

December 15, 2008

Board Chairman Mason Willrich, California Independent System Operator (CAISO)
Board Member Linda Capuano
Board Member Laura Doll
Board Member Tim Gage
Board Member Thomas A. Page
Mr. Yakout Mansour, President and Chief Executive Officer

Dear Mr. Mansour and CAISO Board of Governors:

**Subject: Implementation of Market Redesign and Technology Upgrade (MRTU)
and Proposed Credit Policies**

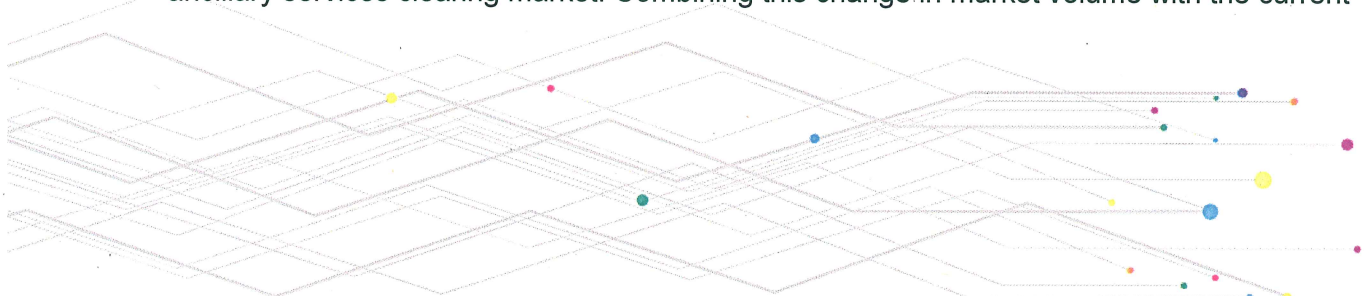
Thank you for providing Powerex with the opportunity to comment. I would like to express my regrets for not being able to attend in person. Unfortunately Powerex's Board of Directors meeting is also scheduled for December 16th, 2008. Ali Yazdi, Director for California, is attending in my place and would be pleased to answer any questions you may have on these comments.

Our comments are focused on two areas: 1) MRTU Go-Live and 2) CAISO Credit Policies.

Like the CAISO, Powerex continues to prepare itself for MRTU Go-Live, and as previously stated, needs 90 days (after a final MRTU software freeze) to complete its preparation and fully test its systems. With that in mind, Powerex believes a 60 day filing with FERC should only follow after a 30 day software freeze and successful operations of market simulation during that period. At this time, the CAISO's latest plan is to freeze its MRTU software on December 28th. Therefore, Powerex cannot support a December 29th 60 day filing for a March 1st Go-Live as on December 29th, Powerex would not know whether the MRTU software is working satisfactorily. However if market simulations in January prove to be successful, Powerex would be prepared to support an April 1st Go-Live date.

On the CAISO proposed Credit Policies, there are two elements that Powerex is particularly concerned with – Unsecured Credit Limit and Default Loss Allocation. Powerex supports the CAISO staff in their efforts to update the credit policies but doesn't believe the policies recognize the fundamental change in the CAISO markets with MRTU or reflect industry standards regarding ISO credit policies.

In the current Market with balanced portfolios, the credit risk borne by participants is also balanced. With the implementation of MRTU there is a paradigm shift that will cause the suppliers to be predominantly net creditors and loads to be net debtors to the CAISO. This is because the CAISO goes from essentially a balanced Day Ahead market with a relatively small Real-Time balancing energy market to a full Day Ahead and Real-Time energy and ancillary services clearing market. Combining this change in market volume with the current



credit crisis puts immense pressure on physical suppliers into the CAISO market due to the high Unsecured Credit Limit and the unequal Default Loss Allocation. If the CAISO implements its current proposal with the high unsecured credit amount and unequal sharing of default losses, there will times when Powerex will limit its activity in the CAISO markets for credit reasons.

Powerex urges the CAISO to either reduce the maximum Unsecured Credit Limit immediately (to the \$50 M level currently proposed after Payment Acceleration) and/or change the Default Loss Sharing Allocation so that losses are allocated fairly amongst all market participants.

Powerex is particularly disappointed with the decision to not change the Default Loss Sharing provision since we had brought this to the CAISO's attention over a year ago, and the CAISO's own findings are that the CAISO is not consistent with its peers on this important issue.

If you have any questions, please feel free to contact me directly or discuss them with Ali.

Sincerely,



Teresa M. Conway
Chief Executive Officer and President

