UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

Midwest Independent Transmission System Operator, Inc. — Docket No. ER06-849-000

ORDER CONDITIONALLY ACCEPTING TARIFF REVISIONS

(Issued June 6, 2006)

1. On April 7, 2006, the Midwest Independent Transmission System Operator, Inc. (Midwest ISO) filed proposed revisions to attachment L (Credit Policy) of its Open Access Transmission and Energy Markets Tariff (TEMT or tariff).[1] The revisions would shorten the time by which a market participant must cure a margin call, increase the collateral required by market participants that have been subject to a margin call on three consecutive days, and eliminate the credit that market participants receive for net sales in the estimated exposure formulas for day-ahead and real-time energy and congestion and losses. As discussed below, the Commission will conditionally accept the proposed tariff revisions, to become effective June 6, 2006, as requested.

I. <u>April 7 Filing</u>

2. Attachment L of the TEMT establishes the requirements of the Midwest ISO's credit policy and describes the methodology used to calculate credit limits for market participants. As a result of several meetings and subsequent votes of the Midwest ISO's Credit Practices Working Group (CPWG), the Midwest ISO proposes three revisions to attachment L.

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[1] Midwest Independent Transmission System Operator Inc., FERC Electric Tariff, Third Revised Volume No. 1.

3. First, the Midwest ISO proposes to revise its credit policy by decreasing by one day the amount of time required to cure a margin call.[2] The Midwest ISO suggests that the time required to cure a margin call be modified such that:

> The margin call must be cured by the close of the next business day if the Market Participant is notified by Midwest ISO by 12:00 p.m. Eastern Standard Time. If later than 12:00 p.m., [the] margin call must be cured by the close of the second business day.[3]

The Midwest ISO states that 81 percent of CPWG members voted in favor of this proposed revision.

4. Second, the Midwest ISO proposes to revise its credit policy by temporarily increasing the amount of collateral required by market participants that have been subject to a margin call on three consecutive days. Specifically, the Midwest ISO proposes that, for the following 10 days, the amount of collateral required to secure both accrued and anticipated exposure for such market participants may be increased by an amount equal to the average value of the daily incremental exposure incurred over the last three days (the daily run rate) multiplied by up to 10 days.[4] The Midwest ISO states that 71 percent of CPWG members voted in favor of this proposed revision.

5. Finally, the Midwest ISO proposes to revise its credit policy by eliminating the credit that market participants currently receive, through the formula for calculating estimated exposure for future operating days, when they are net sellers in certain product markets. Currently, under the Midwest ISO's credit policy, TPE is the sum of the total charges and credits in each of seven service categories: (1) the real-time energy market; (2) the day-ahead energy market; (3) virtual transactions; (4) Financial Transmission Rights (FTR) auction activity; (5) FTR portfolio; (6) congestion and losses; and

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[2] A "margin call" is a notification by the Midwest ISO to a market participant that a Total Potential Exposure (TPE) Violation has occurred, *i.e.*, the market participant's TPE has equaled or exceeded that participant's Total Credit Limit (TCL). Midwest ISO Answer at 2.

[3] April 7 Transmittal Letter at 3; *see also* Attachment L, section II.F, First Revised Sheet No. 1222 and Section IV.B.1, Third Revised Sheet No. 1234.

[4] April 7 Transmittal Letter at 3; *see also* Attachment L, section IV.A, First Revised Sheet Nos. 1231-32.

(7) transmission service. The potential exposure to non-payment for each service generally consists of three components: (1) actual amounts invoiced but not yet paid for the service; (2) actual amounts measured and computed pursuant to the Midwest ISO's settlement systems, but not yet invoiced; and (3) estimated amounts for a defined number of future operating days. The Midwest ISO computes total exposure for each category (which may be positive or negative, depending on whether the participant is a net seller or a net buyer in the relevant market), and then sums the values to reach TPE. The Midwest ISO now proposes to modify the formula to calculate the estimated exposures for day-ahead energy, real-time energy, and congestion and losses in such a way as to no longer provide a credit for net sales in each of these product markets – that is, to make total estimated exposure in each of these categories no less than zero. Accordingly, while the Midwest ISO would still net purchases and sales within each of these markets in its calculation of total estimated exposure for future operating days, it would no longer permit net sales in any of these three categories to offset charges in the other components of TPE in its calculation of estimated exposure.[5] The Midwest ISO states that 65 percent of CPWG members voted in favor of this proposed revision.

