

**EPIC Merchant Energy Comments on Near-term Enhancements to CRRs  
August 28, 2009**

**1. CRR Pre-Auction Bidding Credit Requirement Calculation:**

The Pre-Auction Credit Requirement is the bidding requirement that CAISO requires of participants who are submitting bids into the CRR market. CAISO has proposed to change the existing equation to the following:

$$\text{Pre-Auction Credit Requirement} = \max \left[ \$500,000, \sum_i \max(\max(0, \text{Bid Price}_i \times MW_i) + \text{Credit Margin}_i \times MW_i) \right]$$

EPIC is concerned that the proposed Pre-Auction Credit Requirement equation could under certain conditions result in a mismatch between the collateral requirement and the underlying risk. Utilizing the equation above, all negative bids would be treated equally. Under the current CAISO proposal, a bid at -\$100 will have the same credit requirement as a bid at -\$10,000. EPIC sees this aspect of the equation as a flaw that can be addressed by altering the equation slightly.

EPIC requests the Pre-Auction Credit Requirement calculation more accurately reflect the risk associated with the bid. EPIC proposes the following changes to the Pre-Auction Credit Requirement equation:

$$\text{Pre-Auction Credit Requirement} = \max \left[ \$500,000, \sum_i \max(\max(0, \text{Bid Price}_i + \text{Credit Margin}_i) \times MW_i) \right]$$

This change would allow negative bids to be treated differently, to more accurately reflect the true risk of the underlying bid. As a negative bid increases and approaches zero, the credit requirement for the bid also increases. EPIC believes that this equation is better suited for the CAISO's CRR auction.

**2. Reevaluation of Credit Requirements:**

CAISO has proposed a process, which would reevaluate the risk associated with a CRR portfolio after an extraordinary event has been identified and characterized as an outage. EPIC is in support of this process and views it as an important part of the CRR market. EPIC does not agree with the asymmetrical approach to the reevaluation of the credit requirement once the risk assessment is complete. Under the current proposal, credit requirements may only be decreased. EPIC believes that the credit requirement should always match the underlying risk of the position it is securing. Thus, the credit requirement to hold a CRR should be able to move up or down depending on the outcome of the risk evaluation. If the risk associated with a CRR has increased, the credit requirement should also increase. If the risk has decreased, the credit requirement should also decrease.