

California ISO White Paper

Alternative Proposals for Establishing Creditworthiness

June 26, 2006

In accordance with a directive in the May 12, 2006 *Order Conditionally Accepting Tariff Revisions Governing Credit Policy*, 115 FERC ¶ 61,170 at P 35 in Docket No. ER06-700, to work with stakeholders to develop alternative measures for calculating the creditworthiness of nonprofits in order to establish unsecured credit limits for these entities, the California Independent System Operator has developed two additional proposed alternatives to address two types of entities: Local Publicly Owned Electric Utilities and Unrated Governmental Entities. The proposal for Local Publicly Owned Electric Utilities is based on a proposal submitted by NCPA attached hereto, which, in turn, is based on a provision in the NYISO Tariff (Attachment K, Superseding Original Sheet No. 591A).

The proposal for governmental entities that receive appropriations for energy and energy-related purchases from a federal or relevant state legislature would apply to such entities as the Western Area Power Authority, which had an Approved Credit Rating prior to the effective date of the Credit Policy tariff amendment.

The CAISO invites comments on these proposals as well as additional proposals in advance of the scheduled call to be held on July 5, 2006 at 3:00 P.M. Written comments may be sent to Phil Leiber at pleiber@caiso.com or Kevin King at kking@caiso.com.

A. 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 A-2, *et seq.* of the ISO Credit Policy & Procedures Guide (“Guide”) in order to establish an Unsecured Credit Limit as the greater of the one million dollars (\$1,000,000) or the amount determined as provided in Section A-2, *et seq.* of the Guide. Local Publicly Owned Electric Utilities that operate through a Joint Powers Agreement subject to the California Joint Exercise of Powers Act (California Government Code, Section 6500, *et seq.*) or a similar agreement acceptable to the ISO with the same legal force and effect shall be entitled to aggregate their Unsecured Credit Limits except to the extent that a Local Publicly Owned Electric Utility party to a Joint Powers Agreement or similar agreement is also participating independently in the ISO’s markets with an established Unsecured Credit Limit. Local Publicly Owned Electric Utilities that operate through a Joint Powers Agreement or similar agreement that desire to aggregate their Unsecured Credit Limits shall provide relevant documentation to the ISO. Unsecured Credit Limits established through this section or through Section A-2, *et seq.* of the Guide 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 A-1.3 of the Guide and, accordingly, the ISO may adjust their Unsecured Credit Limits pursuant to Section A-2.2 of the Guide.

B. 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 A-2, *et seq.* of the Guide 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 A-1.3 of the Guide and, accordingly, the ISO may adjust their Unsecured Credit Limits pursuant to Section A-2.2 of the Guide.