6. The Midwest ISO states that, pursuant to its stakeholder process, the proposed revisions were distributed to the Tariff Working Group (TWG) on March 31, 2006, and it received two comments from the TWG on the proposed revisions.

7. Finally, the Midwest ISO requests the Commission accept its proposed revisions effective June 6, 2006.

II. Notice and Responsive Filings

8. Notice of the filing was published in the *Federal Register*, 71 Fed. Reg. 21,008 (2006), with interventions and protests due on or before April 28, 2006.

[5] April 7 Transmittal Letter at 4; *see also* Attachment L, sections IV.A.1, IV.A.2, and IV.A.6, First Revised Sheet Nos. 1231-32A and Second Revised Sheet No. 1232E. This proposal only reflects the portion of TPE reflecting estimated activity in future operating days. For the portion reflecting exposure for charges already incurred but not yet paid, the Midwest ISO would still provide a credit for net sales in each service category in its calculation of TPE.

9. Timely motions to intervene were filed by the Midwest Stand-Alone Transmission Companies (MSATs);[6] and Midwest TDUs.[7] Timely motions to intervene and protest were filed by: (1) American Municipal Power-Ohio, Inc. (AMP-Ohio); (2) Consumers Energy Company (CECo); and (3) Wisconsin Public Service Corporation, Upper Peninsula Power Company, WPS Energy Services, Inc., and its subsidiary, WPS Power Development, LLC (collectively, the WPS Companies). On May 15, 2006, the Midwest ISO filed an answer to protests.

III. Discussion

A. Procedural Matters

10. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2005), the timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding.

11. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2005), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the answer of the Midwest ISO because it has provided information that assisted us in our decision-making process.

B. Need for the Proposed Revisions

1. Protests and Answer

12. AMP-Ohio argues that the existing protections retained by the Midwest ISO, including weekly invoicing, a one-day turnaround on credit assurance, and the ability to suspend a participant's credit in the market, are sufficient to protect credit exposure.

[6] For the purposes of their filing, the MSATs include: American Transmission Company LLC, International Transmission Company d/b/a ITC*Transmission*, and Michigan Electric Transmission Company, LLC.

[7] For the purposes of their filing, the Midwest TDUs include: Great Lakes Utilities, Indiana Municipal Power Agency, Lincoln Electric System, Madison Gas & Electric Company, Midwest Municipal Transmission Group, Missouri Joint Municipal Electric Utility Commission, Missouri River Energy Services, Southern Minnesota Municipal Power Agency, and Wisconsin Public Power Inc.

AMP-Ohio argues that the proposed revisions are unjust and unreasonable, and unfairly discriminate against smaller entities such as municipalities.[8]

13. The Midwest ISO reiterates in its answer that the proposed revisions were approved by the overwhelming majority of the CPWG members. The Midwest ISO notes that while "in some cases Midwest ISO is not required to submit proposed Credit Policy revisions to stakeholder review, where such revisions have been vetted by the stakeholders, they are entitled to considerable deference."[9] The Midwest ISO argues that the "delicate balance" on the proposed revisions agreed to by the CPWG should not disrupted.

2. <u>Commission Determination</u>

14. The Commission explained in its *Policy Statement on Electric Creditworthiness* that:

> Since [Independent System Operators (ISOs) and Regional Transmission Organizations (RTOs)] are typically non-profit entities that administer the market on behalf of market participants and, in this capacity, serve as the clearing firm to every transaction, ISO/RTO members are exposed to the credit risk of other members. In addition, ISOs/RTOs are generally not capitalized sufficiently to absorb the impact of defaults by market participants on an outstanding obligation. If collateral posted by a defaulting party is not sufficient to cover the amount of its default, the remaining credit risk exposure and costs are socialized across an ISO's/RTO's members. As such, the credit/default risk of undercapitalized market participants lies with the non-defaulting participants, not the ISO/RTO. In other words, due to the nature of

[8] AMP-Ohio Protest at 7-8.

[9] Midwest ISO Answer at 5 (citing *Midwest Independent Transmission System Operator, Inc.*, 114 FERC ¶ 61,278 at P 49 (Suspension Order), *clarified*, 115 FERC ¶ 61,033 (2006) and *Midwest Independent Transmission System Operator, Inc.*, 109 FERC ¶ 61,285 at P 356 (2004), *order on reh'g and compliance*, 111 FERC ¶ 61,043, *order on reh'g*, 112 FERC ¶ 61,086 (2005)).

