

Tab 2 – Credit Policy Supplemental Compliance Filing Alternative Language

IMPORTANT NOTICE:

This tab contains language for Section 12 and Appendix A that the CAISO has proposed as alternative language in the Credit Policy Supplemental Compliance Filing (ER06-700) made on August 9, 2006.

This language has not yet been approved by FERC as of December 21, 2006.

- 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.
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<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.