

# Appendix C

## Credit Insurance

### Supplemental Information

#### Alternative Solutions

1. Status Quo: do not procure credit insurance
- 2a. Procure credit insurance: ISO purchases policy that covers parties that are provided with some unsecured credit and potentially provides some coverage for other SCs that exceed their posted security. Cost of coverage is paid from ISO O&M budget and recovered through the GMC.
- 2b. Procure credit insurance: ISO purchases policy that covers parties with an “Approved Credit Rating” and potentially provides some coverage for other SCs that exceed their posted security. Cost of coverage is recovered as a separate market related charge assessed to suppliers (creditors).
- 2c. Procure credit insurance: ISO purchases policy that covers parties with an “Approved Credit Rating” and potentially provides some coverage for other SCs that exceed their posted security. Cost is primarily paid by entities with an “Approved Credit Rating” as a separate market related charge.
3. Credit Insurance to be procured and paid for by individual SCs through a program structured and sponsored by CAISO. Insurance is in lieu of other forms of required financial security. Participation is a decision of each SC. SCs that choose to participate would be those who are required to post security, and for whom this form of financial security is less costly to them than other alternatives. This structure differs significantly from Option 2.

**NOTE: Options 2a, 2b, 2c, 3 are subject to continuing investigation. The terms of coverage that might be available under these options have not yet been fully defined. Details will be provided to stakeholders when available.**

#### Practices at other ISOs

- NYISO has credit insurance (Option 2a)
- NEISO has credit insurance (Option 2a)
- PJM is considering credit insurance

#### Assessment of Alternatives

The following criteria are considered:

1. Provides additional assurance to suppliers, increasing confidence and liquidity of CAISO markets.
2. Fair allocation mechanism for costs of such a policy.
3. Represents a best practice/industry trend

Option	1. Additional Assurance to Suppliers	2. Fair Cost Allocation?	3. Industry Best Practice/ Trend
1. Status Quo-Do not procedure credit insurance	No	N/A	No
2a. Credit Insurance-Cost recovered through GMC	Yes	Possibly. The costs, part of the ISO O&M budget, could be assigned to an appropriate GMC category. However while the GMC structure has numerous charges, none are directly related to the total charges that settle each month. The Market Usage category of the GMC is assessed on purchases and sales of energy and A/S. If the costs were assigned to this category and assigned on this basis, this would cover a significant portion of CAISO settlement dollar volumes, but would exclude TAC, congestion, and other charges.	Yes.
2b. Credit Insurance-Cost recovered through market charge to suppliers	Yes	Yes, possibly. Recovery mechanisms could include: <ol style="list-style-type: none"> <li>1. Sum all market payments distributed annually, and allocate cost of credit insurance pro-rata to recipients.</li> <li>2. Other-to be determined.</li> </ol>	Yes
2c. Credit Insurance-cost recovered through market charge to buyers with "Approved Credit Rating"	Yes	Yes. Parties that do not post collateral with the CAISO present credit risk to suppliers. Accordingly, these entities should pay the cost of providing assurance of payment. Sum all market payments distributed annually, and allocate cost of credit insurance pro-rata to recipients. Recovery mechanisms could include: <ol style="list-style-type: none"> <li>1. Sum all monthly debtor invoices of participants with Approved Credit Ratings, and allocate cost of credit insurance pro-rata to these parties.</li> <li>2. Other-to be determined</li> </ol>	Yes
3. ISO sponsored program, with participation a decision of each SC.	No- insurance would be in lieu of other required financial security.	Yes. Cost of collateral is borne by those who require it.	No

#### Status as of April 2005

CAISO has submitted information to the insurance broker who is obtaining quotes and terms for the credit insurance coverage for a program as described in item (2) above. If such costs are relatively affordable, CAISO may procure such coverage and elect to fund the costs through the CAISO O&M budget, following cost recovery approach 2a in the table above.