

Stakeholder Comments Template

Subject: Credit Policy Enhancements Straw Proposal

Submitted by	Company	Date Submitted
<i>Jack Lewis 858 654-6433</i>	<i>SDG&E</i>	<i>November 4, 2008</i>

This template has been created for submission of stakeholder comments on the topics covered in the October 27, 2008 Credit Policy Enhancements stakeholder call. Upon completion of this template, please email your comments (as an attachment in MS Word format) to CreditPolicyComments@caiso.com. All comments will be posted to CAISO's Credit Policy Stakeholder Process webpage at <http://www.caiso.com/docs/2003/04/21/2003042117001924814.html>.

Submissions are requested by close of business on **November 4, 2008 or sooner**.

Please submit your comments to the following questions for each topic in the spaces indicated.

1. Are you generally in favor of the ISO establishing credit policies, such as the three enhancements presented during this stakeholder process, that result in more conservative unsecured credit limits?

Please see SDG&E comments from October 7, 2008.

CAISO Response: Although this specific question was not asked following the earlier stakeholder meeting, SDG&E's responses to similar questions seemed to support CAISO's proposals.

2. Do you support the ISO's straw proposal to use the lowest Credit Agency Issuer Rating when two or more issuer ratings are available? If only a short term rating is available, do you support the use of the lowest equivalent long term rating?

Please see SDG&E comments from October 7, 2008.

CAISO Response: Although these specific questions were not asked following the earlier stakeholder meeting, they are consistent with the general theme of changing the methodology for setting unsecured credit limits which SDG&E seemed in favor of.

3. Do you agree with the concept that having a large portion of Total Assets comprised of assets that are generally unavailable to settle a claim such as restricted assets, affiliate assets and derivative assets (i.e., using the net of these asset categories if an offsetting liability is reported) should result in a lower or even no Unsecured Credit Limit? If you agree, should the ISO specifically exclude these types of assets in the definition of Tangible Net Worth as originally presented or consider them as part of the qualitative assessment in step 8 of the eight-step process as presented in the straw proposal?

Please see SDG&E comments from October 7, 2008.

CAISO Response: Although these specific questions were not asked following the earlier stakeholder meeting, they are consistent with the general theme of changing the definition of Tangible Net Worth which SDG&E seemed in favor of. A question was posed as to how CAISO would monitor these balances as they fluctuate from month to month. The CAISO can only rely on self reporting of material changes to financial condition (as required by the CAISO Tariff) and an entity's quarterly or annual reports for monitoring changes to these assets. Because of this lack of visibility, the CAISO is proposing taking a conservative approach by eliminating these assets from consideration when determining an entities Tangible Net Worth which will result in the entity receiving a lower unsecured credit limit.

4. Do you support the ISO's straw proposal to reduce the current maximum amount of unsecured credit to \$150 million on the condition that the ISO reassess this amount with the release of Payment Acceleration and after MRTU has been successfully running through the summer months of next year?

Please see SDG&E comments from October 7, 2008.

CAISO Response: Although SDG&E supported a lower maximum unsecured credit limit of \$100 million, CAISO is hopeful that SDG&E will does not oppose the current straw proposal to set the cap at \$150 million. The CAISO is committed to reducing this figure on a pro rata basis with the implementation of Payment Acceleration.

5. Do you support the ISO's straw proposal to accept non-U.S. and non-Canadian guarantees if the ISO adopts strict criteria similar to PJM and MISO? In addition, do you support the straw proposal to adopt MISO's maximum unsecured credit limits based on a minimum country rating and the guarantor's credit quality?

SDG&E, after further evaluation of this question and our recent conference call, does support the ISO's straw proposal to accept non-U.S. and non-Canadian guarantees if the ISO adopts strict criteria similar to PJM and MISO. Our initial concern that there may be incremental exposures from this relating to foreign currency exposures appears to be mitigated by ensuring that payments are in U.S. dollars. Additionally, incremental sovereign risks appear manageable with timely and proactive assessments of individual country risks. SDG&E would also like to ensure the use of GAAP accounting standards with the foreign market participants. SDG&E expects the venue for any potential enforceability of judgment would be within California. The adoption of MISO's maximum unsecured credit limits based on minimum country ratings and the guarantor's credit quality appears to be a reasonable approach.

CAISO Response: It may not be reasonable to require foreign entities to use GAAP accounting standards. International accounting standards, as provided for in ISO-NE's approach to accepting foreign guarantees, is a reasonable alternative (and the US is likely to transition to International accounting standards within the next several years). Both PJM and MISO require a guarantor to have an agent situated in their respective states absent of any legal constraints. Credit staff will actively work with CAISO and outside counsel in developing appropriate safeguards before accepting any foreign guaranty.

6. Do you support the ISO's continued development of the Affiliate Guaranty? What are your legal department's concerns, if any, with the ISO's form Affiliate Guaranty?

No, each credit line should be individually granted. Regulated utility lines can't be mixed with unregulated lines (Sempra Energy Trading (SET) and SDG&E exposures can't be comingled and SET exposures can't be shared with SDG&E). Same is true for a \$50M guaranty covering more than one entity: how do you know whose exposure is covered. Also, Sempra Energy has a lower credit rating than SDG&E, so Sempra Energy won't be issuing parental guaranties for SDG&E's exposure. SDG&E is individually rated by credit rating agencies and issues stand alone financial information.

CAISO Response: CAISO's Legal department will evaluate and work to overcome any valid constraints that would make this proposed enhancement unworkable for regulated entities. That said, to date, CAISO has not been presented sufficient information to understand how the current proposal would run afoul of affiliate/regulated/non-regulated regulations. CAISO would encourage SDG&E legal to discuss their specific concerns with CAISO legal.

7. With the knowledge that the ISO already has response time built into a collateral request, do you support the ISO's straw proposal to reduce the time to post additional Financial Security to three (3) Business Days?

Please see SDG&E comments from October 7, 2008.

CAISO Response: The CAISO notes that SDG&E supports the straw proposal to reduce the time to post additional collateral to three business days.

8. Do you support the ISO's straw proposal to limit the amount of collateral for a CRR auction to 90% of available credit? Do you agree that Candidate CRR Holders that do not otherwise participate in the ISO market should be excluded from this policy?

Please see SDG&E comments from October 7, 2008.

CAISO Response: The CAISO notes that SDG&E supports the straw proposal to limit the amount of collateral available for a CRR auction to 90% of a auction participant's available credit.