

124 FERC ¶ 61,107  
UNITED STATES OF AMERICA  
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;  
Sudeen G. Kelly, Marc Spitzer,  
Philip D. Moeller, and Jon Wellinghoff.

California Independent System Operator Corporation      Docket Nos. ER08-1059-000  
ER06-615-024  
ER07-1257-006  
ER08-519-002

ORDER CONDITIONALLY ACCEPTING FOR FILING, SUBJECT TO  
MODIFICATION, TARIFF REVISIONS AND COMPLIANCE FILING

(Issued July 29, 2008)

1. In this order, we address proposed revisions to the current California Independent System Operator Corporation (CAISO) Open Access Transmission Tariff (CAISO Tariff) and the CAISO's Market Redesign and Technology Upgrade (MRTU) Tariff<sup>1</sup> that revise the congestion revenue rights (CRR) release process and credit policy and reflect the delayed MRTU implementation date. We also address proposed revisions to the MRTU Tariff to include the exemptions to the 30-day rule for scheduling transmission outages (30-day rule) found in CRR Business Practice Manual (BPM) section 10.3.1, as directed by the Commission.<sup>2</sup> With the exception of the 30-day rule,<sup>3</sup> the proposed revisions to the CAISO Tariff conditionally accepted, subject to modification, will become effective July 30, 2008. The proposed revisions to the MRTU Tariff are conditionally accepted, subject to modification, to become effective upon the date of MRTU implementation. Finally, we find that the CAISO is in satisfactory compliance with the Commission's

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<sup>1</sup> In this order, "tariff section" refers to both the CAISO Tariff and the MRTU Tariff, unless specified otherwise.

<sup>2</sup> *Cal. Indep. Sys. Operator Corp.*, 122 FERC ¶ 61,271, at P 68 and 69 (2008) (March 24 Order).

<sup>3</sup> *See infra* P 34-37.

directive<sup>4</sup> to explain if and how the CRR Contingency Plan will affect the priority nomination process (PNP).

## **Background**

2. Over the last several years, the CAISO and interested stakeholders developed a structure under the MRTU for creating and releasing obligation CRRs.<sup>5</sup> These CRRs will replace the firm transmission rights (FTRs)<sup>6</sup> that are used under the CAISO's current market design. On January 26, 2007, the CAISO completed its auction of the FTRs to be effective from April 1, 2007 through March 31, 2008.<sup>7</sup> In December 2007, in preparation for MRTU implementation, the CAISO completed its first annual CRR allocation and CRR auction,<sup>8</sup> releasing the CRRs planned to be in effect in conjunction with the then-

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<sup>4</sup> *Cal. Indep. Sys. Operator Corp.*, 122 FERC ¶ 61,296, at P 39 (2008) (March 31 Order).

<sup>5</sup> A CRR can be either a CRR obligation or a CRR option. An obligation CRR "entitles its holder to receive a CRR payment if the congestion in a given trading hour is in the same direction as the CRR obligation, and requires the CRR holder to pay a CRR obligation charge if the congestion in a given trading hour is in the opposite direction of the CRR." CAISO Tariff, App. BB, Part H, section 36.2.1. An option CRR "entitles its CRR holder to a CRR payment if the congestion is in the same direction as the CRR option, but requires no CRR obligation charge if the congestion is in the opposite direction of the CRR." *Id.* section 36.2.2. While obligation CRRs may result in a negative payment stream to the CRR holder, obligation CRRs tend to make more CRRs available to market participants than option CRRs.

<sup>6</sup> An FTR is a contractual right that "entitles the FTR holder to receive, for each hour of the term of the FTR, a portion of the usage charges received by the Independent System Operator (ISO) for the transportation of energy from a specific originating zone to a specific receiving zone and, in the event of an uneconomic curtailment to manage day-ahead congestion, to a day-ahead scheduling priority higher than that of a schedule using converted rights capacity that does not have an FTR." CAISO Tariff, App. A.

<sup>7</sup> Under the CAISO Tariff, FTRs are auctioned annually for the time period from April 1 of the year through March 31 of the following year. CAISO Tariff section 36.2.3.

<sup>8</sup> The allocation process is limited to qualified load serving entities (LSEs) at no cost to those LSEs. In contrast, the CRR auction is open to all market participants who have registered with the CAISO. The auction CRRs are available at a market clearing price that is determined by the bids submitted at auction.

anticipated April 1, 2008 MRTU implementation date. On January 4, 2008, the CAISO settled the outcome of the CRR auction.

