

I. Answer

SWP's comments solely concern the following proposed ISO tariff provisions included in the May 14 compliance filing:

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.²

These ISO tariff provisions are substantively the same as tariff provisions of three other ISOs/RTOs – PJM Interconnection (PJM), Southwest Power Pool (SPP), and ISO New England (ISO-NE) – that the Commission has already found to be compliant with Order No. 741.

The PJM tariff includes the following provisions regarding review of market participants for compliance with PJM's verification requirements based on identified risk factors:

PJM Settlement may select Participants for review . . . based on identified risk factors such as, but not limited to, the PJM markets in which the Participant is transacting, the magnitude of the Participant's transactions in the PJM markets, or the volume of the Participant's open positions in the PJM markets.³

These provisions in the PJM tariff are essentially the same as the provisions that the ISO proposed in the May 14 compliance filing. Both PJM's tariff provisions and the ISO's tariff provisions permit market participants to be selected for review

² SWP at 2 (quoting proposed revisions to Section 12.1 of the ISO tariff) (emphasis omitted).

³ PJM tariff, Attachment Q, Section 1a.A.

based on identified risk factors that include (but are not limited to) the markets in which transactions occur, the magnitude of the transactions, or the volume of open positions. The Commission found that these provisions in the PJM tariff are “reasonable” and “strike an appropriate balance between periodically verifying that participants are complying with risk management practices and policies without unduly burdening participants.”⁴ The Commission should likewise accept the tariff provisions in the ISO’s May 14 compliance filing for the same reasons.

Further, the Commission accepted the following provisions in the SPP tariff for virtually the same reasons it accepted the above-quoted provisions in the PJM tariff:⁵

SPP may select Market Participants for review . . . based on identified risk factors such as, but not limited to, the SPP markets in which the Market Participant is transacting, the magnitude of the Market Participant’s transactions in the SPP markets, or the volume of the Market Participant’s open positions.⁶

The Commission also found that the following provisions in the ISO-NE tariff are reasonable and strike an appropriate balance between periodically verifying compliance with risk management practices and policies and avoiding the imposition of an undue burden on participants:⁷

The ISO, at its sole discretion, may also require any applicant or customer to submit to the ISO or its designee the written risk management policies, procedures, and controls that are applicable to its participation in the New England Markets relied upon by the

⁴ *PJM Interconnection, L.L.C.*, 138 FERC ¶ 61,183, at P 24 (2012).

⁵ *Southwest Power Pool, Inc.*, 138 FERC ¶ 61,187, at P 16 (2012).

⁶ SPP tariff, Attachment X, Section 3.1.1.9.

⁷ *ISO New England Inc. and New England Power Pool*, 138 FERC ¶ 61,185, at PP 20, 22 (2012).

Senior Officer of the applicant or customer signing the certificate provided pursuant to Section II.A.2(a). The ISO may require such submissions based on identified risk factors that include, but are not limited to, the markets in which the customer is transacting or the applicant seeks to transact, the magnitude of the customer's transactions or the applicant's potential transactions, or the volume of the customer's open positions.⁸

For the same reasons that the Commission found that the tariff provisions of these three other ISOs/RTOs satisfy the requirements of Order No. 741, the Commission should find that the tariff provisions proposed in the California ISO's May 14 compliance filing satisfy those requirements as well.

SWP argues that the ISO tariff provisions should be revised due to the risk presented by CRRs.⁹ However, SWP ignores the fact that the Commission has already found that the ISO tariff provisions relating to CRRs satisfy the requirements of Order No. 741. In particular, the Commission has accepted the ISO's proposal to eliminate the use of unsecured credit in its CRR market.¹⁰ The Commission has also accepted the ISO's minimum participation criteria for CRR holders, including tariff provisions that require market participants and prospective market participants that have CRR portfolios that meet certain risk criteria to annually submit to the ISO, for its review and verification, risk management policies, procedures, and controls applicable to their CRR trading

⁸ ISO-NE tariff, Section I, Exhibit IA, Section II.A.2(b).

⁹ SWP at 3-5.

¹⁰ *California Independent System Operator Corp.*, 136 FERC ¶ 61,194, at P 24 (2011). In addition, the Commission has accepted ISO tariff provisions that allow a letter from a federal agency that meets specified requirements to serve as sufficient financial security to participate in the CRR market. March 15 order at P 28.

activities.¹¹ Therefore, the ISO tariff already complies in full with the requirements of Order No. 741 relating to CRRs. As a result, no further tariff revisions regarding CRRs are needed.

II. Conclusion

For the reasons provided herein, the ISO respectfully requests that the Commission accept the May 14 compliance filing as submitted by the ISO.

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¹¹ *California Independent System Operator Corp.*, 136 FERC ¶ 61,194, at P 41; March 15 order at PP 18-19.

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 19th day of June, 2012.

/s/ Daniel Klein
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