



California ISO
Your Link to Power
10 Year Anniversary 1998-2008

ISO Credit Challenges in 2008

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California ISO and other ISO/RTOs faced a number of credit challenges during 2008

- PJM FTR defaults in late 2007 and follow-up
- Risk from our market participants, their financial guarantors, and their customers.
 - Bear Stearns collapse
 - Lehman Brothers bankruptcy
 - Continued volatility and consolidation in the banking industry
 - Bankruptcies of end-use customers affected our customers



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A number of issues exist in establishing and administering credit policy

- Liability estimation
- Setting unsecured credit limits
- Other complicating factors

CAISO has proposed a number of credit policy enhancements to take effect in 2009

- Reduce unsecured credit limits
- Accelerate settlement cycle
- Other enhancements

- CAISO stakeholders generally agree with the proposed credit policy enhancements, however...
 - Many stakeholders want further tightening of credit standards
 - Differences remain on key issues

ISO/RTO credit policies are generally aligned, although key differences exist

- Key similarities:
 - General approach to setting unsecured credit limits
 - Challenges in valuation and enforcement
- Key differences:
 - Maximum unsecured credit limits
 - Length of cash clearing cycle
 - FTR/ CRR credit requirements
 - Loss sharing methodology

Key FERC Policy Issues

- Should ISO/RTOs provide unsecured credit?
- Should the Commission drive further convergence of ISO/RTO credit standards?