

Stakeholder Process: Credit Policy Enhancements

Three rounds of stakeholder meetings were held:

- **Initial Whitepaper:** *Proposed Enhancements to California ISO Credit Policy*
<http://www.caiso.com/203c/203cd7594fbb0.pdf> - posted 9/8/2008
 On-site meeting held 9/22/2008 –44 participants; 15 commenters
- **Straw Proposal:** *Straw Proposal California ISO Credit Policy Enhancements*
<http://www.caiso.com/2066/2066ae1984d0.pdf> - posted 10/20/2008
 Conference call held 10/27/2008 – 47 participants; 10 commenters
- **Final Draft Proposal:** *Credit Policy Enhancements Final Draft Proposal (redline of BPM for Credit Management)*
<http://www.caiso.com/207b/207bd24b3d260.pdf> - posted 11/10/2008
 Conference call held 11/17/2008 – 49 participants; 5 commenters
- **Final Whitepaper:** *Final Proposal California ISO Credit policy Enhancements*
<http://www.caiso.com/2090/2090d5ef44b10.pdf> - posted 12/1/2008
 Summarized the credit policy enhancements to be presented to the Board of Governors for approval at their December 16-17, 2008 meeting

The timeline for remaining stakeholder activities include:

- Request BOG approval 12/16 – 12/17/2008
- FERC Filing (estimated) 1/6/2009
- Implementation (estimated) 3/2009

Comments were received after each meeting from the following stakeholders (all comments are posted on the CAISO Credit Policy Stakeholder Process webpage at <http://www.caiso.com/docs/2003/04/21/2003042117001924814.html>):

Stakeholder	Stakeholder Group	Round One 10/7/2008 (15 commenters)	Round Two 11/4/2008 (10 commenters)	Round Three 11/24/2008 (5 commenters)
ACES Power Marketing (ACES)	Marketer	X	X	
Bonneville Power Administration (BPA)	Supplier	X		
California Department of Water Resources (CDWR)	Governmental entity	X	X	
DC Energy	Marketer	X		
Direct Energy	Marketer	X		
EPIC Merchant Energy (EPIC)	Marketer	X	X	
J.P. Morgan Ventures Energy Corporation (JPMorgan)	Marketer	X	X	X
Macquarie Cook Power Inc.	Marketer	X		
Pacific Gas & Electric (PG&E)	Load	X	X	
Powerex Corporation (Powerex)	Supplier	X	X	X
Reliant Energy (Reliant)	Supplier		X	
San Diego Gas & Electric (SDG&E)	Load	X	X	
Sempra Global (Sempra)	Load	X		
Six Cities (i.e., Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, CA)	Governmental entity	X Cities of Anaheim and Riverside responded separately	X Cities of Anaheim and Riverside only	
Southern California Edison (SCE)	Load	X	X	X
TransAlta Corporation (TransAlta)	Supplier	X		
Western Area Power Administration (WAPA)	Supplier			X
Western Power Trading Forum (WPTF)	Supplier			X

Management Proposal	Load	Suppliers	Marketers	Governmental entities	Management Response
1. Simplify process for assigning Unsecured Credit Limits	Support				Use Moody's KMV "equivalent rating" instead of Moody's KMV Estimated Default Frequency; use lowest issuer rating instead of an average issuer rating; likewise, use the lowest long-term equivalent rating when only a short-term rating is available
2. Exclude certain assets from Tangible Net Worth calculation	Support				Modify definition of Tangible Net Worth to exclude assets that are reasonably believed to be unavailable to settle a claim in the case of a payment default (e.g., restricted, affiliate and derivative assets)
3. Reduce maximum allowable Unsecured Credit Limit	SCE does not support any reduction to the existing \$250 million maximum. Other load supported the initial proposal to reduce the maximum amount to \$100 million.	Majority of stakeholders desire \$100 million or less with some desiring no unsecured credit (i.e.; a fully collateralized market); considers this inseparable from any discussion related to Payment Acceleration and changes to the loss sharing methodology			An initial reduction to \$150 million followed by another reduction to \$50 million to coincide with the release of Payment Acceleration
4. Accept foreign guarantees	Support with tight restrictions				Accept foreign guarantees based on strict rules as adopted by peer ISOs; the amount of a guarantee, if any, is limited by country and company credit ratings
5. Require affiliate guarantees	SDG&E and SCE believe affiliate guarantees violate state and federal affiliate transaction law	Support			Legal has met with opposing parties and do not believe there is a substantive basis for these concerns; a guarantor backing the obligations of one affiliate must back the obligations of all affiliates participating in the ISO market
6. Reduce time to post financial security	Support	Support; many support reducing to 1-2 days		CDWR and like entities may not have ready access to funds and may not be able to respond quickly to a collateral call	Time reduced from five to three business days
7. Reduce collateral available for a CRR auction	Support				Amount of collateral available for a CRR auction reduced from 100% to 90% of available credit
8. Establish a market funded reserve account	No support; cost of implementing outweighs any benefits to be derived				Dropped from this stakeholder process; may reconsider in some future process

Management Proposal	Load	Suppliers	Marketers	Governmental entities	Management Response
9. Procure credit insurance	No support; cost of implementing outweighs any benefits to be derived				Dropped from this stakeholder process; may reconsider in some future process
10. Change loss sharing methodology	Strongly opposed to any change to existing methodology where net creditors in the settlement month assume the risk of a payment default	Wants the ISO to change its existing methodology to align with all the other ISOs/RTOs where a loss is shared by all market participants			Deferred to a separate stakeholder process likely not to commence prior to the release of MRTU
11. Establish financial penalties for late payers	Support; financial penalties should reduce GMC not fund a market reserve account	Support; financial penalties should fund a market reserve account to \$5 million and excess financial penalties should be used to reduce GMC			Will implement a progressive discipline program as soon as practicable as it does not require tariff changes; will introduce financial penalties after tariff approval and the release of MRTU where the first \$5 million of penalties will fund a market reserve account and funds in excess of \$5 million will reduce GMC in the following year
12. Establish financial penalties for failing to post financial security within prescribed time	Support; financial penalties should reduce GMC not fund a market reserve account	Support; financial penalties should fund a market reserve account to \$5 million and excess financial penalties should be used to reduce GMC			Will implement a progressive discipline program as soon as practicable as it does not require tariff changes; will introduce financial penalties after tariff approval and the release of MRTU where the first \$5 million of penalties will fund a market reserve account and funds in excess of \$5 million will reduce GMC in the following year
13. Establish a Credit Working Group	Strong support among most stakeholders to establish a Credit Working Group that would enhance the ISOs existing stakeholder process. EPIC advocated a CWG structured like those of the eastern ISOs where the CWG has more autonomy				Must further develop this proposal; will use for future credit policy enhancements