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August 31, 2012

The Honorable Kimberly D. Bose  
Secretary  
Federal Energy Regulatory Commission  
888 First Street, NE  
Washington, D.C. 20426

**Re: California Independent System Operator Corporation  
Filing to Comply with August 1, 2012 Order  
Docket No. ER12-1785-001**

Dear Secretary Bose:

On May 14, 2012, the California Independent System Operator Corporation submitted revisions to its tariff to comply with the Commission's March 15, 2012 order on credit policy reform.<sup>1</sup> On August 1, 2012, the Commission issued an order conditionally accepting the ISO's proposed tariff revisions, effective as of April 30, 2012, and directed the ISO to submit a compliance filing within 30 days of August 1.<sup>2</sup> As described below, the instant filing satisfies the compliance directives in the August 1 order.

## **I. Tariff Revisions to Comply with the August 1 Order**

In the August 1 order, the Commission found that, while the ISO's May 14 filing complied with the directives in the March 15 order, the ISO should revise Section 12.1 of its tariff to specify the time period within which a market participant must respond to a request for additional information as part of the ISO's compliance verification process, instead of referencing that time period

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<sup>1</sup> *California Independent System Operator Corp.*, 138 FERC ¶ 61,181 (2012) (March 15 order).

<sup>2</sup> *California Independent System Operator Corp.*, 140 FERC ¶ 61,097 (2012) (August 1 order).

only in the Business Practice Manuals.<sup>3</sup> To comply with this directive, the ISO has modified Section 12.1 to specify that a market participant must respond within five (5) business days of a request for additional information. This same time period is set forth in Section 2.1 of the Business Practice Manual for Credit Management.<sup>4</sup>

## II. Communications

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

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## III. Service

The ISO has served copies of this transmittal letter and all attachments upon all parties in the official service list for this proceeding. In addition, the ISO is posting this transmittal letter and all attachments on the ISO website.

## IV. Attachments

The following documents, in addition to this transmittal letter, support the instant filing:

Attachment A	Revised ISO tariff sheet to comply with the directives in the August 1 order
Attachment B	ISO tariff revisions shown in black-line format

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<sup>3</sup> *Id.* at P 23.

<sup>4</sup> See <https://bpm.caiso.com/bpm/bpm/version/000000000000161> (current version of Business Practice Manual for Credit Management).

**V. Conclusion**

For the reasons stated above, the Commission should accept the instant filing as complying with the directives in the August 1 order. Please contact the undersigned with any questions.

Respectfully submitted,

Nancy Saracino  
General Counsel  
Sidney Davies  
Assistant General Counsel  
The California Independent  
System Operator Corporation  
250 Outcropping Way  
Folsom, CA 95630

/s/ Bradley R. Miliauskas  
Sean Atkins  
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Attorneys for the California Independent System Operator Corporation

**Attachment A – Clean Tariff**

**Filing to Comply with August 1, 2012 Order in Docket No. ER12-1785-001**

**California Independent System Operator Corporation**

**Fifth Replacement FERC Electric Tariff**

**August 31, 2012**

## **12.1 Credit and Minimum Participation Requirements**

The creditworthiness and minimum participation requirements in this section apply to the CAISO's acceptance of any transaction in a CAISO Market, to the payment of charges pursuant to the CAISO Tariff (including the Grid Management Charge), and to establish credit limits for participation in any CAISO auction of CRRs and to CRR Holders for the holding of CRRs. Each Market Participant that has a direct financial relationship with the CAISO (including each Scheduling Coordinator, UDC, MSS, CRR Holder, or Candidate CRR Holder) shall secure its financial transactions with the CAISO (including its participation in any auction of CRRs and for the holding of CRRs) by maintaining an Unsecured Credit Limit and/or by posting Financial Security, the level of which constitutes the Market Participant's Financial Security Amount. For each Market Participant, the sum of its Unsecured Credit Limit and its Financial Security Amount shall represent its Aggregate Credit Limit. Each Market Participant shall have the responsibility to maintain an Aggregate Credit Limit that is at least equal to its Estimated Aggregate Liability.