> ISO/RTO markets, credit is, in effect, collectively extended by market members to each individual market participant.[10]

15. In light of the risk on non-defaulting ISO and RTO participants and recognizing that the Midwest ISO's proposal has been approved by a large majority of its stakeholders, we will give the proposal due deference.[11] We note with approval that the Midwest ISO has engaged its stakeholders to develop and improve its credit policy in order to protect its market participants from unintended exposure, and we encourage the Midwest ISO to continue to do so.[12]

16. Notwithstanding this due deference, however, we must address the filing on its merits and be able to find the proposal just and reasonable.[13] In reviewing the Midwest ISO's proposal, we must balance the goals of allowing ISOs/RTOs to reduce the risk of exposure in the event of default while at the same time ensuring that the credit or collateral requirements are not so stringent that they unnecessarily inhibit access to the marketplace.[14] As discussed in greater detail below, we find that the Midwest ISO has identified certain areas where its existing credit policy could be improved to reduce uncollateralized exposure. We find that the proposal, as modified herein, represents a reasonable manner for addressing this exposure and, therefore, we will conditionally accept the Midwest ISO's proposed revisions.

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[10] *Policy Statement on Electric Creditworthiness*, 109 FERC ¶ 61,186 at P 17 (2004) (internal citation omitted).

[11] *PJM Interconnection, L.L.C.*, 104 FERC ¶ 61,309 at P 19 (2003) (*PJM*), *order on reh'g*, 109 FERC ¶ 61,286 (2004); *Midwest Independent Transmission System Operator, Inc.*, 108 FERC ¶ 61,163 at P 432, *order on reh'g*, 109 FERC ¶ 61,157, *order on reh'g*, 111 FERC ¶ 61,043 (2004).

[12] *Midwest Independent Transmission System Operator, Inc.*, 108 FERC ¶ 61,163 at P 432.

[13] *PJM*, 104 FERC ¶ 61,309 at P 19.

[14] *Id.*

C. Proposed Revisions to the Time to Cure Margin Calls

1. Protests and Answer

17. Protestors argue that the Midwest ISO's proposal to shorten the time to cure margin calls is unjust, unreasonable, and unduly discriminatory. AMP-Ohio challenges the Midwest ISO's proposal to curtail the period of time for market participants to cure margin calls from the existing requirement of two to three full business days to the proposed requirement that all margin calls be cured by the close of the next business day, or the following business day if notice is given after 12:00 p.m. AMP-Ohio argues that this "rapid turnaround time" creates additional hardship for public power entities because "[m]ost municipalities are ill-prepared to obtain necessary approvals through their chain of command or to access cash that quickly,"[15] and therefore, makes them less likely to participate in the Midwest ISO market. AMP-Ohio asserts that, at best, it could respond to a margin call in two days. AMP-Ohio argues that a two-day response time sufficiently limits the Midwest ISO's credit exposure.

18. The WPS Companies argue that the proposed changes to the timing for curing margin calls violates the Commission's recent order in Docket No. ER06-493-000. In the Suspension Order, the Commission conditionally accepted tariff revisions that would allow the Midwest ISO to suspend, pursuant to a notice procedure, any and all services under the TEMT to customers in default, without prior Commission approval. Among other conditions in that order, the Commission required the Midwest ISO to provide no less than one business day's notice of intent to suspend service after the two-business-day cure period, resulting in a minimum of three days' advance notice prior to suspension. The WPS Companies assert that stakeholders' votes on this proposal were cast before the Midwest ISO filed for suspension authority and before issuance of the Suspension Order and its related compliance requirement. The WPS Companies note that the Midwest ISO failed to seek rehearing of the Suspension Order on this (or any other) ground. The WPS Companies also note that this change would result in the shortest advance notice of service-suspension period in any RTO or ISO.

19. In its answer, the Midwest ISO argues that the Commission should accept the proposed cure period without modification. The Midwest ISO notes that the majority of CPWG members, including the WPS Companies, found this to be an appropriate balance given the risk of credit exposure at the time of voting.

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[15] AMP-Ohio Protest at 5.

