

# Powerex Comments

## Subject: Final Draft Credit Policy Proposal

Submitted by	Company	Date Submitted
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Powerex appreciates the CAISO providing this opportunity to comment on the Final Draft Credit Policy Proposal.

Powerex is very appreciative of the efforts CAISO staff has put into this important topic while balancing the need to manage the MRTU tariff and other issues on your plate. However, Powerex remains very disappointed with the final draft proposal, especially the loss sharing mechanism.

Over a year ago, Powerex raised the issue about the inequity of the current loss sharing mechanism during a CAISO Executive outreach session. Subsequent to this initial session, Powerex followed up with a conference call and formal letter to the CAISO in January of this year and made our thoughts known at CAISO Board sessions and Executive outreach sessions at how this important matter remains unresolved.

It is extremely disappointing that after a year of being aware of this important matter, the CAISO's final recommendation following a stakeholder process is for yet further study. In Powerex' opinion, further study will not resolve this matter and is not necessary. While the CAISO's vision is to strive to be a "world-class electric transmission organization", the CAISO is clearly far behind its peers on this important topic.

During the Draft Final recommendation conference call it was stated that the CAISO tried to strike a balance between diverging views in coming up with its final recommendations, yet all of the risks of a payment default are still being borne by only one group of market participants. It should not have been at all surprising to the CAISO that those parties benefiting from the current loss sharing mechanism would be extremely resistant to change. Therefore, it appears the final proposal simply reduces or eliminates the need for load serving entities to post ANY collateral at all while being insulating them from any credit defaults and not responding to the credit concerns of other market participants While the CAISO mission is to operate to the benefit of all customers, in the case of the credit policy and especially the loss sharing mechanism, this is clearly not the case.

Powerex suggest that there can be a compromise to address the concerns of all parties and it is the period prior to the implementation of Payment Acceleration after MRTU Go-Live that concerns Powerex the most. To allow the time the CAISO claims to need for further study while not exposing certain market participants to more credit risk, Powerex suggests a more balanced interim approach:

- Prior to the implementation of Payment Acceleration, adopt a temporary lower maximum unsecured credit limit (i.e., \$10 to \$25 million);
- Upon implementation of Payment Acceleration increase the unsecured limit to some higher amount (i.e., \$50 million to \$75 million); and

- Immediately start any further study the CAISO feels necessary to make a final decision on updating the Loss sharing mechanism.

This would be considered a temporary compromise since in the absence of other protections (namely loss sharing and payment acceleration), suppliers can still be protected by the lower unsecured credit limits. It also provides an incentive to all parties to work together to implement payment acceleration as soon as possible.

In addition to the recommendation above, Powerex also urges the CAISO to decrease the time required to post collateral to two business days and to provide market participants with the information necessary to estimate their individual exposure to defaults. The CAISO should post the total amount of Unsecured Credit (UC) granted to all market participants (segregated by credit rating), and the largest single Unsecured Credit Limit (UCL) granted to a market participant (without naming the participant). The CAISO should also provide on a confidential basis to each market participant their individual net position relative to the CAISO market as a whole and whatever other information is necessary for the market participant to make its own estimates of credit exposure. Without this information, market participants lack the transparency to adequately gauge their exposure to the CAISO markets, and will as a result make very conservative assumptions.

Powerex urges the CAISO to show world-class leadership when updating its credit policies. Powerex remains frustrated and disappointed with the CAISO's final draft proposal, especially the postponement of updates to the loss sharing mechanism after being aware of this issue for over a year. In Powerex's opinion, it appears the CAISO has not taken a balanced approach in this stakeholder process on Credit Policy.