

133 FERC ¶ 61,101  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;  
Marc Spitzer, Philip D. Moeller,  
John R. Norris, and Cheryl A. LaFleur.

California Independent System Operator Corporation      Docket Nos. ER10-2297-000  
ER10-1692-000

ORDER ACCEPTING TARIFF REVISIONS

(Issued October 29, 2010)

1. On August 23, 2010, pursuant to section 205 of the Federal Power Act,<sup>1</sup> the California Independent System Operator Corporation (CAISO) filed proposed revisions to its open access transmission tariff<sup>2</sup> to modify certain credit obligation provisions relating to congestion revenue rights (CRR) collateral requirements in Docket No. ER10-2297-000. As discussed below, we accept CAISO's proposed tariff revisions in Docket No. ER10-2297-000, to become effective November 1, 2010, as requested. We also accept the elimination of the limit for CRR auction participants to use up to 90 percent of available credit in a CRR auction proposed by CAISO in Docket No. ER10-1692-000, to become effective November 1, 2010.<sup>3</sup>

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<sup>1</sup> 16 U.S.C. § 825d (2006).

<sup>2</sup> California Independent System Operator Corporation, FERC Electric Tariff, Fifth Replacement.

<sup>3</sup> In an earlier proceeding, in Docket No. ER10-1692-000, CAISO submitted the first of two filings to modify its CRR credit obligation provisions; the instant filing is the second of these two filings. By an order issued on August 31, 2010, the Commission accepted the proposed tariff revisions in Docket No. ER10-1692-000, with the exception of the proposed elimination of a provision from tariff section 12.6.2 that permits a CRR auction participant to use up to 90 percent of its available credit in a CRR auction. *Cal.*

(continued...)

## I. Background

2. CAISO explains that market participants can obtain CRRs through CRR allocations, CRR auctions, and through bilateral transactions using CAISO's secondary registration system. All CRR holders are then subject to CAISO's CRR creditworthiness requirements. According to CAISO, tariff section 12 (Creditworthiness) requires market participants that transact in CAISO markets to satisfy creditworthiness standards or post collateral in order to provide reasonable assurance that they can meet their present and future financial obligations. CAISO explains that these requirements are designed to protect the financial interests of market participants against risks associated with CRRs. Specifically, CAISO states that its credit policy is designed to adequately quantify credit obligations (so that CRR holders are able to honor their CRR liabilities) without creating unnecessary barriers to entry to the CRR market.

3. For each CRR bid submitted in a CRR auction, a CRR auction participant is currently required to post sufficient financial security to cover the bid segment collateral requirement and the credit margin requirement.<sup>4</sup> These two credit components together equal the maximum credit exposure for a single bid.<sup>5</sup> In the instant filing, CAISO proposes revisions to the credit requirements for CRRs obtained through CRR auctions only to ensure that, consistent with the Commission's Credit Policy Statement,<sup>6</sup> these requirements are sufficient to provide protection to all market participants but are not

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*Indep. Sys. Operator Corp.*, 132 FERC ¶ 61,195 (2010) (August 31 Order). The Commission accepted CAISO's proposal to eliminate the 90 percent limit, suspended it to become effective November 1, 2010, and made it subject to the outcome of the instant proceeding. *Id.*

<sup>4</sup> Currently, the bid segment credit exposure is calculated as the absolute value of the bid price within a segment multiplied by the largest segment value to which that bid price corresponds; the credit margin is multiplied by the largest possible bid segment value in a bid curve to determine the credit margin exposure. *See* CAISO August 23, 2010 Filing at 4-5. Thus, the credit margin exposure is the same for every bid within a bid curve. *See id.* at 5.

<sup>5</sup> *Id.* at 4.

