

wholesale electric markets from default by a market participant and to ensure that market participants and prospective market participants understand the potential risks of participating in an organized electricity market and have mitigation measures in place to address those risks.

In response to the ISO's June 30, 2011 compliance filing, nine parties filed substantive comments or protests. Of these nine, only three parties raised issues directly related to the substance of the ISO's compliance filing. The other six parties raised concerns regarding an ongoing stakeholder process that will lead to a supplemental compliance filing regarding minimum participation requirements, that will include a more robust officer certification and verification process. Accordingly, the ISO's answer only responds to issues directly related to the pending compliance filing.

II. ANSWER

Modesto Irrigation District

Modesto Irrigation District (MID) requests ISO to clarify the statement made in its transmittal letter on page 11 that proposed revised Section 12.6.2 would require congestion revenue rights (CRR) holders to have one of the forms of secured credit described in Section 12.1.2 of the existing ISO tariff.² Although, the ISO agrees that the transmittal letter could have been more clear, the proposed tariff language is clear. Proposed section 12.6.2 specifically requires CRR holders and candidate CRR holders to post one of the forms of financial security specified in tariff section 12.2(a) through (e).

² MID's motion to intervene and comments at p. 6.

Powerex Corporation

Powerex argues that the officer certification form be included in the tariff and that the Commission should direct the ISO to remove the language “as specified in the applicable Business Practice Manual” from the proposed Section 12.1.³ The ISO notes that forms, such as letters of credit and scheduling coordinator applications, are not included in the ISO tariff but are, rather, incorporated into the relevant business practice manual (BPM). The proposed tariff language in section 12.1 includes detailed enabling language that provides market participants with the necessary and sufficient information concerning what will be included in the certification form. By allowing the certification form to be included in the BPM, future revisions consistent with section 12.1 can be addressed through the BPM change process without a tariff change.

Western Area Power Administration

Western Area Power Administration (Western) protests the fact that the ISO did not propose any exceptions to the requirement that CRR participants use a secured form of collateral. Specifically, Western states that it “does not believe Order 741 precludes the CAISO in working with Western to either waive Financial Security or to define a letter sent by a federal agency identifying the appropriation limits set by Congress as a sufficient form of Financial Security.”⁴

In its straw proposal, the ISO initially contemplated seeking an exemption allowing federal, state and locally owned public utilities (including Joint Power Authorities) to use unsecured credit in the CRR market. Western and Six Cities,

³ Powerex’s motion to intervene and comments at p. 5

⁴ Western’s motion to intervene and protest at p.6.

Inc. supported the exemption, but the ISO concluded there was insufficient justification for an exemption. Many stakeholders noted, for example, that public entities are also at risk of default and even bankruptcy, particularly in the current economic environment. In addition, the trend among independent system operators and regional transmission organizations is generally to eliminate unsecured credit for transmission rights.

Twin Cities Power, LLC et al.

Twin Cities Power, LLC (Twin Cities) “vehemently” objects to two provisions in the compliance filing.⁵ First, Twin Cities’ requests that the Commission direct the ISO modify its tariff to permit tangible net worth or total assets to be demonstrated by internally-prepared and corporate officer-verified financial statements rather than audited financial statements. Proposed section 12.1.1.3 already proposes to permit officer attested financial statements. The important emphasis is on the requirement to submit financial statements—whether audited or not. The ISO will not allow an officer to attest simply that the company meets the tangible net worth or total asset requirements without submitting any financial statements.⁶

Second, Twin Cities requests that the Commission direct the ISO to revise its tariff to include a minimum estimated aggregate liability level below which the participation criteria will not apply. The ISO urges the Commission to reject this suggestion. Maintaining a minimum credit posting requirement of \$100,000 after demonstrating six (6) months of market activity of less than \$100,000 is consistent with Order 741 which seeks to strike a balance between sufficient market

⁵ Twin Cities motion to intervene and protest at p 6.

⁶ The term “tangible net worth” is a defined term in the ISO Tariff.

capitalization and market entry and participation. The minimum participation requirements are intended to reduce the chance of a thinly capitalized entity from trading in the ISO markets. The ISO's proposal establishes that all market participants have either \$100,000 or \$500,000 on deposit depending upon their level of market activity. The posting levels are designed to ensure that each market participant has the financial ability to back their market obligations and potential unforeseen value changes in their obligations.

Electric Power Supply Association

The Electric Power Supply Association's (EPSA) limited protest requests clarification with regard to two areas of interest: (1) the form of the annual certification;⁷ and (2) the purchase of a proprietary tool offered by Moody's KMV.⁸

First, with regard to the form of the annual certification, as noted above, the ISO proposes to include the actual form in the BPM through the BPM change process. In addition, as noted above, the ISO will be submitting a supplemental filing that will propose additional requirements on market participants and prospective market participants. The ISO maintains that whatever is finally filed and accepted by the Commission, the tariff will contain sufficient details concerning the contents of the form but that the the form itself should not be included as part of the tariff.

Second, with regard to the request to clarify the need to purchase a proprietary tool, there is no requirement for EPSA or any ISO market participant to

⁷ EPSA's protest at pp. 5-6.

⁸ EPSA's protest at p 11.

purchase any tool offered by Moody's KMV. The ISO purchases Moody's KMV tools to evaluate and monitor ISO market participants.

III. CONCLUSION

For the reasons provided herein, the ISO respectfully requests that the Commission accept this answer and consider the comments herein.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service lists for the above-referenced proceedings, in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.2010).

Dated at Folsom, CA this 5th day of August, 2011.

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