20. The Midwest ISO also asserts that there is no conflict between the Suspension Order and the proposed revisions. The Midwest ISO argues that the proposed revisions will not prejudice market participants' right to receive adequate notice before a suspension is applied and that "the applicable cure period will be less than two (2) full Business Days only in certain limited circumstances, and even there, the reduction is minor."[16] The Midwest ISO maintains that affected market participants will have sufficient actual notice before the suspension authority can be triggered because it is required to provide a written notice to any market participant whose TPE equals or exceeds 90 percent of its TCL, and "[t]here is no reason why the curing effort should not commence when the [90 percent] notice is given."[17] The Midwest ISO notes that if the Commission agrees with protestors' concern regarding the adequacy of notice, that concern could be alleviated by the provision of a uniform two-full-days' notice period.[18]

21. Further, the Midwest ISO refutes the WPS Companies' suggestion that the CPWG was not on notice of the Midwest ISO's intent to request suspension authority from the Commission, and references the minutes from the December 29, 2005 CPWG meeting where both the Midwest ISO's plan to seek the suspension authority and the proposal to shorten the cure period were discussed.

22. Finally, the Midwest ISO argues that AMP-Ohio's concerns regarding the impact of the proposed revisions on public power entities are unfounded. The Midwest ISO states that a number of public power and cooperative entities supported and/or did not oppose the proposal. The Midwest ISO also notes that these types of entities do not necessarily need to obtain immediate approval to post additional collateral given that "a common way for many public power entities and cooperatives to meet their margin calls is simply by prepaying all or a portion of their weekly invoice at or before the time the margin call payment is due."[19]

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[16] Midwest ISO Answer at 7. The Midwest ISO argues that the WPS Companies ignore the fact that the proposed revisions reduce the cure period to one full business day only when the Midwest ISO gives notice of the TPE violation prior to 12:00 p.m., and when notice is given after that time the cure period is at least two full business days.

[17] *Id.*

[18] *Id.* at n.18.

[19] *Id.* at 9.

2. Commission Determination

23. We will accept the proposed revisions, with the modification discussed herein. In the Suspension Order, the Commission stated that, in order to ensure that suspension is warranted, it is appropriate to give as much advance notice as practicable prior to suspension. On this basis, the Commission directed the Midwest ISO to revise its tariff so that in no event will less than one business day's notice be given prior to suspension.[20] In conjunction with the minimum two-day notice period for curing margin calls already provided in the Midwest ISO tariff, this ensures that no less than three business days' notice will be given prior to suspension. The Midwest ISO's proposal to reduce the cure period by one day in all instances will result in less than three days' notice prior to suspension in certain instances, *i.e.*, when notice of the margin call is provided prior to 12:00 pm. However, the Midwest ISO's proposal to provide a uniform two-full-business-day notice period, regardless of whether the notice is given before or after 12:00pm,[21] allows the cure period to be shortened, lessening the exposure to uncollateralized exposure, without violating the minimum three-business-day notice period that we relied upon in the Suspension Order.[22] This modification also satisfies the concerns raised by AMP-Ohio, who indicates that, at best, it can respond to a margin call in two days. The Midwest ISO is directed to file revisions to its tariff to provide a uniform two-full-business-day notice period for curing margin calls.

D. Proposed Revisions to the Calculation of Required Collateral To Reflect a Market Participant's Increasing Exposure

1. Protests and Answer

24. Protestors argue that the Midwest ISO's proposal to revise the calculation of collateral required to secure both accrued and anticipated increasing exposure is unjust, unreasonable, and unduly discriminatory.

25. CECo argues that it is unreasonable for the Midwest ISO to impute incremental exposure based upon three consecutive days of increasing exposure. CECo asserts that because the time period for posting collateral is being changed to next-day posting, there is no need for the Midwest ISO to collect incremental collateral based on an assumption

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[20] Suspension Order at P 44.

[21] Midwest ISO Answer at n.18.

[22] Suspension Order at P 44.

that a three-day pattern of activity will continue. CECo argues that the Midwest ISO should only be permitted to collect incremental collateral for actual, accrued exposure.

26. AMP-Ohio argues that the proposed requirement for a greater level of collateral for any market participant that receives margin calls for three consecutive days could make participation by public power entities (as well as any other market participant that does not have rapid access to very large amounts of capital) more difficult.

27. AMP-Ohio also argues that the Midwest ISO's proposal is not based on its actual exposure, but rather its "anticipated" exposure, and this elevated collateral requirement should not be based on hypothetical, rather than actual, risk.

