Strategic Energy's Comments on the CAISO's Proposed Credit Policy Changes

Strategic Energy appreciates the opportunity to provide comments on the CAISO's proposed changes to its credit policy. Strategic has reviewed the CAISO's discussion papers and participated in the 11/30/04 conference call. Strategic respectfully offers the following comments.

Setting Credit Limits (Section 4.1)

1) Credit Limits should be developed using a tiered structure. The ISO could utilize a sliding scale to protect against "cliff-like" credit events.
2) For non-rated entities, the ISO should look to the ERCOT/PJM & NYISO models, where unsecured credit can be granted base upon an entity's net worth, total debt/EBITDA, & EBIT/Interest ratios. Many financially strong companies exist that do not have S&P or Moody's ratings.
3) A combination of Options C and D from Appendix A should be utilized.
4) The Moody's/KMV model relies heavily on the equity markets and the broader market may unfairly impact a market participant's credit score.
5) The CAISO never discusses giving a SC more credit capacity if it is on positive credit watch, only negative. This is a double standard. A Company should receive some benefit for an improving credit profile.
6) The CAISO may want to limit its concentration of credit exposure to any one company. The 35% appears reasonable, but we're unaware if this number has ever come close to existing or being violated. If the value is too high, what is the purpose?

Approved Security Agreements (Section 4.3)

1) Surety Bonds should continue to be an acceptable form of credit support.
2) A standard form for L/C's, guarantees, etc. is reasonable if the form of the document is "common in the industry". For example, the ERCOT form of guaranty is impossible and its L/C will only be issued by one bank in our bank group.
3) The concept of a security agreement having zero value 30 days before expiration is reasonable for L/C's only. Any form of guaranty accepted by the CAISO should include language stating that obligations incurred prior to the expiration date remain obligations after the expiration date if the guaranty is not extended.

Credit Insurance (Section 4.6)

This is an interesting idea. We would like to see more information on how this insurance could be provided at a reasonable cost. We note that the CAISO recently provided notice to market participants that it was beginning discussions on credit insurance with Aon. As those discussions progress, we would like to receive updates from the CAISO on this topic.

Liability Calculation and Security Posting Requirements (Section 5)

1) A new SC should have to post collateral equal to its forecast Mwh's over a 30-day time frame multiplied by the average on-peak price for the past 30 days.
2) We like the idea of having a SC select the period of time used in the cycle (70 -102 days).
3) A SC's potential collateral posting should include all debits/credits. To exclude a company's long position in the marketplace would unfairly punish the SC.

Strategic Energy
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