3. The CAISO has announced that April 1, 2008 is no longer a viable start date for MRTU. The CAISO has stated that a new MRTU implementation date will not be announced until market participants have an opportunity to test the final MRTU functionality and provide feedback to the CAISO. On January 31, 2008, in Docket No. ER08-519-000, the CAISO filed for Commission review of its CRR Contingency Plan, which was developed to accommodate a later start date for MRTU and allow the CAISO to seamlessly transition to the CRR congestion management system upon MRTU implementation.<sup>9</sup>

### **Filing**

4. On May 30, 2008, pursuant to section 205 of the Federal Power Act (FPA),<sup>10</sup> the CAISO filed proposed revisions to its CAISO Tariff and MRTU Tariff to: (1) enhance the CRR release rules, including increased MW granularity of CRR tracking, monthly CRR eligibility for LSEs serving loads without verifiable load forecasts, and changes to the exemptions from the 30-day rule; (2) enhance the CRR credit policy; and (3) reflect the delayed MRTU implementation date, now anticipated in fall 2008.<sup>11</sup>

5. In its filing, the CAISO also proposes revisions to the MRTU Tariff to include the 30-day rule exemption policies found in CRR BPM section 10.3.1, as directed by the Commission.<sup>12</sup> Also, in compliance with the Commission's directive,<sup>13</sup> the CAISO provides an explanation of if and how the CRR Contingency Plan will affect the PNP. The CAISO requests that the proposed revisions to the CAISO Tariff and the MRTU Tariff be effective on July 30, 2008 and upon implementation of MRTU, respectively.

### **Notice of Filing and Pleadings**

6. Notice of the CAISO's filing was published in the *Federal Register*, 73 Fed. Reg. 33,070 (2008), with protests and interventions due on or before June 20, 2008.

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<sup>9</sup> March 31 Order, 122 FERC ¶ 61,296.

<sup>10</sup> 16 U.S.C. § 824d (2006).

<sup>11</sup> See CAISO Monthly MRTU Status Report, Docket No. ER06-615-000 (July 14, 2008).

<sup>12</sup> March 24 Order, 122 FERC ¶ 61,271 at P 68 and 69.

<sup>13</sup> March 31 Order, 122 FERC ¶ 61,296 at P 39.

7. Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, California; NRG Power Marketing LLC, Cabrillo Power I LLC, Cabrillo Power II LLC, El Segundo Power LLC, and Long Beach Generation LLC, jointly; Northern California Power Agency; and the Sacramento Municipal Utility District filed timely motions to intervene. Alliance for Retail Energy Markets (AREM); Financial Institutions Energy Group (Financial Group); Modesto Irrigation District (Modesto); M-S-R Public Power Agency and City of Santa Clara, California (M-S-R/Santa Clara), jointly; Pacific Gas and Electric Company (PG&E); Powerex Corp. (Powerex); Southern California Edison Company (SoCal Edison); and Transmission Agency of Northern California (TANC) filed timely motions to intervene and comments or protests. The California Public Utilities Commission (California Commission) and EPIC Merchant Energy, LP (EPIC) filed motions to intervene out-of-time. The CAISO filed an answer on July 7, 2008 (Answer).

## **Discussion**

### **A. Procedural Matters**

8. Pursuant to Rule 214 of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214 (2008), the notices of intervention and timely, unopposed motions to intervene serve to make the entities that filed them parties to this proceeding. Pursuant to Rule 214(d) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.214(d) (2008), the Commission will grant the California Commission and EPIC's late-filed motions to intervene given their interest in the proceeding, the early stage of the proceeding, and the absence of undue prejudice or delay.

9. Rule 213(a)(2) of the Commission's Rules of Practice and Procedure, 18 C.F.R. § 385.213(a)(2) (2008), prohibits an answer to a protest unless otherwise ordered by the decisional authority. We will accept the CAISO's answer because it has provided information that assisted us in our decision-making process.