In order to participate in the CAISO Markets, each prospective Market Participant or existing Market Participant with a direct financial relationship with the CAISO must satisfy all of the following minimum participation requirements:

- (i) Provide the CAISO annually, as detailed in the applicable Business Practice Manual, a certified statement executed by an officer of the prospective or existing Market Participant certifying that the prospective or existing Market Participant has met the following criteria and relevant requirements consistent with these criteria set forth in the Business Practice Manual:
  - (a) Has undergone training commensurate and proportional in sophistication, scope, and frequency to the volume of transactions and the nature and extent of the risk taken by the prospective or existing Market Participant, including but not limited to any applicable CAISO training requirements as specified in Sections 4.5.1.1.10.1 and 36.5.2;
  - (b) Has and maintains written policies, procedures, and controls approved by the appropriate officer or corporate authority of the prospective or existing Market

Participant's governing body which provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which the prospective or existing Market Participant is exposed, including, but not limited to, legal risk, credit risk, liquidity risk, risk of loss of financial security amounts held and invested by the CAISO, investment risk, concentration risk, default risk, operation risk, market risk, and business risk;

- (c) To the extent the Market Participant engages in the CRR market, the Market Participant must demonstrate that it has policies in place that are consistent with generally accepted industry risk management standards; and
  - (d) Has appropriate personnel resources, operating procedures and technical abilities to promptly and effectively respond to all CAISO communications and directions, including, but not limited to, the CAISO's issuance of invoices and collateral requests to the prospective or existing Market Participant.
- (ii) Provide annually for CAISO review and verification, as detailed in the Business Practice Manual, the risk management policies, procedures, and controls applicable to the CRR trading activities of the prospective or existing Market Participant, if the prospective or existing Market Participant has a CRR portfolio that meets the applicable risk criterion set forth in the Business Practice Manual.
- (iii) Satisfy the following capitalization requirements:
- (a) Pursuant to Sections 12.1 and 12.1.1, the prospective or existing Market Participant or its guarantor must have at least \$1 million in Tangible Net Worth or \$10 million in total assets, or post Financial Security using one or more of the forms specified in Section 12.2 (a) through (e) in the amounts set forth below. In the event the prospective or existing Market Participant must post Financial Security, that financial security will not be added to Market Participant's Aggregate Credit Limit and, therefore, cannot be used to meet Market Participant's minimum credit requirements to participate in a Congestion Revenue Rights auction or to offset any market obligations as reflected in

Market Participant's Estimated Aggregate Liability. However, all Financial Security in any form may be used to satisfy any financial obligation of the Market Participant.

- (b) \$500,000 for a prospective or existing Market Participant with fewer than six (6) months of CAISO Market activity; \$100,000 for an existing Market Participant with six (6) months or more of CAISO Market activity and whose highest Estimated Aggregate Liability for the preceding six (6) months is less than or equal to \$100,000; or \$500,000 for an existing Market Participant with six (6) months or more of market activity and whose highest Estimated Aggregate Liability for the preceding six (6) months is greater than \$100,000.
- (c) The CAISO will review whether the prospective or existing Market Participant continues to satisfy the capitalization requirements set forth in Section 12.1(iii)(a). The CAISO will conduct such a review every six (6) months, when new financial statements are posted for the prospective or existing Market Participant, or when an increase in CAISO Market activity causes the Market Participant's Estimate Agreement Liability to exceed \$100,000.

