

DC Energy Comments on Near-term Enhancements to CRRs

Credit Policy Enhancements

- DC Energy supports CAISO's proposed modifications to the credit policy for maximum credit exposure calculation, as well as to credit requirements for negative bids.

Liquidation Process for Defaulted CRR Holders

- The CAISO proposal for liquidation meets the important short-term requirement that the existing infrastructure be sufficient for liquidating a CRR portfolio. Technical limitations currently restrict liquidation of a portfolio solely to the Secondary Registration System.
- Long-term, a more efficient liquidation would be possible through one of two avenues:
 - By enhancing the current monthly CRR auction process to allow participants to bid on or sell the full forward curve of held CRRs in monthly or seasonal blocks, it would be possible for CAISO to offer the defaulted portfolio into the auction and realize all of the benefits of a highly liquid auction environment. Additionally, such an auction environment would allow pricing of non-prompt-month CRRs on an ongoing basis – a potentially useful feature for tracking the financial positions of CRR holders.
 - A further benefit is that the CAISO will have a more updated basis for credit calculations (as described in section 12.6.3.2 of the tariff) based on auction price for outstanding positions beyond the prompt month.
 - Alternately, the ISO could hold a special liquidation auction where the only available capacity comes from the defaulted entity's portfolio. Again, this will allow the ISO and the membership to reap the benefits of a full CRR auction environment.
- DC Energy supports the CAISO proposal to fund any required incremental payments to the purchaser of a negative CRR through the default loss allocation procedure.
- Imposing a restrictive risk premium of 10% between a liquidated CRR and its original auction price may strongly limit the transference of risk from the pool to an individual CRR holder; allowing greater variation in the sales price of CRRs from a defaulted entity is more likely to achieve the end goal of risk transference. To that end, DCE suggests that if the ISO can implement the enhanced auction format suggested above, market forces should result in optimal pricing.
- The timeline for default liquidation should ultimately be a function of the forum for the liquidation. If the monthly auctions were enhanced to allow for sales of the full forward curve, liquidation should be held until the next of those auctions. Alternately, if the ISO uses a special mechanism for liquidation, there would be no reason to delay liquidation once the entity is determined to be unable to cure default.

Reevaluation of CRR Holding Credit Requirements in Extraordinary Circumstances

- DC Energy supports the CAISO proposed methodology for determining the credit requirement impact of an extraordinary event, in that it allows for a market-based view toward risk to be incorporated, and doesn't force the ISO to make assumptions around those risks.
- Additionally, in calculating the effects of a longer lasting event, the enhanced monthly auction suggested by DC Energy in above comments would allow the ISO to apply this methodology to a fresh bid set for the full forward curve, without having to rely on stale annual participant bids.
- DC Energy encourages CAISO to be as transparent as possible in defining extraordinary circumstances; to the extent that this policy introduces significant uncertainty around credit requirements, it will be detrimental to market liquidity and efficiency.

Non-Credit Policy and Business Process Issues

- DC Energy would support elimination of infrequently used multi-point CRRs in favor of being able to more easily introduce sell functionality to the CRR market.
- DC Energy supports improved modeling to reduce revenue inadequacy. If oversold annual capacity is the primary driver of revenue inadequacy, DC Energy would favor a reduction in that capacity, potentially on a seasonal basis. Alternately, if the issue is primarily incremental monthly capacity, DC Energy would support a change in the modeled outage criteria.