<sup>6</sup> *Id.* at 3 (citing *Cal. Indep. Sys. Operator Corp.*, 120 FERC ¶ 61,192, at P 33 (2007) (citing *Policy Statement on Electric Creditworthiness*, 109 FERC ¶ 61,186, at P 17 (2004)).

unduly burdensome.<sup>7</sup> CAISO states that, through a stakeholder process, it identified and developed the CRR credit policy improvements reflected in the instant filing in Docket No. ER10-2297-000, which modify the existing pre-auction CRR credit requirements by effectively: (1) lowering the credit margin exposure for positively and negatively valued CRRs; (2) removing the bid curve collateral requirement for negatively valued CRRs; (3) determining whether the pre-auction credit requirement is sufficient to cover the CRR holding requirement if the bidder wins the auction; and (4) eliminating the requirement to dedicate collateral prior to a CRR auction.

4. Specifically, for positively and negatively valued CRRs, CAISO proposes to revise the manner in which the credit margin portion of a bidder's maximum credit exposure is calculated, as set forth in tariff section 12.6.2.<sup>8</sup> CAISO explains that each participant in a CRR auction must satisfy a pre-auction credit requirement that is sufficient to pay for and hold all CRRs awarded to that participant in the auction (i.e., the sum of the maximum credit exposures of all bids submitted in the auction). Under existing tariff provisions, the credit margin credit exposure is calculated by multiplying the credit margin by the maximum bid quantity of the entire bid curve. CAISO indicates that this formula, and the resulting use of the largest possible credit exposure as the pre-auction credit requirement, may exceed the amount of collateral required to pay for and hold the CRRs awarded in a CRR auction and is, therefore, excessive.<sup>9</sup>

5. Therefore, CAISO proposes to modify tariff section 12.6.2 so that the credit margin credit exposure for all positively valued CRRs is calculated by using the maximum bid quantity of the *incremental bid segment*, rather than the maximum bid quantity of the *entire bid curve*.<sup>10</sup> CAISO contends that this revision may reduce the

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<sup>7</sup> CAISO maintains that it periodically evaluates its credit policies to better ensure that market participants satisfy creditworthiness standards or post financial security sufficient to cover all of their financial obligations in CAISO's markets in order to avoid potential payment defaults. *Id.* at 2.

<sup>8</sup> Tariff section 12.6.2 is titled "Credit Requirements for CRR Auctions."

<sup>9</sup> CAISO August 23, 2010 Filing at 4.

<sup>10</sup> For example, if we assume that a CRR auction participant submits a bid curve with two bid segments, one for a range of 0-10 MW, and the other for a range of 11-30, under the current tariff, the credit margin credit exposure would be calculated by multiplying the credit margin by the maximum bid quantity of the bid curve, in this case 30 MW. Pursuant to the proposed revision to tariff section 12.6.2, the credit margin

amount of collateral required to participate in a CRR auction for some participants but will still be sufficient to cover their maximum CRR auction credit exposure (i.e., for payment of CRRs and the CRR holding credit requirement).

6. CAISO also proposes two revisions to tariff section 12.6.2 that apply to bidders of negatively valued CRRs.<sup>11</sup> First, CAISO seeks to eliminate the provision that requires market participants to provide collateral to cover the bid curve credit exposure for negatively valued CRRs.<sup>12</sup> CAISO states that, pursuant to its proposed revisions, the credit exposure for each bid segment of a negatively valued CRR bid will be *solely* the credit margin credit exposure component. CAISO explains that the credit margin credit exposure for each bid segment will be calculated as the maximum bid quantity submitted for that segment multiplied by the credit margin of the CRR, consistent with the proposed revisions for positively valued CRR bids discussed above.

7. Second, CAISO proposes to revise tariff sections 11.2.4.3<sup>13</sup> and 12.6.2 to state that CAISO will retain the auction proceeds for negatively valued CRRs and will apply the auction proceeds towards meeting the credit requirements for the holding of CRRs. CAISO explains that, as a result, the CRR value that the bidder wins in the auction (which equals the market clearing price multiplied by the cleared quantity) will not be paid to the bidder; instead, the revenues will be used to meet the credit requirement for holding the winning CRR.<sup>14</sup> CAISO notes that, once the auction proceeds are applied towards meeting the CRR holding requirements, a market participant may request the return of any excess collateral that was posted. CAISO claims that these proposed revisions together will reduce currently excessive collateral requirements for bidders of negatively valued CRRs but will be sufficient to cover their holding credit requirements.