### **B. CRR Release Rules**

#### **1. Minimum CRR Quantities**

10. Under the MRTU Tariff, the CAISO distributes and settles CRRs in no less than 0.1 MW denominations.<sup>14</sup> The CAISO explains that, as a result of this 0.1 MW threshold, when the CAISO awards CRRs to CRR holders and tracks their CRR holding, CRR quantities less than 0.05 MW that result from CRR optimization will be rounded to zero and CRR quantities less than 0.1 MW but not less than 0.05 MW will be rounded to

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<sup>14</sup> CAISO Transmittal Letter at 11; *see* MRTU Tariff section 36.3.1.

0.1 MW.<sup>15</sup> As a result of discussions with stakeholders, the CAISO now recognizes that the load migration process and the disaggregation of CRRs nominated at trading hubs could result in significant quantities of small-denomination CRRs being rounded to zero.<sup>16</sup> Therefore, the CAISO proposes changing the minimum denomination of CRR quantities from 0.1 MW to 0.001 MW.<sup>17</sup>

### **Comments**

11. AReM agrees that this change will benefit smaller LSEs who would otherwise have been denied appropriate allocations and transfers of CRRs due to software limitations. SoCal Edison does not oppose the adoption of the 0.001 MW granularity level for the next annual CRR release; however, it believes that the 0.01 MW granularity level is adequate for recording and tracking existing CRR holdings and will reduce administrative burdens for all market participants.

### **Commission Determination**

12. We find that these proposed revisions to MRTU tariff section 36.3.1 are just and reasonable and minimize the impact of rounding small CRR denominations down to zero through the load migration process and the disaggregation of CRRs nominated at trading hubs. Accordingly, we accept them.

#### **2. Monthly CRR Eligibility for LSEs Serving Loads Without Verifiable Load Forecasts**

13. Under the MRTU Tariff, LSEs that are eligible for an allocation of monthly CRRs are required to provide monthly load forecast data to the CAISO, which the CAISO uses to determine the maximum quantity of CRRs to allocate to LSEs.<sup>18</sup> In addition, the CAISO uses the LSE's load forecast data provided to the California Energy Commission (CEC) for resource adequacy purposes to validate and, if necessary, adjust CRR eligibility for consistency.<sup>19</sup>

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<sup>15</sup> CAISO Transmittal Letter at 11-12.

<sup>16</sup> *Id.* at 12.

<sup>17</sup> *Id.* at 11 (citing Att. A, CAISO Tariff App. BB, Part H, sections 36.3.1, 36.7.1.1, 36.13.4; Att. C, MRTU Tariff sections 36.3.1, 36.7.1.1, 36.13.4).

<sup>18</sup> *Id.* at 12 (citing MRTU Tariff sections 36.8.2.2 and 36.8.6).

<sup>19</sup> *Id.* at 13 (citing MRTU Tariff sections 36.8.2 and 40.2.2.3).

14. The CAISO has identified situations where certain load served by an LSE may be eligible for a monthly CRR allocation but it is not included in the load forecast the LSE provides to the CEC for resource adequacy purposes, thus preventing CAISO validation. Therefore, the CAISO proposes new tariff section 36.8.2.2.2 to determine the monthly CRR eligibility for otherwise CRR-eligible loads that do not have verifiable load forecasts. Under this proposed provision, the monthly CRR eligibility for such loads will be based upon the historical load data for the same month from the previous five years (or available years of data).

15. The CAISO states that the new procedure will only apply to the monthly CRR allocation process because the annual CRR process does not use load forecasts. The CAISO adds that, for consistency, it proposes changing the definition of monthly CRR load metric to the load metric used for determining eligibility for CRR allocation set forth in MRTU Tariff section 36.8.2.2.<sup>20</sup>

16. SoCal Edison states that the proposed procedure is necessary to address a limited set of loads that do not have verifiable load forecasts. We find that proposed tariff section 36.8.2.2 is just and reasonable and, therefore, accept it.

### **3. 30-Day Rule for Scheduling Transmission Outages**

17. The MRTU Tariff requires that planned outages of transmission facilities having a significant effect upon CRR revenue adequacy be submitted to the CAISO for approval no less than thirty days in advance of the first day of the month in which the outage is proposed to begin.<sup>21</sup> The CAISO explains that, consistent with the Commission's direction, it developed with stakeholders the criteria for determining which outages may have a significant effect on CRR revenue adequacy, including exemptions.<sup>22</sup> The CAISO includes these criteria and exemptions in the CRR and Outages BPMs.