28. Finally, AMP-Ohio maintains that the Midwest ISO's proposed formula is "ill-defined and unnecessarily subjective"[23] because it allows the Midwest ISO to "multiply the average value of daily incremental exposure 'by up to 10 days' [without] any explanation in its filing for how or when this significant multiplier, or some lesser amount, would be invoked."[24]

29. In its answer, the Midwest ISO states that the Commission should accept the proposed collateral policy without modification. The Midwest ISO argues that the revisions are needed to prevent a market participant from "continuously being in TPE violation status while ostensibly complying with the applicable [TEMT] provisions."[25] The Midwest ISO argues that the reduced response time to a margin call does not, by itself, address this "chasing" problem.

30. The Midwest ISO also notes that repeated margin calls over a three-day period would indicate "a serious underlying credit problem" and, consistent with the *Policy Statement on Electric Creditworthiness*, the Commission should trust the Midwest ISO (and CPWG) to "implement [its] credit policies in a manner created to limit, as much as possible, the risk of credit defaults."[26] The Midwest ISO argues that the "up-to-ten-days" provision was developed as an alternative to more strict measures as part of the

[23] AMP-Ohio Protest at 6.

[24] *Id.*

[25] Midwest ISO Answer at 10.

[26] *Id.* at 11-12 (citing *Policy Statement on Electric Creditworthiness*, 109 FERC ¶ 61,186 at P 18).

compromise reached by the CPWG, and that the Commission should respect the CPWG's decision on this issue.

31. The Midwest ISO also asserts that its proposed revisions are narrowly tailored, applying only when a market participant's TPE has exceed both the approved unsecured credit line (if any) and the previously posted collateral and is based on actual exposure. The Midwest ISO notes that the proposal is temporary in nature and allows the Midwest ISO to work with the market participant on a case-by-case basis.

32. Finally, the Midwest ISO argues that the proposed formula is not unclear, noting that the tariff explains the formula and provides numerical examples illustrating its application.

2. **Commission Determination**

33. We agree that the Midwest ISO has identified a loophole in its existing credit policy that could result in significant uncollateralized exposure and that the proposal represents a reasonable manner for addressing that concern. The Midwest ISO's current policy bases a market participant's estimated exposure for day-ahead and real-time energy congestion and losses on its average actual historical exposure over a rolling seven-day period or a rolling 365-day period, whichever is higher, and fails to reflect, in a timely manner, situations where a market participant rapidly increases its exposure in the market compared to its historical exposure. The proposed provision will allow the Midwest ISO to more quickly take into account a market participant's increasing exposure in the market in its estimate of future exposure and thereby ensure adequate collateral is in place.

34. We disagree with CECo that the Midwest ISO's proposal to shorten the cure period addresses concerns as to increased exposure. Shortening the cure period does not change the measure of estimated exposure. We also disagree with AMP-Ohio that the proposal is not based on actual exposure. The mechanism is triggered, and the additional collateral that may be required is capped, based on *actual* increasing exposure, but, as the Midwest ISO explains in its answer, it allows the Midwest ISO the flexibility to reduce the amount of additional collateral required below the cap to better reflect market participants' expected exposure, rather than establishing a blanket requirement for additional collateral at the level of the cap in all cases.

35. While we find it reasonable for the Midwest ISO to have flexibility to determine the additional collateral required under the cap to better reflect market participants' expected exposure, we are concerned that the proposed tariff language allowing the Midwest ISO *at its discretion* to require additional collateral by "a factor of up to ten (10) times" the average amount of the excess exposure over the three consecutive days

the market participant's TPE exceeds its TCL is too broad. While the circumstances leading to margin calls on three consecutive days will vary on a case-by-case basis, and a determination as to whether those circumstances will persist into the future will require some judgment, the proposed tariff language provides the Midwest ISO considerable discretion in determining whether to require additional collateral, and if so, how much.

36. In its answer, the Midwest ISO explains that the provision allows it to work with the market participant on a case-by-case basis to determine why its exposure is exceeding its approved credit line and to request an appropriate amount of additional collateral to match the individual circumstances. In order to ensure that the new provision is applied consistently to meet its objective (to more accurately estimate a market participant's potential exposure for future operating days), we will direct the Midwest ISO to remove the phrase "at the discretion of the Transmission Provider" and to revise the tariff to provide that it will require additional collateral in an amount up to ten times the average amount of the excess exposure over the three consecutive days, if, after consultation with the market participant, it determines that such additional collateral is necessary to reflect the potential exposure associated with the market participant's expected market activity. We will also direct the Midwest ISO to include in its tariff (1) the procedures by which it would ask for, and the market participant would provide, the additional information used to make this collateral determination; and (2) procedures for the Midwest ISO to document and inform customers of the basis for the Midwest ISO's collateral determination.

