Prepared Statement of Roger Collanton

My name Roger Collanton. I serve as Vice President and General Counsel for the California Independent System Operator Corporation (CAISO). My remarks address issues identified in Panel 4 - Access to Capital - Credit, Liquidity, and Return on Equity.

The CAISO operates wholesale electricity markets for the benefit of approximately 80 percent of electric demand in California and a small portion of electric demand in the state of Nevada. We serve as the market operator for the Western Energy Imbalance Market, which provides real-time market services to participating balancing authorities throughout the Western Interconnection. As RC West, we also serve as the Reliability Coordinator for 42 balancing authorities and transmission operators in the western United States.

The CAISO is a member of the ISO/RTO Council (IRC), which comprises nine independent system operators (ISOs) and regional transmission operators (RTOs) that operate transmission systems with the objective of ensuring affordable, reliable, and sustainable power. The Commission regulates six of the IRC member ISOs and RTOs, which operate under tariffs and agreements to administer the generation and transmission of electricity in the interest of two-thirds of North America’s ratepayers.
The COVID-19 pandemic has resulted in increased attention on the financial health of wholesale electricity market participants as well as ISO/RTO credit policies and procedures. These policies and procedures are necessary to ensure confidence in wholesale electricity markets as a source of reasonably priced supplies of electricity. ISOs/RTOs conduct financial reviews of market participants in accordance with standards and procedures for determining creditworthiness in order to protect market participants from undue exposure to default risk by other market participants. Market participants must continually satisfy minimum participation requirements and fully collateralize all outstanding liabilities. In other words, market participants cannot sell and buy energy and ancillary services without adequate collateral such as a letter a credit or posting financial security. As market participants’ outstanding liabilities increase so do their collateral requirements. This practice creates assurances that market participants receive payment for their sales of energy and ancillary services even in the event of a market participant default albeit with some potential delay. Under the CAISO’s policies, market participants may also qualify for an amount of unsecured collateral based upon their ongoing adherence to certain financial health measures. However, congestion revenue rights holders must hold secured collateral.

Based on its financial reviews, the CAISO has not observed increased credit risk among our market participants arising from the COVID-19 pandemic whether they are investor-owned utilities, electric service providers, municipal entities, electric generators, or financial marketers. To assess credit risk, the CAISO relies on information from financial credit reporting agencies, the general/financial/energy press, as well as information provided by its market participants. Examples of events that could reflect
increased credit risk may include negative reports from credit rating agencies, increases in expected default frequencies, declining tangible net worth or net assets, and difficulty in responding to collateral demands and market payments.

With respect to credit issues associated with the COVID-19 pandemic, liquidity is the most immediate concern. COVID-19 has caused some disruption in the financial markets, which could affect liquidity sources for market participants to cover their positions in the wholesale electricity markets. In addition, some market participants’ revenue streams may be impacted by declining loads and non-payment for retail services. To date, we have seen no impact to financial transactions occurring in the CAISO markets nor any liquidity event that could trigger a material change in the financial condition of our market participants. This does not mean we can relax our monitoring of credit risk. We must remain even more vigilant during these uncertain times.

Major risk factors we monitor include credit downgrades, or increasing expected default frequencies, that could lead to lower amounts of unsecured credit limits and, ultimately, no allowance for unsecured credit if credit ratings fall beneath investment grade. This would force a market participant to post only secured forms of collateral for all outstanding liabilities. Based upon our experience with market participants, the sudden loss of unsecured credit would not create a material change to a market participant’s access to wholesale electricity markets. The majority of the market participants qualifying for unsecured credit use only a fraction of their limit to handle the day-to-day variances in their outstanding liabilities. They choose to use secured forms of collateral for the majority of their collateral posting requirements. However, if a
market participant’s declining financial health has led to the elimination of unsecured credit limits in wholesale electricity markets, it has likely led to elimination of unsecured credit in other markets, which could begin to pose a liquidity problem.

As the COVID-19 pandemic continues to create cascading economic impacts, increased monitoring by ISOs/RTOs of financial data remains a prudent step. This review may include exogenous economic factors such as unemployment rates, business failures, or the level of unpaid balances by utility retail customers. The Commission has recently provided increased discretion to certain ISOs/RTOs that allow each ISO/RTO to impose higher credit requirements on market participants that may pose a higher credit risk. In part, this discretion will allow these ISOs/RTOs to assess the positions of market participants that may not operate physical assets and may create asymmetric risks between themselves and the rest of the market. Among other next steps, the Commission may wish to conduct outreach to state regulatory commissions that oversee the financial health of load serving entities regarding the importance of maintaining credit protections for well-functioning wholesale electricity markets. I look forward to answering your questions.

Respectfully submitted,

By: /s/ Roger E. Collanton
Roger E. Collanton
Vice President, General Counsel
California Independent System Operator Corporation

Dated: June 30, 2020
CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon the parties listed on the official service list in the above-referenced proceeding, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, California, this 30th day of June, 2020.

/s/Anna Pascuzzo

Anna Pascuzzo