

132 FERC ¶ 61,195
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Marc Spitzer, Philip D. Moeller,
John R. Norris, and Cheryl A. LaFleur.

California Independent System Operator Corporation Docket No. ER10-1692-000

ORDER ACCEPTING TARIFF REVISIONS, IN PART, AND ACCEPTING AND
SUSPENDING, SUBJECT TO A COMMISSION ORDER, TARIFF REVISION

(Issued August 31, 2010)

1. On July 2, 2010, pursuant to section 205 of the Federal Power Act (FPA),¹ the California Independent System Operator Corporation (CAISO) filed proposed revisions to its open access transmission tariff² to modify certain credit policy provisions relating to congestion revenue rights (CRR). As discussed below, we accept CAISO's proposed revisions to become effective September 1, 2010, as requested, except for the proposed elimination of a provision in section 12.6.2 of the CAISO Tariff that permits a CRR auction participant to use up to 90 percent of its available credit in a CRR auction. Because we find it premature to determine the justness and reasonableness of CAISO's proposed elimination of the 90 percent limit, we will accept CAISO's proposal to eliminate the 90 percent limit, suspend it to become effective November 1, 2010, and make it subject to the outcome of a pending proceeding in Docket No. ER10-2297-000.

I. Background

2. CAISO market participants can obtain CRR through CRR allocations, CRR auctions, and through bilateral transactions using CAISO's secondary registration system. All CRR holders are then subject to CAISO's CRR creditworthiness requirements. CAISO states that section 12 (Creditworthiness) of the CAISO Tariff requires market participants that transact in CAISO markets to satisfy creditworthiness standards or post

¹ 16 U.S.C. § 825d (2006).

² California Independent System Operator Corporation, FERC Electric Tariff, Fifth Replacement (CAISO Tariff).

collateral in order to provide reasonable assurance that they can meet their present and future financial obligations, which CAISO states is designed to protect the financial interests of market participants against risks associated with CRR. CAISO states that it recognizes the need to balance these risks by adequately quantifying credit requirements (so that CRR holders are able to honor their CRR liabilities) against requirements that may create unnecessary barriers to entry into the CRR market.

3. In the instant filing, CAISO proposes revisions to the credit requirements for CRRs obtained through CRR auctions³ to ensure that the credit requirements for CRR auctions are sufficient to provide protection to all market participants but are not unduly burdensome.⁴ Through a stakeholder process, CAISO states that it has identified for elimination several requirements a CRR holder must currently satisfy in order to participate in a CRR auction, along with certain housekeeping revisions. CAISO argues that these revisions, in large part, will: (1) eliminate excessive pre-auction credit requirements; (2) reduce barriers to participation in the auctions; and (3) lower the costs of participating in a CRR auction without increasing the financial risk to market participants.⁵

4. Specifically, CAISO proposes to modify section 12.6.2 of the CAISO Tariff⁶ to reduce the minimum collateral requirement for participating in the monthly CRR auction from \$500,000 to \$100,000. CAISO explains that the purpose of the minimum collateral requirement is to establish threshold capital requirements for entities participating in the CRR auctions and to discourage the possible abuse of auction opportunities that would otherwise have minimal pre-auction credit requirements.⁷ CAISO asserts that, along with

³ CRR holders that obtain CRR through CRR allocations and the secondary registration system will still be required to maintain aggregate credit limits, in accordance with section 12 of the CAISO Tariff.

⁴ CAISO maintains that it periodically evaluates its credit policies to better ensure that market participants satisfy creditworthiness standards or post financial security sufficient to cover all of their financial obligations in CAISO's markets in order to avoid potential payment defaults. CAISO July 2, 2010 Filing at 2.

⁵ *Id.* at 1.

⁶ Section 12.6.2 describes credit requirements for participants of CRR auctions.

⁷ As an example, CAISO indicates that a market participant could submit bids for negatively priced CRRs with little risk to itself while creating profitable opportunities for other associated entities. According to CAISO, this market participant could then default
(continued...)

stakeholders, it determined that a lower collateral threshold for the monthly auction was warranted because the auction volumes and associated financial risks are comparatively lower in the monthly CRR auctions than in the yearly auctions.⁸ CAISO notes that there is no data to suggest that the risk of profitable opportunities in the annual CRR auction has decreased; therefore, it has maintained the current minimum collateral requirement of \$500,000 for annual CRR auction participation.