18. In the March 24 Order, the Commission directed the CAISO to include in the MRTU Tariff the exemptions from the 30-day rule set forth in CRR BPM section 10.3.1.<sup>23</sup> To comply with the Commission's directive, the CAISO proposes MRTU

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<sup>20</sup> *Id.* (citing Att. A, CAISO Tariff App. BB, Part G; Att. C, MRTU Tariff App. A).

<sup>21</sup> *Id.* at 14 (citing MRTU Tariff section 9.3.6.3.2; BPM for Outage Management, section 4.2.1.1).

<sup>22</sup> *Id.* (citing *Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274, at P 1333 (2006); *Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,076, at P 646 (2007)).

<sup>23</sup> March 24 Order, 122 FERC ¶ 61,271 at P 68 and 69.

Tariff section 36.4.3.<sup>24</sup> The CAISO proposes to include corresponding tariff language in CAISO Tariff, App. BB, Part H, section 36.4.3; CAISO Tariff, App. BB, Part H, section 36.4; and MRTU Tariff section 36.4. The CAISO notes that, to make the tariff more comprehensive, it has included in proposed tariff section 36.4.3 not only the exemptions from the 30-day rule set forth in CRR BPM section 10.3.1, as directed, but also the 30-day rule itself and the criteria for determining what types of outages may have a “significant effect” on CRR revenue adequacy.

19. The CAISO adds that, in response to a request from Participating Transmission Owners (PTOs), it has modified the exemption from the 30-day rule for outages planned to start and end within a twenty-four hour period. The CAISO explains that the revised provision gives PTOs greater flexibility to reduce the number of planned outages that must be scheduled under the 30-day rule by allowing the exemption to apply if the PTO plans to start and end the outage within a twenty-four hour period, which may consist of portions of two consecutive calendar days. The CAISO contends that this change should not have an adverse impact on CRR revenue adequacy because the total duration of an exempt outage is not any greater under the revised provision.

20. The CAISO notes that proposed tariff section 36.4.3 does not incorporate other exemptions from the 30-day rule set forth in CRR BPM section 10.3.1, including a procedure based on the revenue adequacy theorem for FTRs. The CAISO states that, in the next revisions to the CRR BPM, it will conform the BPM provisions to proposed tariff section 36.4.3.<sup>25</sup>

21. The CAISO states that it will reassess the effectiveness of the initial exemptions from the 30-day rule and its approach to modeling outages in the monthly CRR process during the first year of MRTU and consider changes after observing twelve months of market outcomes.<sup>26</sup> The CAISO claims that the LMPs, corresponding grid conditions and patterns of load and generation will provide a data base for estimating the impact of different transmission outages on revenue adequacy.<sup>27</sup>

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<sup>24</sup> In a May 19, 2008 filing in Docket Nos. ER06-615-023 and ER07-1251-005, the CAISO requested an extension of time to submit the 30-day rule tariff provisions included herein.

<sup>25</sup> CAISO Transmittal Letter at 16.

<sup>26</sup> *Id.*

<sup>27</sup> *Id.* (citing Att. E, Final Proposal at 15).

a. **Exemption for Outages Planned to Start and End in a Twenty-Four Hour Period**

22. SoCal Edison supports the exemption for outages planned over a twenty-four hour period, rather than a single calendar day. SoCal Edison states that this language will allow transmission maintenance work to be scheduled in off-peak periods and avoid outages during peak hours. SoCal Edison explains that many outages are scheduled at night, when system loads are lower, and these outages can continue overnight and into the next morning. SoCal Edison contends that allowing a twenty-four hour duration will ensure that the PTOs can perform maintenance in the most reliable fashion with the least impact on serving load. SoCal Edison supports new MRTU Tariff section 36.4.3 on the condition that MRTU Tariff section 9.3.6.3.2 is revised to ensure consistency and clarity with MRTU Tariff section 36.4.3. SoCal Edison proposes revisions to MRTU Tariff section 9.3.6.3.2.

**CAISO Answer**

23. The CAISO agrees with SoCal Edison, and proposes that MRTU Tariff section 9.3.6.3.2 should reference the twenty-four hour exemption to the 30-day rule.

