

# Stakeholder Comments Template

## Subject: Credit Policy Enhancements

Submitted by	Company	Date Submitted
<i>Jonathan Kist 317.344.7253</i>	<i>ACES Power Marketing</i>	<i>September 26, 2008</i>

This template has been created for submission of stakeholder comments on the topics covered in the September 22, 2008 Credit Policy Enhancements stakeholder meeting. Upon completion of this template, please email your comments (as an attachment in MS Word format) to [CreditPolicyComments@caiso.com](mailto:CreditPolicyComments@caiso.com). All comments will be posted to CAISO's Credit Policy Stakeholder Process webpage at <http://www.caiso.com/docs/2003/04/21/2003042117001924814.html>.

Submissions are requested by close of business on **October 7, 2008 or sooner**.

Please submit your comments to the following questions for each topic in the spaces indicated.

1. Do you support CAISO's proposal (Alternative 3) to replace the use of Credit Rating Default Probabilities and Moody's KMV Default Probabilities with the use of agency issuer ratings and Moody's KMV Spot Credit Rating in its eight-step process credit assessment process? Do you agree that these ratings should be blended according to the same percentages already established in the eight-step process? Do you agree that Moody's KMV Spot Credit Rating should be used, according to the same blending percentages, to assess whether a financial institution meets CAISO's "reasonably acceptable" test for accepting a Letter of Credit or an Escrow Account (i.e., the blending must yield a result greater than or equal to four (4.00) to be "reasonably acceptable"?)

**APM Comment: APM does not recommend the proposed methodology of using a weighted average of the issuer ratings and the Moody's KMV Spot Credit Rating. APM recognizes that the spot rating is intended to reflect a more accurate and timely assessment of the current market conditions. However, APM is unaware of the methodology used in determining the spot ratings, and cannot advocate its use. APM recommends using the lowest available senior unsecured credit rating obtained from Moody's and S&P in determining credit limits based on a percentage of TNW.**

2. Do you support CAISO's proposal to expand the definition of Tangible Net Worth to exclude assets that are earmarked for a specific purpose such as restricted assets and assets related to affiliated entities? Do you also agree that CAISO should also exclude highly volatile assets such as derivative assets?

**APM Comment:** APM does not recommend the exclusion of earmarked assets from the definition of TNW unless those assets match a liability reported on the balance sheet. It is APM's opinion that approving this proposal without consideration of a matching liability could result in an understatement of an entity's TNW. However, APM does recommend that CAISO exclude highly volatile assets such as derivative assets from their TNW definition.

3. Do you support CAISO's proposal (Alternative 2) to reduce the maximum amount of unsecured credit that it will assign to the most creditworthy party to \$100 million?

**APM Comment:** APM recommends that CAISO reduce the maximum amount of unsecured credit assigned to a creditworthy party to \$100 million. It is APM's opinion that a lower maximum is appropriate for the current economic environment, and would lower the inherent credit risk related to participation in the CAISO market. In addition, APM believes that further timing efficiencies could be improved upon, which would enable additional reductions to the maximum unsecured credit limit.

4. Do you support CAISO's proposal (Alternative 2) to allow Guarantees and other forms of Financial Security to be issued from Canadian entities? Do you support expanding this policy to accept Financial Security from non-US / non-Canadian based entities using rules similar to those adopted by ISO New England if CAISO can clear the legal hurdles and complexities of developing the necessary processes and agreement language for accepting Financial Security from foreign entities? Are ISO-NE's restrictions sufficient and necessary? Should other safeguards be put in place? Should CAISO consider extending this policy to other types of Financial Security such as Letters of Credit?

**APM Comment:** APM recommends that CAISO allow Guarantees and other forms of Financial Security to be issued from Canadian entities. However, APM's recommendation is contingent upon the accuracy of CAISO's claim regarding the extent of their involvement in working with Canadian outside counsel to draft a Guaranty that would be enforceable in each of the Canadian provinces. APM does not recommend CAISO to expand its credit policy to accept Financial Security from other non-US based entities unless those entities possess a physical headquarters based within the US.

5. Do you agree that an Affiliate Guaranty, where a Guarantor backing the obligations of one Affiliate must provide the same Guaranty for all of its Affiliates in the CAISO market, is essential to help mitigate the risk of a payment default by an under-secured and thinly capitalized Affiliate? Does the concept presented present regulatory issues for non-regulated parents backing regulated and non-regulated affiliates?

**APM Comment:** **APM recommends that CAISO require a Guarantor to provide the same Guaranty for all of its affiliates in the CAISO market in order to mitigate the risk of payment defaults. APM believes this proposal will present regulatory issues for non-regulated parents backing regulated affiliates due to restrictions that are usually placed on the transfer of cash flows between entities with similar relationships in other markets.**

6. Do you support CAISO's proposal (Alternative 1) to reduce the time to post additional Financial Security from five (5) Business Days to three (3) Business Days?

