

## Stakeholder Comments Template

### Subject: Credit Policy Enhancements

Submitted by	Company	Date Submitted
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Western Power Trading Forum (WPTF) welcomes the opportunity to comment on the CAISO's final proposal for Credit Policy Enhancements.

WPTF urges the CAISO to move forward as soon as possible with additional changes to its credit policies that either eliminate unsecured credit altogether or at limit the amounts of unsecured credit the CAISO extends to no more than \$50 million per market participant. There are several reasons why we favor adoption of this policy:

- First most clearing houses require enough collateral from each market participant to allow an orderly unwinding of positions held by that party in the event it defaults on its obligations. By doing so, they avoid shifting the risk of default to parties that remain current on their obligations. The CAISO's policy of extending unsecured credit virtually ensures that creditors will have to bear short-term losses in the event of a default by a debtor with unsecured obligations. This is wholly unnecessary and should be corrected as soon as possible.
- Second, credit ratings are a poor predictor of default risk, especially in energy markets where price movements typically tend to be larger than with other commodities. There have been several instances over the last decade where parties with credit ratings that would qualify for an extension of unsecured credit under the CAISO's rules became insolvent before the credit rating agencies could react. Unsecured credit based on agency credit ratings requires creditors to bear the risk that rating agencies will be too slow to react to fast-changing conditions.

WPTF also strongly recommends the CAISO act as quickly as possible to adopt a loss-sharing policy that allocates the cost of a default to both creditors and debtors. As WPTF member, Powerex, pointed out in its earlier comments, spreading the cost of default more widely to all market participants, whether they owe money or are owed money, will encourage prudent

risk management practices and align the interests of all CAISO market participants in matters related to credit policy.

WPTF supports reducing the period for posting additional Financial Security to three business days. While not entirely consistent with the practice in other financial markets, it is an important step in the right direction. Ideally, the posting period should not be more than two business day.

Finally, WPTF support creation of a Credit Working Group that would, among other things, develop recommendations for more robust credit policies that treat all market participants equitably and are consistent with long-established practices in other financial markets. Membership in this working group should be open to all market participants, but as WPTF member Reliant Energy pointed out in its earlier comments, working group members should be required to have specific expertise with respect to credit policy and protocols.