

# Decision on Proposed Congestion Revenue Rights Credit Policy



Shucheng Liu  
Principal Market Developer



Board of Governors Meeting  
May 30 -31, 2007

# Credit Policy Is Critical to the Success of CRR Market

- 🌐 CRR is a financial instrument with potential financial risk
- 🌐 Credit policy is needed to protect financial interests of market participants
- 🌐 Credit policy must not create an inefficient barrier to entering CRR market

# Sufficient Credit Is Required to Participate in CRR Auction

- Available Credit is not needed to participate in CRR allocation
  - Allocation is open to Load-Serving Entities only
- Available Credit is required to participate in CRR auction
  - \$500,000 minimum Available Credit for each participant
  - Available Credit sufficient to cover the sum of absolute value of all bids

# Sufficient Credit Is Required to Hold CRRs

- Same criteria apply to all CRR Holders
- Overall credit requirement is assessed for the whole CRR portfolio of each Holder
- Short-Term CRR credit requirement includes a credit margin to cover the volatility in CRR value
- Long-Term CRR credit requirement covers the whole term of the CRR

# Compliance Measures Will Be Taken on Defaults on Credit Requirements/Payment Obligations

- 🌐 Terminate all CRR agreements with the default Holder
- 🌐 Resell the CRRs in subsequent auctions
- 🌐 Retain financial security sufficient to cover default value
- 🌐 Exclude the Holder from allocation or auction until all defaults have been cured

# Proposed Credit Policy Was Developed through a Stakeholder Process

- 🌐 The stakeholder process began in February 2007
- 🌐 Stakeholders reviewed and commented on options for improving the credit policy, such as
  - Pre-auction credit requirement
- 🌐 Proposed credit policy seeks to balance diverse interests, such as
  - Assess credit requirement for the whole CRR portfolio
  - Credit requirement for holding long-term CRRs
- 🌐 The Management recommends the proposed credit policy for approval

# Credit Policy Must Be Ready for Congestion Revenue Rights Auction

- 🌐 Congestion Revenue Rights (CRR) is a central component of the CAISO MRTU project
- 🌐 CRR allocation will start in July and auction will start in October 2007
- 🌐 Credit policy must be filed with FERC in time to receive FERC approval prior to the first CRR auction in October 2007