**Commission Determination**

24. We accept the CAISO's proposal to revise MRTU tariff section 9.3.6.3.2, subject to the CAISO making a compliance filing, within 30 days of the date of this order, consistent with its Answer.

b. **Outages on Transmission Lines Rated Below 200 kV**

**Comments**

25. PG&E states that it and the CAISO frequently use flow limits during either normal operations or maintenance outages as a way to ensure the reliable operation of the grid. PG&E argues that, in revised MRTU Tariff section 36.4, the CAISO assumes that any facility that is part of a pre-defined flow limit, or any facility that has experienced an outage for which flow limits were applied, will significantly affect CRR revenue adequacy. PG&E argues that the existence of flow limits on transmission lines rated below 200 kV is not an indicator that planned outages on those lines will have a significant impact on CRR revenues. PG&E requests that the Commission require the CAISO to expeditiously revise the MRTU Tariff section 36.4 to exclude transmission lines below 200 kV from the 30-day rule.

**CAISO Answer**

26. The CAISO states that currently only facilities that are part of a defined flow limit that are rated above 200 kV will be subject to the 30-day rule. The CAISO commits to

develop and place in an operating procedure the list of specific facilities that “are part of any defined flow limit” or “were out of service in the last three (3) years and for which the CAISO determined a special flow limit was needed for real-time operation,” as set forth in MRTU Tariff section 36.4(b), (c).<sup>28</sup> The CAISO states that it will work with PTOs to populate the list for facilities that are 200kV and below.<sup>29</sup> The CAISO argues that PG&E will be able to indicate to the CAISO which facilities rated 200 kV and below should not be placed on the list and, thus, subject to the 30-day rule.<sup>30</sup> The CAISO proposes to revise MRTU Tariff section 36.4 to specify that the CAISO will create the list of facilities rated 200 kV and below to be included in the operating procedures in collaboration with the PTOs.

### **Commission Determination**

27. We accept the CAISO’s proposed MRTU tariff section 36.4, subject to the CAISO making a compliance filing, within 30 days of the date of this order, reflecting the additional modifications proposed in its Answer.

#### **c. Review of Exemptions**

### **Comments**

28. PG&E does not object to the additional burdens that the 30-day rule imposes for those transmission lines affecting CAISO revenue adequacy, but PG&E is concerned that the exemptions now set forth in the CAISO Tariff are too limited. PG&E argues that modifying or expanding the list of exemptions will take longer now because the exemptions are in the MRTU Tariff, rather than in the relevant BPM. PG&E contends that the CAISO’s statement that it will consider changes after reviewing twelve months of market data indicates that the CAISO is no longer committed to developing a more robust list of exemptions as soon as possible. PG&E requests that the Commission direct the CAISO to implement a more robust list of exemptions to the 30-day rule within six months of MRTU start-up.

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<sup>28</sup> CAISO Answer at 5 (citing Att. C, MRTU Tariff section 36.4.3 (indicating that a list of the transmission facilities that satisfy criteria (b) and (c) will be in the operating procedures and that the list will be reviewed by the CAISO annually and revised as appropriate); Outage Management BPM, section 4.2.1.1 (Nov. 15, 2007)).

<sup>29</sup> CAISO Answer at 5.

<sup>30</sup> *Id.* at 5.

### **CAISO Answer**

29. The CAISO states that it can begin to develop with stakeholders a methodology to evaluate additions to the exemptions from the 30-day rule within six months of MRTU start-up.<sup>31</sup> But the CAISO states that it cannot publish a more robust list of exemptions within six months of MRTU start-up because it is committed to assessing the effectiveness of the relevant provisions with actual experience with the LMP markets. The CAISO states that, therefore, it will consider implementing changes only after observing twelve months of market outcomes. The CAISO notes that, after MRTU start-up, it will begin monthly evaluations of the revenue adequacy of issued CRRs.

### **Commission Determination**

30. We agree with the CAISO that it is inappropriate to implement changes until it has actual experience with the LMP markets. We note that, within six months of MRTU start-up, the CAISO will be able to begin to develop with stakeholders a methodology to evaluate additions to the exemptions from the 30-day rule. The CAISO also commits to consider implementing changes after twelve months of market outcomes. Therefore, we accept the CAISO's commitment to consider implementing changes only after observing twelve months of market outcomes.

