CAISO Response to Silicon Valley Power Questions
Concerning Alternative Proposals for Determining Creditworthiness

Thank you for developing the CAISO's White Paper on Alternative Proposals for Establishing Creditworthiness. While Silicon Valley Power is generally supportive of the White Paper's proposal, SVP has the following questions concerning the development of the Unsecured Credit Limit ("UCL"):

(1) With regard to a joint powers agency ("JPA") being able to use its members' $1M safe harbor amounts, at least two questions arise. Can a munie which has established a higher UCL through the Section A-2 Guide procedures "assign" more than $1M to a JPA of which it is a member? Can a munie which has established a UCL higher than $1M "assign" security to more than one JPA? As an example, Redding, SVP and others are members of more than one JPA. If, for instance, SVP has an $8M UCL, can it assign $1M each to M-S-R and TANC and retain $6M for itself?

CAISO Response: The proposal for determining the Unsecured Credit Limits of Local Publicly Owned Electric Utilities included in the CAISO's June 26 White Paper, as clarified through the documents posted on **July 17** would permit such "assignment" subject to CAISO approval on a case-by-case basis. The modified proposal makes it clear that the Local Publicly Owned Electric Utility seeking to assign its Unsecured Limit to a JPA or aggregate its Unsecured Credit Limit with other entities through a JPA would need to provide the CAISO with documentation demonstrating that the entity seeking to assign a portion of its UCL to a JPA will assume responsibility for financial liabilities of the JPA associated with the assigned portion of the UCL. Such a demonstration could be made through a guarantee instrument or through another mechanism providing the CAISO with reasonable assurances that the assigning entity will assume responsibility for financial liabilities of the JPA associated with the assigned portion of the UCL. If a Local Publicly Owned Electric Utility seeks to assign a portion of its UCL to multiple JPAs, it would be required to provide the CAISO with documentation demonstrating that the assigning entity will assume responsibility for the financial liabilities of each JPA associated with the assigned portions of the UCL.

(2) Sections A-2.1 and A-2.2 in the Credit Policy and Procedures Guide provide relatively straightforward and identifiable criteria for the establishment of a UCL. Section A-2.3 allows the CAISO to exercise substantial discretion to reduce or eliminate a UCL based on ten qualitative factors. While such qualitative factors may need to be utilized in certain circumstances, if a UCL is reduced based on one or more of those factors, will the entity seeking a UCL in excess of the $1M safe harbor amount be notified that qualitative factors were used to reduce the UCL and have that determination explained? How will disputes on the impact of the qualitative factors be resolved/handled by the CAISO?

CAISO Response: In the event that CAISO determines that it is necessary to reduce the UCL by considering qualitative factors, the CAISO will notify the entity of the reduction. Upon request, the CAISO will also provide the entity with a written determination of why it has done so. The CAISO will communicate and have a dialogue with the entity about the determination of the UCL, but ultimately, CAISO must make the determination. A Market Participant contesting the CAISO's UCL determination can do so under the applicable dispute resolution provisions of the CAISO Tariff. Such a Market Participant would ultimately have rights under Section 206 of the Federal Power Act to raise concerns with FERC if it believed it was treated unfairly by CAISO in the determination of the UCL.