

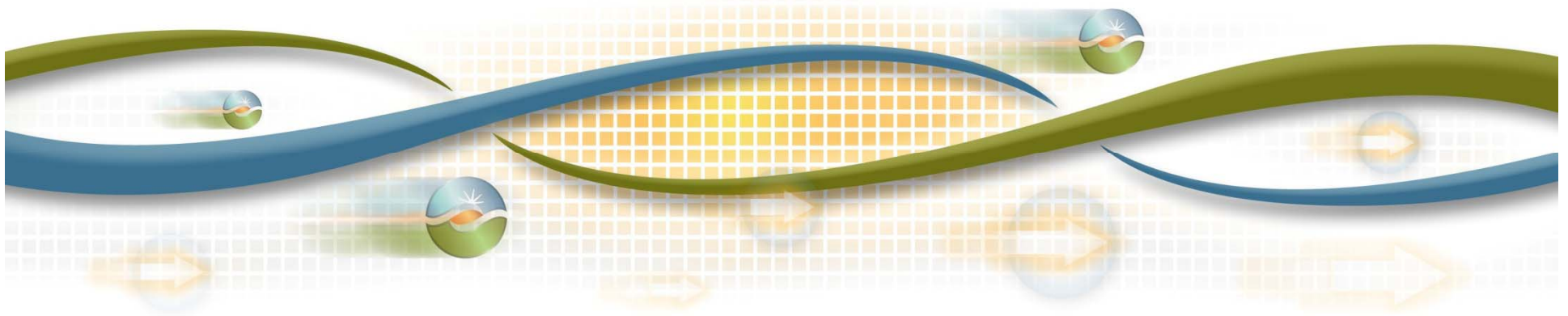


California ISO
Shaping a Renewed Future

Decision on FERC Order 741 – Credit Reforms in Organized Wholesale Electric Markets

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FERC Order 741 mandates all ISOs and RTOs adopt certain common credit practices.

- The Federal Energy Regulatory Commission has long been actively interested in ISO and RTO credit practices.
- Over time, varying credit practices have been adopted through respective ISO / RTO stakeholder processes.
- Defaults in one market can have a ripple effect in other markets.
- ISO and RTO credit practices are recognized as being only as strong as the weakest credit practice.
- Order 741 is designed to protect organized wholesale electric markets from default by a market participant.

The Order requested stakeholder input on two credit reform items:

- Minimum participation requirements for entry into the ISO markets
- Circumstances leading to reduction or revocation of a market participant's unsecured credit due to a material adverse change in their financial condition

Management proposes the following minimum participation requirements.

- Annual officer confirmation of certain processes
- Capitalization requirements
(new and existing market participants)
 - \$1 million tangible net worth
or
\$10 million total assets
or
post \$500,000 of secured collateral
 - Periodic review could reduce posting requirement to \$100,000

Management proposes enhancing its existing material adverse change provisions.

- Rating agency or Moody's equivalent rating downgrade to below investment grade
- Restating prior-year financial statements
- A default in another organized market

Stakeholders are largely supportive of the proposed minimum participation requirements.

- Approximately 50 stakeholders participated in our public process with 20 offering comments
- Management believes the proposal strikes the right balance of stakeholder demands
- Proposal is largely consistent with other ISO / RTO minimum participation requirements

Management recommends the Board approve these proposed credit policy enhancements.

- Result of an extensive stakeholder process
- Balances competing stakeholder needs benefiting the entire market
- Consistent with FERC's objective to minimize the risk of a default in the market