5. CAISO also proposes to eliminate a provision in section 12.6.2 of the CAISO Tariff that permits a CRR auction participant to use only up to 90 percent of its available credit in a CRR auction.⁹ CAISO states that currently under section 12.6.2 of the CAISO Tariff, in the instance where a CRR auction participant uses more than 90 percent of its available credit in an auction, CAISO will make a collateral call to the auction participant. CAISO states that, with the proposed removal of the requirement to dedicate a portion of collateral to a CRR auction, it is no longer necessary to limit the amount of collateral that is available for a CRR auction.

6. CAISO proposes to better align its BPM for Credit Management with CAISO Tariff section 12.6.2. Specifically, CAISO contends that CAISO Tariff section 12.6.2 contains incomplete language regarding the credit limit that a CRR auction participant

at the end of the auction to avoid potential financial liabilities associated with the winning CRR. CAISO July 2, 2010 Filing at 4.

⁸ In particular, CAISO points to the fact that, between April 2009 and September 2009, about 60 percent of the monthly CRR auction participants had payments due or holding credit requirements that were less than \$100,000 at the end of the monthly CRR auction. *Id.* at 4-5, n.15.

⁹ CAISO notes that, according to section 7.4.2 of the CAISO Business Practice Manual for Credit Management (BPM for Credit Management), the amount of credit available to a market participant of any CRR auction is calculated by subtracting the entity's estimated aggregate liability from its aggregate credit limit and then multiplying the resulting amount by 90 percent. *See id.* n.16 (quoting BPM for Credit Management, section 7.4.2). Section 7.4.2 states that "[t]he result of this calculation must be the greater of \$500,000 or the sum of the absolute values of all the CRR holder's bids submitted in the relevant CRR auction plus the sum of the credit margins for all such CRR." *Id.*

must hold.¹⁰ CAISO proposes to modify this section to be consistent with the language contained in section 7.4.2 of the BPM for Credit Management.¹¹ Specifically, CAISO proposes to revise CAISO Tariff section 12.6.2 to state that, “[i]n order to participate in a CRR Auction, a CRR Holder or Candidate CRR Holder must have an Aggregate Credit Limit that exceeds its Estimated Aggregate Liability by the greater of \$500,000 or the sum of the maximum credit exposures of all of the CRR Holder’s or Candidate CRR Holder’s bids for CRRs submitted in the [relevant] CRR Auction plus the sum of the Credit Margins for all of the CRRs for which the Candidate CRR Holder submits bids in the relevant CRR auction.”¹² CAISO states that the requirement reflected in the underlined language has been included in the BPM for Credit Management since the Commission accepted section 12.6.2 but was omitted due to an oversight.

7. CAISO proposes to apply to long-term CRR holders (i.e., holders of CRR with a term of ten years) the same credit requirements it applies to holders of shorter term CRR (i.e., holders of CRRs with a term of one year or less). To this end, CAISO proposes to revise CAISO Tariff section 12.6.3.3, which describes the credit requirement needed to hold a long-term CRR, to track the language in CAISO Tariff section 12.6.3.2, which describes the credit requirement for holders of shorter term CRR. As revised, CAISO Tariff section 12.6.3.3 would impose upon long-term CRR holders a credit requirement that is the lower of: (1) the negative of the most recent annual CRR auction price, or (2) the historical expected value of such a CRR, plus the credit margin calculated for the CRR but with only a one-year term.¹³ In addition, CAISO proposes to revise section

¹⁰ The relevant language in CAISO Tariff section 12.6.2 currently states that,

[i]n order to participate in a CRR Auction, a CRR Holder or Candidate CRR Holder must have an Aggregate Credit Limit of the greater of \$500,000 or the sum of the absolute values of all of a CRR Holder’s or Candidate CRR Holder’s bids for CRR submitted in the relevant CRR Auction plus the sum of the Credit Margins for all of the CRRs for which the Candidate CRR Holder submits bids in the relevant CRR Auction.

¹¹ See *supra* note 9.

¹² CAISO July 2, 2010 Filing at 5.

¹³ Existing CAISO Tariff section 12.6.3.3 provides for a credit requirement equal to the negative of the most recent annual CRR auction price; it does not reference the “historical expected value” of the CRR.

12.6.3.1(c) of the CAISO Tariff¹⁴ to add changes in the historical expected values for CRR as one of the purposes for which CAISO may annually adjust the credit requirements for holding long-term CRR.

