

# Agenda Report

DATE: June 21, 1999

**TO:** CITY COUNCIL

**FROM:** CITY MANAGER

**SUBJECT:** AUTHORIZATION TO ENTER INTO A FINANCIAL SECURITY AGREEMENT WITH THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR (ISO) WHICH PLEDGES A \$500,000 CERTIFICATE OF DEPOSIT AS COLLATERAL FOR AMOUNTS OWED TO THE ISO

## **RECOMMENDATION**

It is recommended that the City Council authorize the Director of Finance to enter a Financial Security Agreement with the California Independent System Operator (ISO), which pledges a \$500,000 certificate of deposit as collateral for amounts owed to the ISO.

## **BACKGROUND**

In accordance with the ISO Scheduling Coordinator Agreement, which was previously approved by City Council on July 13, 1998, Pasadena must provide the ISO with an assurance of financial security for the energy and ancillary services purchased by the Water and Power Department. This security can be in the form of i) an irrevocable and unconditional letter of understanding that Pasadena's short-term credit rating would remain at or above the "Approved Credit Rating" as defined in the ISO Tariff, ii) an irrevocable and unconditional letter of credit available for payment to the ISO, or iii) a security interest in a certificate of deposit held by Pasadena.

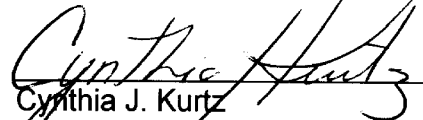
The certificate of deposit collateral option is currently the only zero cost option. Pasadena does not have a recent short-term credit rating, and it would cost approximately \$10,000 to obtain such a rating. Secondly, a letter of credit typically costs approximately 25 basis points per year, or \$1,250 per year for a \$500,000 letter of credit.

The certificate of deposit would be purchased with Light and Power Funds and the Light and Power Fund would receive all accrued interest.

**FISCAL IMPACT**

There is no fiscal impact for this option unless the certificate of deposit is redeemed by the ISO.

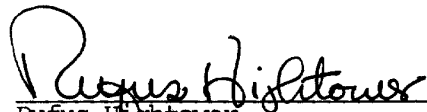
Respectfully submitted,

  
Cynthia J. Kurtz  
City Manager

Approved:

  
Jay M. Goldstone  
Director of Finance

Concurred by:

  
Rufus Hightower  
General Manager of Water and Power