#### **d. Outstanding Issues**

### **Comments**

31. SoCal Edison requests that the Commission direct the CAISO to address the following outstanding items: (1) updating the CRR and Outages BPMs, providing the updated drafts to the CAISO Transmission Maintenance Coordination Committee (TMCC) for review and stakeholder comment, and posting the revised drafts; (2) developing new operating procedures, if needed, to implement the 30-day rule before MRTU start-up; (3) holding an implementation workshop with the TMCC for PTO grid operators and maintenance personnel to discuss the new 30-day rule and answer questions; (4) conducting a dry run with the grid operators that submit outages to ensure the process works and outage requests are not adversely impacted; and (5) developing a realistic schedule to implement the new 30-day rule, consistent with the actual MRTU start-up, which the Commission should direct the CAISO to communicate to the TMCC and PTO grid operators.

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<sup>31</sup> *Id.* at 7.

**CAISO Answer**

32. In response, the CAISO has scheduled an implementation workshop on the 30-day rule in mid-September 2008.<sup>32</sup> The CAISO intends outage schedulers and transmission/substation maintenance/construction planners to attend. The CAISO states that the workshop will include, but not be limited to, the following topics: the change in the timing for submittal of qualifying outages; what qualifies an outage to be subject to the 30-day rule; how required outages not meeting the 30-day rule are handled; which facilities are included for application of the 30-day rule; where information can be found about the 30-day rule and which facilities are included in the 30-day rule; and when the 30-day rule becomes effective.

**Commission Determination**

33. We find that the CAISO's commitment to hold an implementation workshop on the 30-day rule and exemptions to that rule satisfactorily responds to SoCal Edison's concerns.

**e. Inclusion in CAISO Tariff**

34. The CAISO proposes including the 30-day rule in CAISO Tariff section 36.4 effective July 30, 2008.

**Comments**

35. PG&E argues that, because of the fluidity in the MRTU implementation date, a specific effective date is inappropriate and this portion of the CAISO Tariff should be effective no sooner than "30 days in advance of the beginning of the month MRTU goes live." Alternatively, PG&E suggests that the CAISO Tariff state that the 30-day rule applies 30 days in advance of the beginning of the month MRTU goes live. SoCal Edison requests that the Commission direct the CAISO to clarify that the 30-day rule will be effective concurrent with MRTU start-up or consistent with a schedule that reflects the actual MRTU implementation date, rather than July 30, 2008. SoCal Edison explains that because the 30-day rule will require PTOs to transition to a different process, several outstanding policy items need to be addressed and some dry runs with the PTOs are needed.

**CAISO Answer**

36. The CAISO agrees to resubmit tariff sheets that indicate that the 30-day rule is made effective concurrent with the MRTU go-live date. The CAISO explains that this

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<sup>32</sup> *Id.* at 9.

phrase means that, if the first MRTU trading date is November 1, 2008, the outages subject to the 30-day rule that may occur on December 1, 2008 or beyond must be reported by November 1, 2008. However, the CAISO encourages parties to submit such outages before MRTU goes live and the 30 days are invoked. The CAISO states that early submission will allow the CAISO and market participants to better anticipate such outages.

### **Commission Determination**

37. We find that the CAISO satisfactorily responds to PG&E and SoCal Edison's request. We direct the CAISO to make a compliance filing, within 30 days of the date of this order, reflecting the effective date proposed in its Answer.

## **4. Delay in MRTU Implementation Beyond Fall 2008**

### **Comments**

38. In the event that MRTU start-up slips beyond the fall of 2008, SoCal Edison requests that the CAISO re-initiate the stakeholder process and file an amendment with the Commission, if necessary, that revises its CRR enhancements and CRR allocation process to accommodate the new MRTU start-up date.

### **CAISO Answer**

39. The CAISO responds that, if it delays the start-up of MRTU markets beyond January 1, 2009, the CAISO will initiate a stakeholder process to address all items that caused, and were affected by, the delayed start-up date, including the CRR allocation process.<sup>33</sup> The CAISO states that it will consider any necessary tariff changes within such a stakeholder process.

### **Commission Determination**

40. We find that the CAISO's commitment to re-initiate the stakeholder process in the event that the start of the MRTU markets is delayed beyond January 1, 2009 and file any necessary tariff revisions before MRTU startup with the Commission satisfactorily responds to SoCal Edison's request.

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<sup>33</sup> *Id.* at 3.