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credit exposure would be calculated by multiplying the credit margin by the maximum bid quantity of the particular bid segment, in this case 10 MW or 30 MW.

<sup>11</sup> As described above, the current tariff requires bidders of negatively valued CRRs to post collateral to cover both the bid curve credit exposure and the credit margin exposure for those CRRs. *See supra* P 3.

<sup>12</sup> CAISO August 23, 2010 Filing at 7.

<sup>13</sup> Tariff section 11.2.4.3 is titled “Payments and Charges for Monthly and Annual Auctions.”

<sup>14</sup> CAISO August 23, 2010 Filing at 9.

8. Finally, CAISO proposes to eliminate a provision in tariff section 12.6.2 that requires CRR auction participants to dedicate a portion of collateral in the CRR auction to cover their aggregate bids for CRRs. CAISO states that the collateral currently posted by market participants for CRR auctions is unavailable for other market activity until the winning CRR auction bids are published, which takes approximately two weeks. CAISO states that it plans to implement a new credit tracking system on or about November 1, 2010 that would eliminate the need to dedicate a portion of collateral. CAISO asserts that dedicating collateral at the time that the CRR auction participant submits a bid is a more efficient use of the auction participant's collateral.

## **II. Notice of Filing and Responsive Pleadings**

9. Notice of the filing was published in the *Federal Register*, 75 Fed. Reg. 53292 (2010), with interventions and comments due on or before September 13, 2010. Timely motions to intervene were filed by California Department of Water Resource's State Water Project; California Municipal Utilities Association; City of Santa Clara, California; Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; Golden State Water Company; and Northern California Power Agency. Powerex Corp. (Powerex) filed a timely motion to intervene and comments in support of the filing.

10. Powerex requests that the Commission accept the proposed changes in the instant filing. Powerex states that the proposed modifications will reduce unnecessary and potentially burdensome credit requirements for CRR auction participants, while still ensuring that sufficient security is posted to cover the CRR auction participants' liabilities.

## **III. Discussion**

### **A. Procedural Matters**

11. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2010), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

### **B. Proposed Tariff Revisions**

12. We will accept CAISO's proposed revisions in Docket No. ER10-2297-000 to tariff sections 11.2.4.3 and 12.6.2 as just and reasonable and consistent with our recent acceptance of related revisions in the August 31 Order. We find that CAISO has demonstrated that its proposal should lower the costs of CRR auction participants and reduce barriers to entry. Further, the reduced collateral requirement should lessen the burden on market participants that actively participate in CRR auctions, while maintaining sufficient collateral to discourage abuse of auction opportunities.

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Accordingly, we accept CAISO's proposed revisions to tariff sections 11.2.4.3 and 12.6.2 in Docket No. ER10-2297-000, to become effective November 1, 2010, as requested. Further, because our acceptance of CAISO's proposed elimination of the 90 percent limit in the August 31 Order was conditioned on our finding of justness and reasonableness of a proposed tariff revision in this proceeding and that condition has been fulfilled here, we also accept CAISO proposal in Docket No. ER10-1692-000 to eliminate in tariff section 12.6.2 the limit for CRR auction participants to use up to 90 percent of available credit in a CRR auction, to become effective November 1, 2010.

13. We note, however, that the Commission has recently issued a final rule regarding credit reforms in *Credit Reforms in Organized Wholesale Electric Markets*.<sup>15</sup> To the extent this final rule requires changes to CAISO's proposed revisions in this proceeding, CAISO will need to make such changes; this order does not exempt CAISO from complying with the final rule.

The Commission orders:

(A) CAISO's proposed tariff revisions in Docket No. ER10-2297-000 are hereby accepted for filing, to become effective November 1, 2010, as requested, as discussed in the body of this order.

(B) CAISO's proposed tariff revision, in Docket No. ER10-1692-000, to eliminate the limit in tariff section 12.6.2 for CRR auction participants to use up to 90 percent of available credit in a CRR auction is hereby accepted for filing, to become effective November 1, 2010, as discussed in the body of this order.

By the Commission.

( S E A L )

Kimberly D. Bose,  
Secretary.

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<sup>15</sup> Order No. 741, 133 FERC ¶ 61,060 (2010).