Stakeholder Comments Template

FERC Notice of Proposed Rulemaking (NOPR) – Credit Reforms in Organized Wholesale Electric Markets

Submitted by	Company	Date Submitted
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This template has been created for submission of stakeholder comments on the credit reform topics covered by FERC's NOPR. Upon completion of this template, please email your comments (as an attachment in MS Word format) to CreditPolicyComments@caiso.com by February 25th at 12:00 p.m.. All comments will be posted to CAISO's Credit Policy Stakeholder Process webpage at http://www.caiso.com/docs/2003/04/21/2003042117001924814.html.

Please submit your comments to the following questions for each topic in the spaces indicated.

SDG&E comment: The CAISO, as noted to an extent in its comments, has already addressed most of these issues and FERC has accepted the tariff amendments incorporating those revisions. Revisiting these issues does not provide any certainty of incremental improvement to these existing CAISO tariff provisions. Furthermore, FERC has long recognized the appropriateness of regional differences in implementation of its principles, so long as RTO/ISO provisions remain consistent with the overarching principles adopted by FERC. The CAISO should focus its efforts on the new issues that FERC has raised, just as SDG&E has in commenting on specific issues below.

1. Do you support the proposal to have a seven (7) day settlement period versus California ISO's current fifteen (15) day settlement period?

   SDG&E would consider this change. Currently, the CAISO has a 15 day settlement period with 5 business days to receive payment. If the proposed 7 days to receive payment represent calendar days, then FERC's proposed payment receipt language is consistent with CAISO's current practice. The incremental benefits of moving from a 15 to 7-day settlement period will most likely be overshadowed by implementation and ongoing management costs for market participants.

2. Do you support organized wholesale electric markets implementing daily settlement periods? Do you support implementation of daily settlements within one year of the proposed seven day settlement period?

   No. The implementation of daily settlement periods is impractical and would present significant systems and stakeholder challenges with no direct benefit.

3. Do you support elimination of the use of unsecured credit to collateralize participation in a Congestion Revenue Rights auction?

   No. Eliminating unsecured credit in the FTR market will require LSEs that currently use counterflow CRR positions to hedge their load to post substantially increased collateral in order to participate in CRR auctions. LSEs would face undue financial cost to serve their end users that is far in excess of the risks associated with this practice. SDG&E suggests that the CAISO adopt similar exemptions to those proposed by PJM in its Answer to protests of its own recently proposed credit enhancements.[1] Specifically, SDG&E proposes the following:

   (1) If a CRR is a hedge between a resource and load under the same SCID, it should be exempt from the secured credit requirement since the SCID portfolio would capture the offsetting profit and loss;

   (2) the CAISO should provide a transparent mechanism to calculate the initial collateral and daily or weekly collateral calls when there is no objective data to calculate collateral; and

   (3) collateral requirements should also be adjusted symmetrically, that is, for the amount a CRR is "in-the-money," market participants may build up collateral surpluses that can be withdrawn to offset credit requirements.

4. Do you believe there is a need for California ISO to become a party to each transaction so as to eliminate any ambiguity or question as to its ability to manage defaults and offset market participants' obligations?

   (Submit Comments Here)

5. Do you support reducing the number of days to post additional collateral resulting from a collateral call from the current three (3) business days to two (2) business days?

   (Submit Comments Here)

[1] See Motion for Leave to Answer and Answer of PJM Interconnection, LLC to Protests, filed March 3, 2010 in ER09-650-000. (http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=11961809)

6. Do you agree that the ISO should establish minimum creditworthiness requirements to participate in the market?

   (Submit Comments Here)

7. Do you agree that the ISO must establish standards over and above its existing standards for requiring additional collateral as the result of a “material adverse change”?

   (Submit Comments Here)

8. Are you in favor of the ISO applying different credit standards to different types of market participants?

   (Submit Comments Here)

9. Do you agree that there should be a further aggregate unsecured credit cap to cover an entire corporate family? Should the cap be different for markets of different sizes?

   No. An aggregate unsecured credit cap for an entire corporate family would comingle the credit performance of SDG&E with its affiliates. This result is both unnecessary in California and would impermissibly frustrate the California Public Utilities Commission affiliate transaction rules. An aggregate cap is unnecessary since the CAISO’s present policy requires that a parent backing its affiliates to be subject to a $50 million maximum unsecured credit limit. But SDG&E is not legally able to utilize any parental credit support because the CPUC’s affiliate transaction rules require California energy utilities, such as SDG&E, to maintain decision making and financial separation from its affiliates. These CPUC-based requirements further preclude the purchase of power jointly by energy utilities with affiliates. Instead, SDG&E has and will continue to apply to the CAISO for unsecured credit on the strength of its own financials, which the CAISO allows by means of providing a $50 million unsecured credit cap to energy utilities. SDG&E notes that it is separately rated by credit rating agencies and issues stand alone financial information. Utilizing the strength of its own financials allows SDG&E to avoid comingling the credit performance of SDG&E with its affiliates. Therefore, the CPUC-based independence requirements are fully supportive of the CAISO’s current policy to allow affiliated entities, such as SDG&E, to be treated for unsecured credit cap purposes on a stand alone basis.