The CAISO will review and verify that prospective Market Participants satisfy the minimum participation requirements set forth in this Section 12.1, and the CAISO will request any information from prospective Market Participants that is needed to complete the CAISO's review and verification. Further, the CAISO will annually select, on a random basis, up to ten (10) percent of the Market Participants that are not already subject to annual verification as set forth in Section 12.1(ii), and the CAISO will request any information from those randomly selected Market Participants that is needed to review and verify whether the Market Participants continue to satisfy the minimum participation requirements set forth in this Section 12.1. Each Market Participant randomly selected for annual verification and satisfactorily verified will be exempted from such random verification for the subsequent two (2) years, unless within that two-year period the Market Participant undergoes a Material Change in Financial Condition as set forth in Section 12.1.1.5, in which case the Market Participant will remain subject to random verification within the two-

year period. In addition, the CAISO may at any time select any Market Participant for review to determine whether the Market Participant continues to satisfy the minimum participation requirements set forth in this Section 12.1, based on identified risk factors that include, but are not limited to, the CAISO Markets in which the Market Participant is transacting or seeks to transact, the magnitude of the Market Participant's transactions or potential transactions, or the volume of the Market Participant's open positions in the CAISO Markets. Such review by the CAISO based on identified risk factors will not be subject to the two-year period of exemption from random verification.

Each Market Participant shall respond to any CAISO request for information within five (5) Business Days. Failure to provide the requested information within the specified time period may result in the CAISO taking enforcement actions pursuant to Section 12.5. The CAISO may review and verify the information either with or without the assistance of a third party, at the CAISO's discretion, subject to confidentiality and non-disclosure restrictions, as applicable. The CAISO will provide the Market Participant with a written explanation of any deficiencies in the information provided. For purposes of Section 12, any documentation provided by a prospective or existing Market Participant in compliance with this Section shall be treated as confidential and the CAISO shall maintain the confidentiality of all such documents. Any CAISO review and verification of the Market Participant's risk management policies, procedures, and controls will be conducted according to generally accepted risk management standards that may be developed from time to time and shall include but not be limited to confirmation that:

- The Market Participant's risk management framework is documented in a risk policy addressing market, credit, and liquidity risks that has been approved by the Market Participant's risk management governance function, which includes appropriate corporate persons or bodies that are independent of the Market Participant's trading functions, such as a risk management committee, a designated risk officer, a board or board committee, or a board or committee of the Market Participant's parent company;
- The Market Participant maintains an organizational structure with clearly defined roles and responsibilities that segregate front-, middle-, and back-office functions to as high a level as is practicable;

- Delegations of authority specify the transactions in which traders are allowed to enter;
- The Market Participant ensures that traders have adequate training and experience relative to their delegations of authority in systems and the markets in which they transact;
- As appropriate, risk limits are in place to control risk exposures;
- Reporting is in place to ensure risks are adequately communicated throughout the organization;
- Processes are in place for independent confirmation of executed transactions; and
- As appropriate, there is periodic evaluation or mark-to-market of risk positions.

Each prospective Market Participant that does not satisfy all of the minimum participation requirements set forth in this Section 12.1 will be prohibited from participating in the CAISO Markets. Each prospective Market Participant taking part in the Scheduling Coordinator certification process pursuant to Section 4.5.1 or the Candidate CRR Holder application process pursuant to Section 4.10.1 that does not satisfy all of the minimum participation requirements set forth in this Section 12.1 will be ineligible to become a Market Participant or CRR Holder. Each existing Market Participant that does not satisfy all of the minimum participation requirements set forth in this Section 12.1 will be out of compliance with the CAISO Tariff. Any failure of a Market Participant to satisfy the minimum participation requirements set forth in this Section 12.1 that is not cured within thirty (30) days of CAISO notification that a failure occurred will subject the Market Participant to CAISO enforcement actions as set forth in Section 12.5.

**Attachment B – Marked Tariff**

**Filing to Comply with August 1, 2012 Order in Docket No. ER12-1785-001**

**California Independent System Operator Corporation**

**Fifth Replacement FERC Electric Tariff**

**August 31, 2012**

## **12.1 Credit and Minimum Participation Requirements**

The creditworthiness and minimum participation requirements in this section apply to the CAISO's acceptance of any transaction in a CAISO Market, to the payment of charges pursuant to the CAISO Tariff (including the Grid Management Charge), and to establish credit limits for participation in any CAISO auction of CRRs and to CRR Holders for the holding of CRRs. Each Market Participant that has a direct financial relationship with the CAISO (including each Scheduling Coordinator, UDC, MSS, CRR Holder, or Candidate CRR Holder) shall secure its financial transactions with the CAISO (including its participation in any auction of CRRs and for the holding of CRRs) by maintaining an Unsecured Credit Limit and/or by posting Financial Security, the level of which constitutes the Market Participant's Financial Security Amount. For each Market Participant, the sum of its Unsecured Credit Limit and its Financial Security Amount shall represent its Aggregate Credit Limit. Each Market Participant shall have the responsibility to maintain an Aggregate Credit Limit that is at least equal to its Estimated Aggregate Liability.

