

NEW METHODOLOGY FOR DETERMINING THE MAXIMUM AMOUNT OF AVAILABLE CREDIT FOR A CRR AUCTION

Beginning with the May monthly CRR auction, CAISO will utilize a new methodology for calculating the maximum amount of Available Credit for a CRR auction. This is the result of the newly implemented credit policy enhancements approved by stakeholders in last fall's credit policy enhancement stakeholder process. These enhancements had an effective date of March 31, 2009. Details of the implications of this new policy on credit requirements for CRR auctions may be found in Section 7.4.2 of the Business Practice Manual for Credit Management found at <http://www.caiso.com/2373/237374a729530.doc>.

In setting the maximum amount of Available Credit for a CRR auction, the Finance team will calculate a Candidate CRR Holder's Available Credit; i.e, Aggregate Credit Limit (Unsecured Credit Limit plus any posted Financial Security) minus Estimated Aggregate Liability, prior to the auction and multiply that result by 90%. It remains a Candidate CRR Holder's responsibility to inform the Finance team of what portion of this amount to allocate to the auction. The amount allocated to the CRR auction becomes the Candidate CRR Holder's CRR Bid Reservation. Finance will communicate the CRR Bid Reservation to the CRR Team after the close of the collateral posting period for the auction. It's this amount that the CRR Team then loads into the CRR bidding software that is used to limit a Candidate CRR Holder's aggregate bids during the auction. If a Candidate CRR Holder does not inform Finance of the amount of collateral to allocate to the CRR auction, Finance will report a CRR Bid Reservation of zero to the CRR Team.

Following are two examples that show the outcome of this new methodology.

Example 1: At the time of the close of the collateral posting period for an upcoming auction, a Candidate CRR Holder has an Unsecured Credit Limit of \$10 million and a Letter of Credit for \$5 million. The Candidate CRR Holder's Estimated Aggregate Liability is also \$5 million. The maximum amount of Available Credit (AC_{max}) for the CRR auction is calculated as

$$\begin{aligned} AC_{max} &= (\text{Aggregate Credit Limit} - \text{Estimated Aggregate Liability}) * 90\% \\ &= (\$10 \text{ million} - \$5 \text{ million}) * 0.90 = \$5 \text{ million} * 0.90 = \$4.5 \text{ million} \end{aligned}$$

In this example, the Candidate CRR Holder can request as much as \$4.5 million to be allocated to the CRR auction. The requested amount will then become the Candidate CRR Holder's CRR Bid Reservation that is communicated to the CRR Team.

Example 2: On the day the collateral posting period for a CRR auction closes, a Candidate CRR Holder wires \$1 million to CAISO for the auction. The Candidate CRR Holder does not have any other collateral with CAISO nor do they have an Estimated Aggregate Liability. AC_{max} for the CRR auction is calculated as

$$\begin{aligned} AC_{max} &= (\text{Aggregate Credit Limit} - \text{Estimated Aggregate Liability}) * 90\% \\ &= (\$1 \text{ million} - \$0) * 0.90 = \$1 \text{ million} * 0.90 = \$900,000 \end{aligned}$$

In this example, the CRR Bid Reservation that is communicated to the CRR Team for this Candidate CRR Holder will be \$900,000.