EPIC Merchant Energy Comments on CAISO Process to Reevaluate CRR Credit Requirements under Extraordinary Circumstances
March 29, 2009

EPIC Merchant Energy appreciates the opportunity to comment on CAISO's Process to Reevaluate CRR Credit Requirements under Extraordinary Circumstances White Paper issued by the CAISO on March 12, 2009.

Credit requirement calculations should not be an evaluation of expected value but rather an evaluation of risk. The whitepaper states, "The goal of the credit requirement computation is to determine whether a CRR holder has sufficient credit to cover its own *expected negative congestion revenue* from its CRR portfolio." [emphasis added]. The use of the term "expected negative congestion revenue" is inconsistent with the function being performed by the credit requirement calculation. The credit requirement calculation ensures that a CRR holder has sufficient credit to cover its *potential congestion risk* from its CRR portfolio. CAISO uses the term "*potential congestion risk*" in certain parts of the whitepaper and "*expected negative congestion revenue*" in others. EPIC would like the CAISO to use "potential congestion risk" in all parts of the whitepaper for the sake of clarity. This term is more reflective of the risk-matching function being performed by the credit requirement calculation.

The goal of the CAISO credit policy should be to provide security to the CAISO market without unnecessarily limiting competition by creating unreasonable barriers to entry for market participants. This objective is best accomplished by focusing on matching the credit requirement for CRRs with their underlying risk. The credit calculation put forth in the whitepaper unilaterally increases credit requirements without allowing for the appropriate converse. The calculation should match the credit required with both increases and decreases in risk level. The calculation CAISO is proposing is entirely one-sided. The result of this evaluation will be to either raise the credit requirement or to leave it unchanged, without allowing for the possibility of the lowering the credit requirement based on a positive outcome. The new credit requirement calculation does not reflect that abnormal grid conditions could dramatically decrease the potential congestion risk of a CRR portfolio. EPIC sees the logic in reevaluating CRR portfolios to account for near-term extraordinary events. However, making the result of this evaluation one-sided is overly-conservative and unfair to market participants.

END

Paul O'Leary
EPIC Merchant Energy LP
16901 Park Row Boulevard
Suite 200
Houston, TX 77084
(281) 760-4555