

## 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"?)

Support.

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?

The Cities support in principle the proposal to exclude from Tangible Net Worth assets that are earmarked or reserved for specific or limited purposes, but each asset must be evaluated individually to avoid double exclusion. In some instances, an entity's balance sheet already reflects an off-setting liability for a reserved or earmarked asset account. Examples include decommissioning funds or funded debt reserves. When the entity's balance sheet reflects a liability that offsets an earmarked or reserved asset, then subtracting that asset from Tangible Net Worth effectively would double count the exclusion.

With regard to the calculation of Tangible Net Worth, the Cities also support the principle that Tangible Net Worth for a municipal utility that is a department or division of a municipality, as opposed to having a separate legal identity, should be based upon the City's overall assets.

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?

Support. In addition, however, the CAISO should take into consideration a Market Participant's exposure to markets in other regions and reduce the unsecured credit allowance accordingly. For example, the unsecured credit allowance for a trader that is active in multiple markets across the country should reflect the credit risk associated with the trader's volume of activity in all markets.

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?

The Cities support Alternative 2 as set forth at page 14 of the September 8, 2008 "Proposed Enhancements to California ISO Credit Policy." The CAISO should consider extending any form of credit to foreign entities other than as contemplated in Alternative 2 only upon a showing of specific benefits to the CAISO market from doing so.

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?

Support.

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?

Support.

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?

The Cities support allowing a maximum of 90% of a Market Participant's available credit to be available for purposes of a CRR auction.

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?

Oppose. Any additional protection for Market Participants does not justify the costs of accumulating and maintaining such a reserve.

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?

The Cities oppose further consideration of other default risk mitigation strategies on the grounds that any additional protection for Market Participants available under such strategies would not justify the costs of pursuing them.

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?

One or more of the Cities may submit individual comments with regard to this item.

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?

The Cities support the imposition of financial penalties for late payments and support Alternative 2 as listed at page 29 of the September 8, 2008 "Proposed Enhancements to California ISO Credit Policy" with the following modifications. The Cities recommend raising the cap on the penalty to \$50,000 for the third late payment during a rolling twelve month period and eliminating the cap on the penalty altogether for any subsequent late payments during the same period. The \$10,000 cap proposed by the CAISO does not provide sufficient deterrent impact for repeated instances of late payment. Revenues collected by the CAISO for late payment penalties should be credited against the Grid Management Charge.

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?

The Cities support the Alternative 2 proposal set forth at page 31 of the September 8, 2008 “Proposed Enhancements to California ISO Credit Policy,” except that penalty revenues collected by the CAISO should be credited against the Grid Management Charge rather than used to fund a reserve account to offset future defaults.

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.)?

Support.