Update to Straw Proposal - CRR Credit Policy Enhancements


CRR Enhancements
Oct. 5, 2009
Meeting Objective

- To address refinements to the CRR Process
- The issues in CRR Enhancements for 2009 - 2010 are in multiple categories:
  - CRR-Related Credit Issues
    - CRR Credit Policy Enhancements: now considering additions to Straw Proposal
    - Process for liquidating the CRRs of a defaulting CRR holder: will consider further with non-credit issues
    - Credit requirements for extraordinary circumstances: will proceed through BPM change management process
  - Non-Credit Policy Issues
  - Non-Credit Business Process Issues
- Stakeholder process will also initiate discussion of CRR auction enhancements listed in Market Initiatives Roadmap
CAISO Stakeholder Process – CRR Enhancements – CRR-Related Credit Issues

We are here

1. Issue ID Paper
2. Straw Proposal
3. Final Draft Proposal

Board of Governors
FERC
Implementation

Opportunities for Stakeholder Input
### CRR Credit Related Issue Proposed Time Table

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<tr>
<th>Date</th>
<th>Activity/Milestone</th>
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<tr>
<td>August 14</td>
<td>Publish Issue Paper</td>
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<td>August 21</td>
<td>Stakeholder Conference call</td>
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<td>August 28</td>
<td>Comments Due on Issue Paper</td>
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<td>September 1</td>
<td>Straw Proposal from CAISO</td>
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<td>September 8</td>
<td>Stakeholder Meeting at CAISO</td>
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<td>September 15</td>
<td>Stakeholder Comments Due</td>
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<td>September 25</td>
<td>Update to Straw Proposal from CAISO</td>
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<td><strong>October 5</strong></td>
<td><strong>Stakeholder Conference Call</strong></td>
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<td><strong>October 12</strong></td>
<td><strong>Stakeholder Comments Due on Updated Straw Proposal</strong></td>
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<td>October 19</td>
<td>Draft Final Proposal on CRR Credit Policy Enhancements</td>
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<td>Late October</td>
<td>Stakeholder Conference call</td>
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<td>December</td>
<td>BOG Decision</td>
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<td>January</td>
<td>FERC Filing</td>
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## Today’s Agenda

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<tr>
<th>Time</th>
<th>Topic</th>
<th>Presenter</th>
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<tr>
<td>10:00 - 10:10</td>
<td>Intro &amp; Objective</td>
<td>Tom Cuccia &amp; Jim Price</td>
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<td>10:10 – 10:50</td>
<td>Update on Pre-Auction Credit Requirements</td>
<td>Shucheng Liu</td>
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<tr>
<td>10:50 – 11:00</td>
<td>Questions, Next Steps</td>
<td>Tom Cuccia &amp; Jim Price</td>
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Proposed Enhancements for CRR Credit Policy

Shucheng Liu, Ph.D.
Principal Market Developer

CRR Stakeholder Conference Call
October 5, 2009
The ISO discussed two proposed enhancements at the September 8 stakeholder meeting.

- Excluding negative bid, but not the credit margin, in pre-auction credit requirement calculation
- Calculating maximum credit exposure of a CRR bid based on the sum of bid value and credit margin
- Stakeholders support the proposal
An additional enhancement is proposed in the Update to Straw Proposal.

- Propose to lower the minimum credit requirement for participating in a monthly CRR auction
  - Monthly auction: $100,000
  - Annual auction: $500,000 (unchanged)

- Suggested by stakeholders
The proposal considered the following factors:

- Minimum pre-auction credit requirement should be able to prevent misuse of CRR auction opportunities
  - Penalize participants gaming on CRR auctions
- $100,000 covers auction payments or holding credit requirements due to the ISO of about 60% of the participants
  - Based on results of the past 6 monthly auctions
The proposed pre-auction credit requirement will be calculated as:

\[
\text{Pre - Auction Credit Requirement} = \max[\text{MinReq}, \sum_{i} \max(\max(0, \text{BidPrice}_i \times MW_i) + \text{Credit Margin}_i \times MW_i)]
\]

where,

- \( MW_i \) - the MW value within the range of the bid curve for \( CRR_i \), i.e., \( 0 \leq MW_i \leq \overline{MW_i} \)

- \( \text{BidPrice}_i \) - the bid price ($/MW) corresponding to \( MW_i \) on the bid curve for \( CRR_i \)

- \( \text{MinReq} \) - the minimum credit requirement for participating in a CRR auction. It is $500,000 for annual auction and $100,000 for monthly auction.
The ISO will consider netting between allocated and auctioned CRRs in the future.

- Silicon Valley Power requested a timeline to allow netting between allocated CRRs and auctioned CRRs in the holding credit requirement calculation

- The ISO will consider it in the future
  - Policy has not been fully discussed yet
  - It requires considerable more efforts to implement than the proposed enhancements
  - It will be difficult to commit to a specific plan at this time
Questions?