

CRR Credit Policy Enhancements Straw Proposals



Dongqing Holly Liu, Senior Market and Product Economist
Shucheng Liu, Principal Market Developer



California ISO
Your Link to Power

Stakeholder Meeting
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Agenda

- Straw Proposals for May Board Decision
 - 1. Credit Policy for CRR Transfers with Load Migration
 - 2. Credit Requirement for Holding Short-Term CRRs
 - 3. Pre-Auction Credit Margin Requirement

- Issues Deferred to Future Stakeholder Processes
 - 4. Reassessment of Credit Coverage for Long-Term CRRs
 - 5. Methodology to Calculate CRR Credit Requirements due to Extraordinary Circumstances
 - 6. Corporate Credit Backing of Affiliates

Enhancement 1 – Credit Policy for CRR Transfers with Load Migration

- Currently, upon load migration,
 - CRRs associated with migrated load must be transferred to the load gaining LSE; and
 - Load-losing LSE will be assigned counter-flow CRRs to offset the CRRs to be transferred with load.
- Current credit policy allows netting in CRR holding requirement
- Issue: Load-losing LSE may not have financial capability to cover the assigned counter-flow CRRs, because prior to load migration
 - It may have already sold the allocated CRRs; or
 - It may have procured offsetting counter-flow CRRs.

Enhancement 1 – Continued

Straw Proposal:

- Disallow netting between allocated CRRs and auctioned CRRs in the credit holding requirement calculation, and
- Require LSEs selling allocated CRRs to maintain sufficient credit coverage to cover the counter-flow CRRs that offset the CRRs being sold.

Enhancement 2 - Credit Requirement for Holding a Short-Term CRR

- Currently,
Credit Requirement = - Auction Price + Credit Margin
- **Straw Proposal:** Credit Requirement
= - min (Auction Price, Historical Expected Value)
+ Credit Margin
- Historical Expected Value will be based on historical market operation data consistent with the calculation of Credit Margin for each month; The proposed enhancement will take effect one year after the start-up of MRTU.

Enhancement 3 – Pre-Auction Credit Margin Requirement

- 🌐 Currently, minimum credit requirement for participating in auction:
 - Max (\$500,000, sum of the absolute value of the bids)
 - Based on bid prices; does not include Credit Margin
- 🌐 Credit Margin is part of the CRR holding requirement to cover the volatility of the underlying values of the CRRs
- 🌐 Issue:
 - An auction participant could win CRRs, but may not be able to cover its CRR holding requirements, and its pre-auction credit may not be sufficient.

Enhancement 3 – Continued

- Most stakeholders support the inclusion of the full Credit Margin in the bidding requirement.

- Straw Proposal:**

- Add full Credit Margin to pre-auction credit requirement

$$\max[\$500,000, \sum_{CRR\ i} (|bid\ price_i| + Credit\ Margin_i \times MW_i)]$$

Other Issues Deferred to Future Stakeholder Processes

- 🌐 Reassessment of Credit Coverage for Long-Term CRRs
 - This issue is included in the Market Initiatives Roadmap to be considered in conjunction with the LT-CRR auction.
- 🌐 Methodology to Calculate CRR Credit Requirements due to Extraordinary Circumstances
 - Future stakeholder process date to be determined.
- 🌐 Corporate Credit Backing of Affiliates
 - The CAISO will address this issue within the upcoming stakeholder process for other general credit policy issues later this year.

Comments

 Please submit written comments by April 28, 2008 to
CRRComments@caiso.com

using the stakeholder comment template posted at

<http://www.caiso.com/1b8c/1b8cdf25138a0.html>