

## Stakeholder Comments Template

### Subject: Credit Policy Enhancements

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the topics covered in the September 22, 2008 Credit Policy Enhancements stakeholder meeting. Upon completion of this template, please email your comments (as an attachment in MS Word format) to [CreditPolicyComments@caiso.com](mailto: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 **October 7, 2008 or sooner**.

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

1. Do you support CAISO's proposal (Alternative 3) to replace the use of Credit Rating Default Probabilities and Moody's KMV Default Probabilities with the use of agency issuer ratings and Moody's KMV Spot Credit Rating in its eight-step process credit assessment process? Do you agree that these ratings should be blended according to the same percentages already established in the eight-step process? Do you agree that Moody's KMV Spot Credit Rating should be used, according to the same blending percentages, to assess whether a financial institution meets CAISO's "reasonably acceptable" test for accepting a Letter of Credit or an Escrow Account (i.e., the blending must yield a result greater than or equal to four (4.00) to be "reasonably acceptable"?)

Sempra Global believes that it is in the interest of all market participants for CAISO to adhere to robust credit policies. Consequently, Sempra Global supports the CAISO's proposals as specified in Alternative 3.

2. Do you support CAISO's proposal to expand the definition of Tangible Net Worth to exclude assets that are earmarked for a specific purpose such as restricted assets and assets related to affiliated entities? Do you also agree that CAISO should also exclude highly volatile assets such as derivative assets?

Sempra Global supports the CAISO's proposals with respect to the definition of Tangible Net Worth, and agrees that volatile assets should also be excluded.

3. Do you support CAISO's proposal (Alternative 2) to reduce the maximum amount of unsecured credit that it will assign to the most creditworthy party to \$100 million?

Sempra Global supports the CAISO's proposals to reduce the maximum amount of unsecured credit to \$100 million.

4. Do you support CAISO's proposal (Alternative 2) to allow Guarantees and other forms of Financial Security to be issued from Canadian entities? Do you support expanding this policy to accept Financial Security from non-US / non-Canadian based entities using rules similar to those adopted by ISO New England if CAISO can clear the legal hurdles and complexities of developing the necessary processes and agreement language for accepting Financial Security from foreign entities? Are ISO-NE's restrictions sufficient and necessary? Should other safeguards be put in place? Should CAISO consider extending this policy to other types of Financial Security such as Letters of Credit?

Sempra Global supports CAISO's Alternative 3, which would allow financial security and guarantees from non-US entities subject appropriate guidelines. The criteria set forth by ISO-NE appear to be reasonable, except that the \$10 million limit appears to be arbitrary, and artificially low.

5. Do you agree that an Affiliate Guaranty, where a Guarantor backing the obligations of one Affiliate must provide the same Guaranty for all of its Affiliates in the CAISO market, is essential to help mitigate the risk of a payment default by an under-secured and thinly capitalized Affiliate? Does the concept presented present regulatory issues for non-regulated parents backing regulated and non-regulated affiliates?

For a company like Sempra Energy that has both regulated public utility and merchant businesses subsidiaries within the same corporate family, the CAISO's proposal is problematic. Both the CPUC and the FERC have

detailed rules with respect to affiliate transactions. These rules are designed to prevent any form of cross-subsidization between rate-regulated and merchant businesses. The notion that CAISO should be permitted to require parental guarantees for all subsidiaries, if the parent offers a guarantee for any subsidiary operating in the CAISO markets, may be difficult to harmonize with the affiliate transactions rules. Any imputing of credit guarantees or other credit support across affiliated corporate boundaries would plainly be unacceptable under the affiliate transaction rules. Sempra Global urges the CAISO redesign this credit enhancement in a manner that does not pose inadvertent conflicts with state and federal affiliate transaction rules.

6. Do you support CAISO's proposal (Alternative 1) to reduce the time to post additional Financial Security from five (5) Business Days to three (3) Business Days?

Sempra Global supports the CAISO's proposal to shorten the time for posting additional security.

7. Should CAISO change its policy allowing 100% of Market Participant's available credit (i.e., Aggregate Credit Limit minus Estimated Aggregate Liability) to be available for a Congestion Revenue Rights ("CRR") auction? Is setting the amount of available credit at 90% of available credit a reasonable approach to ensure some buffer remains in place for a Market Participant's other market activities? Should a lower threshold be considered?

Sempra Global supports the CAISO's proposal to limit a CRR auction participant to 90% of its available credit.

8. Are you in favor of the CAISO funding a reserve account as a means of providing a source of funds in the case of a payment default? How would you propose that such an account be funded?

Given the several credit enhancements proposed by CAISO in this stakeholder process, which enhancements are explicitly designed to lower the default risk, Sempra Global does not believe that a reserve account is necessary at this time.

9. Are there other payment default risk mitigation strategies, of those that were presented, that you support and would want CAISO to investigate further such as a Line of Credit, credit insurance, establishing a captive insurance company, developing a blended finite risk program or a capital market transfer to provide potential funding sources in the case of payment default? Are there other strategies that were not covered that CAISO should investigate and/or pursue?

Sempra Global offers no comment on this item.

10. Do you support CAISO changing its loss sharing/chargeback mechanism to include the allocation of a payment default to all Market Participants – not just net creditors during the default month? What measure should be used to apportion exposure to the chargeback?

Sempra Global supports conforming the loss-sharing/chargeback mechanism to the standard industry practice of socializing default costs among all market participants on a pro-rata basis.

11. Do you agree with CAISO's proposal to assess financial penalties on Market Participants who are late in paying their invoices two or more times in a rolling 12 month period? Are the financial penalties sufficient to ensure compliance with the payment provisions of the CAISO Tariff? Do you agree that Market Participants who are late a third time in a rolling 12 month period should also have to post cash in lieu of any unsecured credit for a period of 12 months of on-time payments? Do you agree that any penalties collected should fund a reserve account that can be used as a source of funds in the case of a payment default?

Sempra Global supports the CAISO's proposals to institute a late payment penalty consistent with alternative 2, but with the penalty funds used to reduce the GMC.

12. Do you agree with CAISO's proposal to assess a financial penalty on a Market Participant who is late in posting additional collateral on the third and each subsequent time in a rolling 12 month period? Are the financial penalties sufficient to ensure compliance with the collateral posting provisions of the CAISO Tariff? Do you agree that any penalties collected should fund a reserve account that can be used as a source of funds in the case of a payment default?

Sempra Global supports the CAISO's proposals to institute late payment penalties for late posting of additional security, but suggests that such funds be used to reduce GMC.

13. Do you support the creation of a Credit Working Group (“CWG”) as a means to formalize the CAISO’s approach to managing credit policy change? How do you envision the CWG adding value to CAISO’s existing stakeholder process (e.g., regularity of meetings, membership, etc.)?

Sempra Global offers no opinion on the creation of a CWG.