E. <u>Proposed Revisions to Eliminate "Hidden Exposure" in the Calculation of Estimated Exposure</u>

1. <u>Protests and Answer</u>

37. Protestors argue that the Midwest ISO's proposal to modify the formula for calculating estimated exposure such that it will no longer calculate "estimated credits" if a market participant has been a net seller into the market should be rejected as unjust, unreasonable, and unduly discriminatory.

38. AMP-Ohio argues that the proposed elimination of the Midwest ISO's long-standing policy of netting purchases against sales, and instead basing collateral requirements exclusively on the purchases made by market participants, imposes an additional burden on public power entities. AMP-Ohio maintains that, "[b]y eliminating the netting of purchases and sales, [the Midwest ISO] would deny market participants any consideration for energy sold into the market and would thereby increase the amount of

credit required to participate in [its] market."[27] AMP-Ohio argues that this proposal is not only contrary to the Midwest ISO's own historical practice, but also with the accepted practices regarding contracting, including that of the Edison Electric Institute.

39. Similarly, CECo argues that the effect of the Midwest ISO's proposal "is to overstate the maximum amount to which [the Midwest ISO] could be exposed and to collect collateral based on that overstated estimate." CECo asserts that because the Midwest ISO may owe a market participant where there is a net sell to the Midwest ISO, the proposal would allow the Midwest ISO "to collect collateral where there is no real net exposure."[28]

40. In its answer, the Midwest ISO argues that protestors' concerns are unfounded and that the Commission should accept the proposal to modify the formula for calculating estimated exposure without modification. The Midwest ISO argues that the only effect of the proposed revisions is to prevent a net seller that changes its behavior and becomes a net buyer from receiving credit based on prior activity that is not indicative of its current activity. The Midwest ISO argues that its proposal will not affect how invoiced or measured exposure is calculated, noting that market participants will still be permitted to net their invoiced and measured exposure while the collateral will continue to be based on the net exposure. The Midwest ISO also notes that the modified calculation of estimated exposure is limited to day-ahead and real-time transaction-related exposure, not other potential exposure categories. The Midwest ISO further states that "the modified calculation still nets charges and credits over the most recent seven (7) days of settled market activity to derive a net exposure number and then, if and only if the net exposure is a credit to the Market Participant, does the calculation set the exposure value to zero."[29]

2. <u>Commission Determination</u>

41. The Commission has stated that it favors netting of revenues due to a market participant against its payment obligations whenever possible.[30] Netting reduces both mutualized default risk and "[t]he amount of collateral a company must post … because the collateral determination would often be based on a lower overall outstanding or

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[27] AMP-Ohio Protest at 6-7.

[28] CECo Protest at 3.

[29] Midwest ISO Answer at 14.

[30] *Policy Statement on Electric Creditworthiness*, 109 FERC ¶ 61,186 at P 25.

potential obligation to an ISO/RTO."[31] We agree with protestors that the Midwest ISO has not demonstrated that its proposed revisions to the formula for the calculation of estimated exposure is just and reasonable. We find that the Midwest ISO's proposed modification is too broad in that it applies to all market participants regardless of whether a market participant's position in the market is actually changing or expected to change. As noted by AMP-Ohio, eliminating the netting would increase the amount of credit required to participate in the Midwest ISO's market, and could discourage market participants from becoming buyers. Moreover, we agree with CECo that because the Midwest ISO may owe a market participant where there is a net sale to the Midwest ISO, the proposal would allow it to collect collateral where there is no real net exposure. Accordingly, we reject the proposed revision without prejudice to the Midwest ISO filing a revised provision that reflects our findings here.

<u>The Commission orders</u>:

(A) The Midwest ISO's proposed tariff revisions are hereby conditionally accepted for filing as modified, effective June 6, 2006, as discussed in the body of this order.

(B) The Midwest ISO is hereby directed to submit a compliance filing, within 30 days of the date of this order, revising its tariff as required in the body of this order.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.

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[31] *Id.*