credit Limit. Such documentation may include a guaranty or similar instrument acceptable to the ISO.

Unsecured Credit Limits established through this section or through Section 12.1.1 of the ISO Tariff shall be subject to the ISO's consideration of the same qualitative factors that apply to all other Market Participants and FTR Bidders as set forth in Section 12.1.1.1 of the ISO Tariff and, accordingly, the ISO may adjust their Unsecured Credit Limits pursuant to Section 12.1.1 of the ISO Tariff.

12.1.1.5 Unsecured Credit Limit for an Unrated Governmental Entity that Receives Appropriations from the Federal Government or a State Government

An Unrated Governmental Entity that receives appropriations from the federal government or a state government that has submitted an application for an Unsecured Credit Limit shall be entitled to an Unsecured Credit Limit of the lower of the cap of 250 million dollars (\$250,000,000) 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. Unsecured Credit Limits established pursuant to this section or through Section 12.1.1 of the ISO Tariff shall be subject to the ISO's consideration of the same qualitative factors that apply to all other Market Participants and FTR Bidders as set forth in Section 12.1.1.1 of the ISO Tariff and, accordingly, the ISO may adjust their Unsecured Credit Limits pursuant to Section 12.1.1 of the ISO Tariff.

12.1.1.46 Notification of Material Change in Financial Condition.

Each Market Participant or FTR Bidder shall notify the ISO in writing of a Material Change in Financial Condition, within five (5) Business Days of when the Material Change in Financial Condition is known or reasonably should be known by the Market Participant or FTR Bidder. The provision to the ISO of a copy of a Form 10-K, 10-Q, or Form 8-K filed with the U.S. Securities and Exchange Commission shall satisfy the requirement of notifying the ISO of such Material Change in Financial Condition. Alternatively, the Market Participant may direct the ISO to the location of the information on their company website or the website of the U.S. Securities & Exchange Commission.

Appendix A

Joint Powers Agreement

An agreement governing a Joint powers Authority that is subject to the California Joint Exercises of Powers Act (California Government Code, Section 6500, et seq.).

Joint Powers Authority

An authority authorized by law through which two or more public entities jointly exercise their powers.

ATTACHMENT C

**CAISO Response to Silicon Valley Power Questions
Concerning Alternative Proposals for Determining Creditworthiness**

Thank you for developing the CAISO's White Paper on Alternative Proposals for Establishing Creditworthiness. While Silicon Valley Power is generally supportive of the White Paper's proposal, SVP has the following questions concerning the development of the Unsecured Credit Limit ("UCL"):

(1) With regard to a joint powers agency ("JPA") being able to use its members' \$1M safe harbor amounts, at least two questions arise. Can a munie which has established a higher UCL through the Section A-2 Guide procedures "assign" more than \$1M to a JPA of which it is a member? Can a munie which has established a UCL higher than \$1M "assign" security to more than one JPA? As an example, Redding, SVP and others are members of more than one JPA. If, for instance, SVP has an \$8M UCL, can it assign \$1M each to M-S-R and TANC and retain \$6M for itself?

CAISO Response: The proposal for determining the Unsecured Credit Limits of Local Publicly Owned Electric Utilities included in the CAISO's June 26 White Paper, as clarified through the documents posted on **July 17** would permit such "assignment" subject to CAISO approval on a case-by-case basis. The modified proposal makes it clear that the Local Publicly Owned Electric Utility seeking to assign its Unsecured Limit to a JPA or aggregate its Unsecured Credit Limit with other entities through a JPA would need to provide the CAISO with documentation demonstrating that the entity seeking to assign a portion of its UCL to a JPA will assume responsibility for financial liabilities of the JPA associated with the assigned portion of the UCL. Such a demonstration could be made through a guarantee instrument or through another mechanism providing the CAISO with reasonable assurances that the assigning entity will assume responsibility for financial liabilities of the JPA associated with the assigned portion of the UCL. If a Local Publicly Owned Electric Utility seeks to assign a portion of its UCL to multiple JPAs, it would be required to provide the CAISO with documentation demonstrating that the assigning entity will assume responsibility for the financial liabilities of each JPA associated with the assigned portions of the UCL.

(2) Sections A-2.1 and A-2.2 in the Credit Policy and Procedures Guide provide relatively straightforward and identifiable criteria for the establishment of a UCL. Section A-2.3 allows the CAISO to exercise substantial discretion to reduce or eliminate a UCL based on ten qualitative factors. While such qualitative factors may need to be utilized in certain circumstances, if a UCL is reduced based on one or more of those factors, will the entity seeking a UCL in excess of the \$1M safe harbor amount be notified that qualitative factors were used to reduce the UCL and have that determination explained? How will disputes on the impact of the qualitative factors be resolved/handled by the CAISO?

CAISO Response: In the event that CAISO determines that it is necessary to reduce the UCL by considering qualitative factors, the CAISO will notify the entity of the reduction. Upon request, the CAISO will also provide the entity with a written determination of why

it has done so. The CAISO will communicate and have a dialogue with the entity about the determination of the UCL, but ultimately, CAISO must make the determination. A Market Participant contesting the CAISO's UCL determination can do so under the applicable dispute resolution provisions of the CAISO Tariff. Such a Market Participant would ultimately have rights under Section 206 of the Federal Power Act to raise concerns with FERC if it believed it was treated unfairly by CAISO in the determination of the UCL.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all parties on the official service list compiled by the Secretary in the above-captioned proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California this 9th day of August, 2006.


Sidney M. Davies
Sidney M. Davies