

Mr. Chairman and Governors, Good Afternoon.

My name is Ali Yazdi and I am the director of California and Southwest markets for Powerex. I would like to offer some brief comments on Powerex' assessment of MRTU progress, discuss our readiness for a fall start date, and also hi-light a potential issue under MRTU that we feel requires greater attention.

- Powerex participates predominantly as an importer of energy in the CAISO markets.
- We have had a full-time manager on staff dedicated to MRTU since October 2006.
- Powerex, like most market participants and the CAISO, wants to see MRTU through to completion but only when the systems and processes are ready and the market will be stable.
- In Powerex's experience, there has been good progress over the last few months. General system stability and connectivity has improved tremendously during Update 2. Many issues have been resolved and through the simulation some new issues have surfaced.
- Specifically with respect to Intertie functionality, many CAISO systems are working adequately for standard Intertie energy. There do remain a few products and systems that are still in need of attention. These include:
 - Wheeling transactions
 - The Expected Energy Report (which shows dispatches & determines settlements)
 - Overall settlement verifications including charge codes
 - ADS and the ability to accept dispatches
 - Some SIBR performance issues
 - Powerex also has a keen interest in how the CAISO plans to allocate resource ID's for intertie participants if there is an upper limit imposed by system requirements.
- None of the above issues are insurmountable. In addition, Powerex does not have visibility into the fixes that the CAISO may be rolling out so we do not know how significant or close to resolution these issues may be.

With respect to Powerex' internal readiness:

- Our systems are developing in lock-step with the CAISO.
- We feel that once key issues are resolved, an estimated 90 days are needed to finish implementing our systems and fully train all our trading and shift personnel on the new software, processes and systems.
- In our opinion, if the CAISO is able to address the remaining critical issues and deliver a stable and effective simulation environment by the end of July, then a November 1st start date is achievable and we can be ready for that date.

One key issue that we would like to hi-light for the Board, is that Powerex feels we will be exposed to significant credit exposure under the new MRTU market structure.

- In today's markets, most spot market energy is transacted in the bi-lateral markets and credit exposure is spread amongst numerous counterparties. Under MRTU, the new DA energy market is expected to dominate trading volumes and the California ISO will be acting as the clearinghouse for a significant volume of energy between buyers and sellers.
- Powerex imports a significant amount of energy on summer peak hours into CAISO markets. At today's elevated energy prices, credit limits will be reached very quickly when all of this energy goes to a single buyer.
- Three factors in particular contribute to this credit exposure. They are:
 - The lengthy payment cycle
 - The non-standard default chargeback mechanism
 - And the large maximum unsecured credit limits allowable under the CAISO tariff.
- Powerex is aware of efforts for Payment Acceleration to be implemented within six months of MRTU go live date. Our concern is that if Payment Acceleration is delayed or if the MRTU go live date is pushed back to next spring, then credit issues will be surfacing just in time for summer of 2009.
- The issue is further exacerbated since California is the only ISO or RTO that charges defaults in their markets only to NET Creditors. To Powerex knowledge, all other ISO and RTO's share the impact of a member participant's default amongst both purchasers and sellers in their markets.
- Assessing only NET creditors, in the event of a market participant default, makes spot market sellers (such as Powerex) exposed to bearing a greater share of the default burden when compared with their participation in the market.
- The California ISO tariff also has significantly higher maximum unsecured credit limits when compared with the tariffs of other ISOs/RTOs. In some cases, as much as 2-3 times higher.
- Powerex would prefer to see the updating of CAISO credit policies be given greater priority, both to better align with the new market structure of a DA energy market, and so these credit issues are avoided and solutions found far in advance of summer 2009.

Thank you for the opportunity to provide these comments.