8. Finally, CAISO states that section 12.6.3.1(a) of the CAISO Tariff imposes requirements on CRR holders and CAISO for the period following completion of the initial CRR auction. Because the initial CRR auction was completed in 2009 and the requirements are no longer applicable, CAISO proposes to remove these provisions.¹⁵

II. Notice of Filing, Responsive Pleading, and Comments

9. Notice of the filing was published in the *Federal Register*, 75 Fed. Reg. 40,810 (2010), with interventions and comments due on or before July 23, 2010. Timely motions to intervene were filed by the City of Santa Clara, California; the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California; Northern California Power Agency; the NRG Companies; Pacific Gas and Electric Company; and Southern California Edison Company. The California Department of Water Resources State Water Project (SWP) filed a timely motion to intervene and comments.

10. SWP states that it generally supports eliminating unnecessary credit provisions that add no additional protection from defaults and increase the costs of market participation. However, SWP states that, because the proposed reduction in the minimum collateral requirement from \$500,000 to \$100,000 is substantial, the Commission should require CAISO to continually monitor the impact of the change and reverse the change if the \$100,000 minimum proves to be inadequate.

III. Discussion

A. Procedural Matters

11. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2010), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

¹⁴ CAISO Tariff section 12.6.3.1(c) describes how CAISO reevaluates and adjusts the credit requirements for holding both long-term and shorter term CRR.

¹⁵ CAISO July 2, 2010 Filing at 6.

B. Substantive Matters**1. Proposed Elimination of 90 Percent Limit on Credit Available for Use in CRR Auctions**

12. We find that CAISO has not provided adequate support in this proceeding to demonstrate that its proposed elimination of the 90 percent limit on credit available for use in CRR auctions is just and reasonable. To support its proposed elimination of the 90 percent limit, CAISO explains that restricting a CRR auction participant's CRR bidding limit is unnecessary given the proposed removal of the requirement to dedicate a portion of collateral to a CRR auction. However, CAISO has not proposed elimination of the requirement to dedicate a portion of collateral to a CRR auction in this proceeding.¹⁶

13. Because CAISO has not adequately justified removal of the 90 percent limit in this proceeding, we cannot render a determination on the justness and reasonableness of the request at this time. Accordingly, we will accept CAISO's proposal to eliminate the 90 percent limit provision, suspend it to become effective November 1, 2010,¹⁷ and make it subject to the outcome of the pending proceeding in Docket No. ER10-2297-000.

2. Other Proposed CRR Credit Policy Revisions

14. We will accept CAISO's remaining proposed tariff revisions as just and reasonable. We find that these tariff revisions should lower the costs of CRR auction participants and reduce barriers to entry. Further, the reduced collateral requirement should lessen the burden on market participants that actively participate in monthly CRR auctions, while maintaining sufficient collateral to discourage abuse of auction opportunities.

15. We agree with CAISO that the proposed reduction in the minimum collateral requirement for the monthly CRR auction is just and reasonable, as the short-term nature (one month) and lower auction volume of monthly CRR auctions will limit the potential exposure of CRR market participants.¹⁸ In addition, we note that while CAISO proposes

¹⁶ We note that, on August 23, 2010, CAISO filed this proposed tariff revision under FPA section 205 in Docket No. ER10-2297-000.

¹⁷ CAISO proposes a November 1, 2010 effective date for its proposed tariff revisions in Docket No. ER10-2297-000. CAISO August 23, 2010 Filing at 1.

¹⁸ See *Credit Reforms in Organized Wholesale Electric Markets*, Notice of Proposed Rulemaking, FERC Stats & Regs. ¶ 32,651 at P 21-22 (2010) (noting that there are unique risks associated with participating in financial transmission rights markets, (continued...))

a reduction in collateral for its auction, it does not propose any changes to its provisions requiring collateral support for post-auction CRR transactions.

16. With respect to SWP's concern, we note that, in its filing, CAISO has committed to periodically evaluate its credit policies to balance the competing goals of minimizing risk to non-defaulting market participants with maintaining low barriers to entry.¹⁹ We encourage CAISO to consider the impact of the reduced minimum collateral requirement for participating in monthly CRR auctions in future evaluations of its CRR credit policies. We do not find that the record supports the need for additional monitoring requirements at this time.

The Commission orders:

(A) CAISO's proposed revision in section 12.6.2 of the CAISO Tariff that eliminates a limit for CRR auction participants to use up to 90 percent of available credit in a CRR auction is hereby accepted for filing, suspended to become effective on November 1, 2010, and is subject to the outcome of a pending proceeding in Docket No. ER10-2297-000;

(B) CAISO's remaining proposed tariff revisions are hereby accepted, effective September 1, 2010, as requested, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

especially with longer-dated obligations that can run from a month to a year or more). If the final rule regarding credit reform requires any changes to CAISO's proposed revisions in this proceeding, CAISO will need to make such changes.

¹⁹ CAISO July 2, 2010 Filing at 2-3.