## C. CRR Credit Policy

### 1. CRR Transfers due to Load Migration

41. The CAISO Tariff and MRTU Tariff do not require LSEs who receive allocated CRRs to provide financial security in advance of a CRR allocation.<sup>34</sup> When load migration occurs, counter-flow CRRs are assigned to the load-losing LSE to offset CRRs transferred with the migrated load. The CAISO proposes two tariff revisions to mitigate the credit risk that can occur if an LSE cannot meet the credit requirements for holding the counter-flow CRRs it is assigned. The CAISO states that this circumstance can arise if the load-losing LSE has already sold the CRRs it was allocated or has purchased counter-flow CRRs through a subsequent CRR auction.

42. First, the CAISO proposes to add tariff section 12.6.3.1(b) stating that, if a CRR Holder holds one or more CRRs obtained through a CRR allocation and also holds one or more CRRs obtained through a CRR auction, the individual credit requirements applicable to any of the CRRs obtained through CRR allocation may not be netted against the individual credit requirements applicable to any of the CRRs obtained through a CRR auction in determining such CRR holder's estimated aggregate liability.<sup>35</sup> Second, CAISO proposes to add tariff section 12.6.4 stating that each LSE that sells a CRR obtained through a CRR allocation must have an aggregate credit limit with a sufficient margin to cover the credit requirement for holding the offsetting CRR that the LSE would be responsible for assuming in the event of load migration. This tariff section also provides that the credit requirement for holding the offsetting CRR will be included in the estimated aggregate liability of the LSE upon the transfer of the allocated CRR.

### Comments

43. SoCal Edison supports this tariff provision because it protects load and CRR holders in the California market by ensuring that an LSE who received CRRs in the allocation and then sold the CRRs in the auction (or purchased the associated negative counter flow) will have sufficient credit to cover the CRR obligations if the underlying load used to justify the initial allocation migrates or if the CRRs are monetized in the

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<sup>34</sup> CAISO Transmittal Letter at 17 (citing CAISO Tariff section 12.6.1; MRTU Tariff section 12.6.1).

<sup>35</sup> The CAISO notes that, as discussed below, it proposes revising tariff section 12.6.3.1(d) to clarify that all CRRs transferred through the secondary registration system will be treated like auctioned CRRs to calculate credit requirements. *See infra* P 78. Therefore, the CAISO states that all CRRs transferred through the secondary registration system will be treated like auctioned CRRs under section 12.6.3.1(b).

auction and then the LSE exits the CAISO. Powerex supports these rules because they will reduce the risk of inadequate financial security.

### **Commission Determination**

44. We find that proposed tariff sections 12.6.3.1(b) and 12.6.4 are a just and reasonable way to mitigate the credit risk that can occur if an LSE does not have the financial capability to meet the credit requirements for holding the counter-flow CRRs it is assigned. Accordingly, we accept them.

#### **2. CRRs with a Term of One Year or Less**

45. Currently, under tariff section 12.6.3.2, each holder of a CRR with a term of one year or less (short-term CRR) is subject to a credit requirement equal to the negative of the most recent CRR auction price for the CRR plus the credit margin for the CRR. The CRR auction price is used as a proxy for the expected value of the underlying CRR. According to tariff section 12.6.3.4, the credit margin is calculated based on the distribution of the CRR's historical values.

46. The CAISO argues that, when the CRR auction price is higher (less negative) than the historical expected value of a negatively valued CRR, a credit requirement based on the CRR auction price would be less than that based on the historical expected value. The CAISO contends that, as a result, it may not have sufficient credit coverage to protect against a default with a ninety-five percent likelihood.

47. To remedy this problem, the CAISO proposes to revise tariff section 12.6.3.2 so that each short-term CRR holder is subject to a credit requirement equal to the negative of the CRR's most recent auction or the CRR's historical expected value, whichever is lower, plus the CRR's credit margin. The CAISO proposes to define historical expected value, in CAISO Tariff and MRTU Tariff Appendix A, as the expected value of a CRR, as calculated by the CAISO, based on monthly historical market operations data for the applicable month, with such values being established based on at least one year and up to three years of historical market operations data. The CAISO proposes to calculate the historical expected values in a manner consistent with the credit margin calculation (i.e., at a daily level (\$/MW-Day)) for each month and for both on-peak and off-peak periods. The CAISO states that the calculation of the historical expected value and the credit margin for a specific month will be based on the same historical market operation data for the same month of at least the most recent year and up to the three most recent years.

