

## CAISO Credit Policy Enhancement

Comments to November 17, 2008 Conference Call on the Draft Final Proposal

Submitted by:

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### Unsecured Credit Limit

Western accepts the reduction of the maximum UCL to \$150 million. There is a proposal to further reduce the UCL upon implementation of Payment Acceleration, however the specifics on the implementation of this reduction is not clear in the business practice manual (BPM) for Credit Management . The footnote on page 23 refers to a reduction based on a pro-rata basis.

Questions for clarification:

- 1) What is meant by a pro-rate basis? **Payment Acceleration is planned to reduce the cash clearing cycle by approximately 70% (56 to 17 business days). Estimated Aggregate Liabilities and, correspondingly, collateral requirements will be reduced by the same amount. Therefore, with the implementation of Payment Acceleration, the ISO expects to reduce the maximum Unsecured Credit Limit (UCL) to \$50 million.**
- 2) Will there be notice provided to Western prior to a reduction being implemented? **Since its credit policy amendments in 2006, the ISO has said that it expected to reduce UCL with the implementation of Payment acceleration (tariff section 12.1.1A, footnote #2 in section 4.1 of the BPM for Credit Management and section A-2 of the Credit Policy and Procedure Guide). The Board approval of the Payment Acceleration program on December 16-17 will note the planned UCL reduction, and the change would be implemented with the Payment Acceleration tariff filing currently scheduled for March 2009.**
- 3) How will Western be notified of reductions in their UCL? **Section 12.1.1 of the ISO Tariff states that if a UCL is reduced "the ISO shall notify the Market Participant or FTR Bidder of the reduction, and shall, upon request, also provide the Market Participant or FTR Bidder with a written explanation of why the reduction was made." In practice, the ISO has notified Market Participants of both increases and decreases, with an appropriate explanation, through email notification to the individual identified on the Application for Unsecured Credit.**
- 4) What is the recourse by Western if the reduction is severe and limits Western's participation? **Since obligations to the ISO will be reduced by 70%, the ISO does not believe a similar reduction in the maximum unsecured credit should have any impact on any Market Participant's**

**participation.** Western has no other option available other than a UCL according to current federal appropriation law.

- 5) Would the CAISO consider further explaining in writing in the BPM what is meant by pro-rata basis? **In the final BPM revisions, the ISO will clearly specify the maximum UCL under Payment Acceleration.**

Western does not support the total elimination of all UCL's. Western requests that the unrated governmental entities which receive appropriations from the federal government be exempted from full collateralization as it is not an option under current federal appropriation law.

Question for clarification:

- 1) What is the CAISO response to full collateralization where it would eliminate unrated governmental entities reliant upon federal appropriations from participation in the market? **The ISO has not analyzed this proposal and is not prepared to offer an opinion at this time. The eastern ISOs have been discussing fully collateralizing their markets similar to the model used by the financial markets. The ISO is following these developments very closely.**