



SC Credit Policy

Stakeholder Web Conference

April 26, 2005



CALIFORNIA ISO



SC Credit Policy

- Phased implementation approach
- Specific changes under consideration
- Implementation timeline





Phased Implementation Approach

- Phase 0: already implemented
- Phase 1: filed & implemented in 2005
- Phase 2: filed and implemented 2006 or later





Creditworthiness

Credit Limits for SCs with ACR (Phase 1)

Current

- Unlimited unsecured credit for SCs with ACR

Proposed

- Credit limits for each SC based on credit ratings, third party assessments and entity-specific data
- Separate approaches for different types of SCs
- Additional calculation granularity
- \$250 million cap
- Eliminate short-term ratings in establishing credit limits





Creditworthiness

SCID-Specific Security Postings (Phase 0)

Current

- No segregation of postings for separate SCIDs
- Some exceptions

Proposed

- No segregation of postings for separate SCIDs





Creditworthiness

ISO-Approved Security Documents (Phase 1)

Current

- SCs use pro forma security documents for letters of credit, bill guarantees and other security documents
- Some exceptions

Proposed

- SCs use standardized documents to the greatest extent possible
- ISO will consider exceptions
- 10 BD review period





Creditworthiness

Security Agreement Expiration (Phase 1)

Current

- All security documents remain in effect through their stated expiration date

Proposed

- All security documents will expire and be considered void 30 days prior to their stated expiration dates
- Avoid lapse by renewing before expiration or providing for automatic renewal





Creditworthiness

Credit Insurance (Phase 1 or 2)

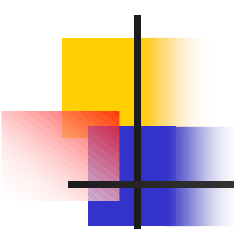
Current

- The ISO does not offer credit insurance, either to individual SCs or for the overall market

Proposed

- The ISO will continue discussions with Aon Risk Services on various insurance proposals
- ISO to update SCs as it finalizes the proposals





Liability Calculations Posting Requirements

Liability Calculations for New SCs (Phase 0)

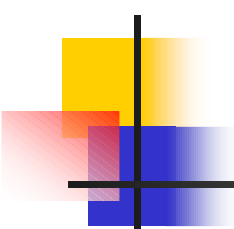
Current

- New SC must post financial security for its maximum estimated financial liabilities
- ISO offers calculation tool
- No minimum posting

Proposed

- ISO offers calculation tool
- SCs post minimum two-week obligation amount
- Monitor weekly, adjust as necessary





Liability Calculations Posting Requirements

SCALE Tool (Phase 0)

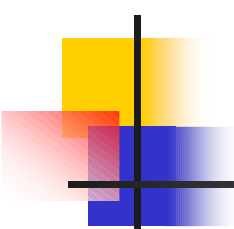
Current

- ISO implemented SCALE April '04 as the tool to estimate financial liability

Proposed

- ISO will continue to use SCALE to estimate financial liability





Liability Calculations Posting Requirements

Days Included in Liability Calculation (Phase 1)


Current

- SCs post financial security from previous invoice to next scheduled invoice (approximately 102 days).
- Some SCs posting cash allowed to adjust weekly

Proposed

- Eliminate weekly posting option
- security posting based on a level number of days outstanding from invoice-to-invoice
- Amount will decrease with APC





Liability Calculations Posting Requirements

Price Volatility in Liability Calculations (Phase 0)


Current

- ISO considered measures to mitigate price volatility

Proposed

- No changes
- Potential risk reductions not justified by cost and complexity





Liability Calculations Posting Requirements

Security Postings for Special Circumstances (Phase 2)


Current

- No adjustment in security posting requirements for:
 - Adjustments from disputes
 - Refund orders
 - GFN
 - SCs leaving the market
 - SCs with significant market changes

Proposed

- ISO will adjust security posting requirement **if** it can estimate amount with reasonable certainty
- No adjustment if major certainty
- No adjustment if payment would be collected sooner than posting





Liability Calculations Posting Requirements

Security Posting by Individual Trade Months (Phase 0)


Current

- Security posting request based on all un-invoiced trade months
- “Net creditor” months netted against “net debtor” months

Proposed

- No changes
- Risk of default low





Liability Calculations Posting Requirements

Changes From New Settlement System (Phase 2)

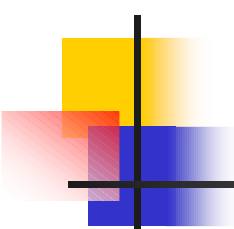
Current

- SCs' financial obligations based on current market rules and the current settlement cycle and schedule.

Proposed

- Finance Department will review impacts of new Settlement system on SCs' outstanding financial obligations
- Recommend appropriate changes





Liability Calculations Posting Requirements

Accelerated Payment Calendar (APC) (Phase 2)

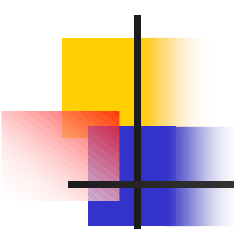
Current

- SCs' financial obligations based on current market rules and the current settlement cycle and schedule.

Proposed

- Finance Department will review impacts of APC on SCs' outstanding financial obligations
- Recommend appropriate changes





Liability Calculations Posting Requirements

Adjustments to Security Postings (Phase 0)

Current

- ISO estimates SCs' financial obligations weekly
- ISO may request additional security
- SCs may request refund of posted security
- Some volatility

Proposed

- ISO will base security posting requests on the lesser of:
 - the most recent SCALE figure; or
 - a moving average of the most recent SCALE estimates over the past month
- Reduced volatility





Enforcement

Unsecured Obligations Penalty (Phase 2)

Current

- No penalty for failing to provide requested security

Proposed

- ISO will continue to study how such penalties could be applied
- One approach: penalty based on difference between posted security and settlements-based actual obligation
- Revisit for Phase 2





Enforcement

Late Payment Penalty (Phase 2)

Current

- No penalty for SCs that fail to pay invoices by the deadline specified in the ISO Tariff

Proposed

- Internal team considered late payment penalty
- Revisit for Phase 2





Enforcement

SC Suspension, Disconnection & Termination (Phase 2)

Current

- ISO Tariff allows suspension, disconnection & termination in certain circumstances

Proposed

- ISO considering changes – invites comments
- Any such proposal must address:
 - Due process
 - Right to cure
 - Notice to other parties
 - Maintenance of obligation





Other Issues

Risk of Loss for Funds Held By the ISO (Phase 1)

Current

- ISO Tariff does not address remedy for loss of funds held by the ISO as security for SCs

Proposed

- Market Participants would bear any risk of loss of principal and/or interest of such funds.
- ISO will only invest such funds in a bank account, high-quality money market fund, or US Government security
- Specific agreement between the ISO and SC for other types of investment.





Calendar for Moving Forward

- May 20: Written stakeholder comments due
- June 16: ISO Governing Board to consider proposed changes
- July 31: File Tariff changes for Phase 1
- October 1: Implement Phase 1 changes
- 2006: Consider Phase 2 changes