In order to participate in the CAISO Markets, each prospective Market Participant or existing Market Participant with a direct financial relationship with the CAISO must satisfy all of the following minimum participation requirements:

- (i) Provide the CAISO annually, as detailed in the applicable Business Practice Manual, a certified statement executed by an officer of the prospective or existing Market Participant certifying that the prospective or existing Market Participant has met the following criteria and relevant requirements consistent with these criteria set forth in the Business Practice Manual:
  - (a) Has undergone training commensurate and proportional in sophistication, scope, and frequency to the volume of transactions and the nature and extent of the risk taken by the prospective or existing Market Participant, including but not limited to any applicable CAISO training requirements as specified in Sections 4.5.1.1.10.1 and 36.5.2;
  - (b) Has and maintains written policies, procedures, and controls approved by the appropriate officer or corporate authority of the prospective or existing Market

Participant's governing body which provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which the prospective or existing Market Participant is exposed, including, but not limited to, legal risk, credit risk, liquidity risk, risk of loss of financial security amounts held and invested by the CAISO, investment risk, concentration risk, default risk, operation risk, market risk, and business risk;

- (c) To the extent the Market Participant engages in the CRR market, the Market Participant must demonstrate that it has policies in place that are consistent with generally accepted industry risk management standards; and
  - (d) Has appropriate personnel resources, operating procedures and technical abilities to promptly and effectively respond to all CAISO communications and directions, including, but not limited to, the CAISO's issuance of invoices and collateral requests to the prospective or existing Market Participant.
- (ii) Provide annually for CAISO review and verification, as detailed in the Business Practice Manual, the risk management policies, procedures, and controls applicable to the CRR trading activities of the prospective or existing Market Participant, if the prospective or existing Market Participant has a CRR portfolio that meets the applicable risk criterion set forth in the Business Practice Manual.
- (iii) Satisfy the following capitalization requirements:
- (a) Pursuant to Sections 12.1 and 12.1.1, the prospective or existing Market Participant or its guarantor must have at least \$1 million in Tangible Net Worth or \$10 million in total assets, or post Financial Security using one or more of the forms specified in Section 12.2 (a) through (e) in the amounts set forth below. In the event the prospective or existing Market Participant must post Financial Security, that financial security will not be added to Market Participant's Aggregate Credit Limit and, therefore, cannot be used to meet Market Participant's minimum credit requirements to participate in a Congestion Revenue Rights auction or to offset any market obligations as reflected in

Market Participant's Estimated Aggregate Liability. However, all Financial Security in any form may be used to satisfy any financial obligation of the Market Participant.

- (b) \$500,000 for a prospective or existing Market Participant with fewer than six (6) months of CAISO Market activity; \$100,000 for an existing Market Participant with six (6) months or more of CAISO Market activity and whose highest Estimated Aggregate Liability for the preceding six (6) months is less than or equal to \$100,000; or \$500,000 for an existing Market Participant with six (6) months or more of market activity and whose highest Estimated Aggregate Liability for the preceding six (6) months is greater than \$100,000.
- (c) The CAISO will review whether the prospective or existing Market Participant continues to satisfy the capitalization requirements set forth in Section 12.1(iii)(a). The CAISO will conduct such a review every six (6) months, when new financial statements are posted for the prospective or existing Market Participant, or when an increase in CAISO Market activity causes the Market Participant's Estimate Agreement Liability to exceed \$100,000.