**APM Comment:** **APM supports a reduction to the amount of time CAISO grants its market participants to post additional Financial Security. However, APM recommends that CAISO reduce the grace period to two (2) business days rather than the proposed three (3) business days.**

7. Should CAISO change its policy allowing 100% of Market Participant's available credit (i.e., Aggregate Credit Limit minus Estimated Aggregate Liability) to be available for a Congestion Revenue Rights ("CRR") auction? Is setting the amount of available credit at 90% of available credit a reasonable approach to ensure some buffer remains in place for a Market Participant's other market activities? Should a lower threshold be considered?

**APM Comment:** **APM requires more information about the CRR Credit Requirement calculation process before it provides a recommendation.**

8. Are you in favor of the CAISO funding a reserve account as a means of providing a source of funds in the case of a payment default? How would you propose that such an account be funded?

**APM Comment:** **APM does not recommend the creation of a reserve account for payment defaults if it increases the cost of participating in the CAISO market. However, APM would support the creation of such an account under the condition that it would be funded with financial proceeds that it collects for late payments or any other penalties related to market participation.**

9. Are there other payment default risk mitigation strategies, of those that were presented, that you support and would want CAISO to investigate further such as a Line of Credit,

credit insurance, establishing a captive insurance company, developing a blended finite risk program or a capital market transfer to provide potential funding sources in the case of payment default? Are there other strategies that were not covered that CAISO should investigate and/or pursue?

**APM Comment: APM does not recommend any of the payment default risk mitigation strategies proposed by CAISO. It is APM's opinion that the costs of such strategies do not justify their intended benefit. Furthermore, APM believes that all market participants should share losses incurred by payment defaults on a pro rata basis.**

10. Do you support CAISO changing its loss sharing/chargeback mechanism to include the allocation of a payment default to all Market Participants – not just net creditors during the default month? What measure should be used to apportion exposure to the chargeback?

**APM Comment: APM recommends that CAISO change its loss sharing/chargeback mechanisms to include the allocation of a payment default to all market participants on a pro rata basis. In addition, APM suggests that CAISO set a minimum chargeback amount similar to the one imposed by PJM, in which all market participants are required to contribute a minimum of \$10,000 regardless of their market participation.**

11. Do you agree with CAISO's proposal to assess financial penalties on Market Participants who are late in paying their invoices two or more times in a rolling 12 month period? Are the financial penalties sufficient to ensure compliance with the payment provisions of the CAISO Tariff? Do you agree that Market Participants who are late a third time in a rolling 12 month period should also have to post cash in lieu of any unsecured credit for a period of 12 months of on-time payments? Do you agree that any penalties collected should fund a reserve account that can be used as a source of funds in the case of a payment default?

**APM Comment: APM recommends that CAISO assess financial penalties on market participants who are late in paying their invoices two or more times in a rolling 12 month period. In addition, APM recommends that market participants who are late paying their invoices a third time in a rolling 12 month period should have to post cash in lieu of any unsecured credit. APM believes that the financial penalties for market participants who are late paying their invoices should be adjusted upward in the event that they are not sufficient to ensure compliance. Finally, APM supports the use of these funds for the creation of a reserve account that can be used in case of a payment default.**

12. Do you agree with CAISO's proposal to assess a financial penalty on a Market Participant who is late in posting additional collateral on the third and each subsequent time in a rolling 12 month period? Are the financial penalties sufficient to ensure compliance with the collateral posting provisions of the CAISO Tariff? Do you agree that any penalties collected should fund a reserve account that can be used as a source of funds in the case of a payment default?

**APM Comment:** APM recommends that CAISO assess a financial penalty on market participants who are late in posting additional collateral on the third and each subsequent time in a rolling 12 month period. It is APM's opinion that a financial penalty would discourage market participants from posting late collateral payments, and ultimately reduce the credit risk that is created by it. If penalties are collected, then APM believes that the proceeds should be used to fund a reserve account for payment defaults.

13. Do you support the creation of a Credit Working Group ("CWG") as a means to formalize the CAISO's approach to managing credit policy change? How do you envision the CWG adding value to CAISO's existing stakeholder process (e.g., regularity of meetings, membership, etc.)?

**APM Comment:** APM recommends that CAISO create a Credit Working Group in order to provide a means to formalize their approach to managing credit policy change. APM believes that a CWG would add value to CAISO by supplying a platform for which future credit policy enhancements can be introduced, and a structured process that would push the development and implementation of these enhancements.