The CAISO will review and verify that prospective Market Participants satisfy the minimum participation requirements set forth in this Section 12.1, and the CAISO will request any information from prospective Market Participants that is needed to complete the CAISO's review and verification. Further, the CAISO will annually select, on a random basis, up to ten (10) percent of the Market Participants that are not already subject to annual verification as set forth in Section 12.1(ii), and the CAISO will request any information from those randomly selected Market Participants that is needed to review and verify whether the Market Participants continue to satisfy the minimum participation requirements set forth in this Section 12.1. Each Market Participant randomly selected for annual verification and satisfactorily verified will be exempted from such random verification for the subsequent two (2) years, unless within that two-year period the Market Participant undergoes a Material Change in Financial Condition as set forth in Section 12.1.1.5, in which case the Market Participant will remain subject to random verification within the two-

year period. In addition, the CAISO may at any time select any Market Participant for review to determine whether the Market Participant continues to satisfy the minimum participation requirements set forth in this Section 12.1, based on identified risk factors that include, but are not limited to, the CAISO Markets in which the Market Participant is transacting or seeks to transact, the magnitude of the Market Participant's transactions or potential transactions, or the volume of the Market Participant's open positions in the CAISO Markets. Such review by the CAISO based on identified risk factors will not be subject to the two-year period of exemption from random verification.

Each Market Participant shall respond to any CAISO request for information within five (5) Business Days~~the time period specified in the request, which shall be consistent with the time periods set forth in the Business Practice Manual.~~ Failure to provide the requested information within the specified time period may result in the CAISO taking enforcement actions pursuant to Section 12.5. The CAISO may review and verify the information either with or without the assistance of a third party, at the CAISO's discretion, subject to confidentiality and non-disclosure restrictions, as applicable. The CAISO will provide the Market Participant with a written explanation of any deficiencies in the information provided. For purposes of Section 12, any documentation provided by a prospective or existing Market Participant in compliance with this Section shall be treated as confidential and the CAISO shall maintain the confidentiality of all such documents. Any CAISO review and verification of the Market Participant's risk management policies, procedures, and controls will be conducted according to generally accepted risk management standards that may be developed from time to time and shall include but not be limited to confirmation that:

- The Market Participant's risk management framework is documented in a risk policy addressing market, credit, and liquidity risks that has been approved by the Market Participant's risk management governance function, which includes appropriate corporate persons or bodies that are independent of the Market Participant's trading functions, such as a risk management committee, a designated risk officer, a board or board committee, or a board or committee of the Market Participant's parent company;

- The Market Participant maintains an organizational structure with clearly defined roles and responsibilities that segregate front-, middle-, and back-office functions to as high a level as is practicable;
- Delegations of authority specify the transactions in which traders are allowed to enter;
- The Market Participant ensures that traders have adequate training and experience relative to their delegations of authority in systems and the markets in which they transact;
- As appropriate, risk limits are in place to control risk exposures;
- Reporting is in place to ensure risks are adequately communicated throughout the organization;
- Processes are in place for independent confirmation of executed transactions; and
- As appropriate, there is periodic evaluation or mark-to-market of risk positions.

Each prospective Market Participant that does not satisfy all of the minimum participation requirements set forth in this Section 12.1 will be prohibited from participating in the CAISO Markets. Each prospective Market Participant taking part in the Scheduling Coordinator certification process pursuant to Section 4.5.1 or the Candidate CRR Holder application process pursuant to Section 4.10.1 that does not satisfy all of the minimum participation requirements set forth in this Section 12.1 will be ineligible to become a Market Participant or CRR Holder. Each existing Market Participant that does not satisfy all of the minimum participation requirements set forth in this Section 12.1 will be out of compliance with the CAISO Tariff. Any failure of a Market Participant to satisfy the minimum participation requirements set forth in this Section 12.1 that is not cured within thirty (30) days of CAISO notification that a failure occurred will subject the Market Participant to CAISO enforcement actions as set forth in Section 12.5.

## CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all of the parties listed on the official service list for the above-referenced proceeding, 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 Washington, D.C. this 31<sup>st</sup> day of August, 2012.

/s/ Bradley R. Miliauskas  
Bradley R. Miliauskas