48. The CAISO explains that this modification to the credit policy cannot be applied until one year after MRTU start-up because it relies on historical LMP market data for the same month in the previous year. The CAISO declines to use LMP study data to calculate historical expected value in the interim because using CRR proxy expected values derived from this data could have a dramatic impact on credit requirements for

certain CRRs, which is difficult to justify without actual market operation data.<sup>36</sup> The CAISO proposes to revise tariff section 12.6.3.2 to state that the CRR auction price will be used until twelve months of historical market operations data is available.

49. The CAISO notes that stakeholders have expressed concerns about its authority to impose additional credit requirements, including the triggers for imposing additional credit requirements and the methodology for calculating such requirements. The CAISO states that the CAISO Tariff and MRTU Tariff allow it to reevaluate CRR holders' credit requirements on an on-going basis.<sup>37</sup> However, the CAISO proposes to modify tariff section 12.6.3.1(c) to clarify that the CAISO may adjust the credit requirements for holding such CRRs at the CAISO's discretion to account for changes in the monthly CRR auction prices or more frequently than monthly, if necessary, if the CAISO finds that actual or anticipated market conditions indicate that CRR credit requirements may be inadequate to cover the CRRs' financial risk. The CAISO states that it will develop a business process for determining the triggers and methodology for calculating additional credit requirements.<sup>38</sup>

### **Comments**

50. SoCal Edison supports the CAISO's proposal to include the CRR's historical expected value into the CRR holding requirement credit calculation to determine the holder's initial credit requirement. SoCal Edison recommends that the CAISO monitor and track a CRR holder's credit position on a periodic basis, regularly monitor actual CRR performance and require additional collateral when realized performance diverges from historical performance or auction results.

51. Modesto and M-S-R/Santa Clara acknowledge that tariff section 12.6.3.1(c) gives the CAISO discretion to adjust the credit requirements for holding short-term CRRs to account for changes in the monthly auction prices for CRRs,<sup>39</sup> but they argue that the CAISO is seeking much broader discretion. TANC disagrees with the CAISO that the tariff provides it with the authority to require additional credit requirements. Modesto and M-S-R/Santa Clara request that the CAISO provide market participants the criteria it

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<sup>36</sup> CAISO Transmittal Letter at 19 (citing Att. E, Final Proposal at 21).

<sup>37</sup> *Id.* at 25 (citing CAISO Tariff section 12.6.3.1(c); MRTU Tariff section 12.6.3.1(c)).

<sup>38</sup> *Id.* at 25.

<sup>39</sup> Modesto Protest at 9 n.13 and M-S-R/Santa Clara Protest at 11 n.17.

will use to adjust CRR credit requirements due to changes in market conditions through an FPA section 205 amendment to the CAISO and MRTU Tariffs.

52. Modesto and M-S-R/Santa Clara also complain that the CAISO has not stated how it will develop the business process for determining the triggers and methodology for calculating additional credit requirements or whether it will incorporate these processes in the MRTU Tariff or BPM. Modesto, M-S-R/Santa Clara contend that, pursuant to the rule of reason,<sup>40</sup> the triggers and methodology must be included in the CAISO Tariff as a term/condition of service, just as the calculation used for on-going financial security requirements set forth in CAISO Tariff section 12.4. TANC argues that the Commission has previously determined that “changes to the creditworthiness standards are changes to the tariff subject to Commission review.”<sup>41</sup>

53. TANC requests that the Commission direct the CAISO to file the proposed additional credit requirements, just as it directed the CAISO to include in the MRTU Tariff the 30-day rule exemptions found in CRR BPM section 10.3.1. Modesto and M-S-R/Santa Clara request that the CAISO (1) develop a business process for determining the triggers and methodology for calculating additional credit requirements and (2) file the process, triggers, and methodology as an amendment to the CAISO and MRTU Tariffs pursuant to FPA section 205. TANC requests that the Commission find the CAISO’s proposed revisions to tariff section 12.6.3.1(c) are unjust and unreasonable without the promised business process for determining the triggers and methodology for calculating additional credit requirements.

### **CAISO Answer**

54. The CAISO reiterates that it currently has authority to impose additional requirements. The CAISO points to the fact that, if a market participant’s estimated aggregate liability, as calculated by the CAISO, becomes greater than the market participant’s aggregate credit limit, the market participant is required to provide additional collateral.<sup>42</sup> The CAISO also notes that the current version of tariff section 12.6.3.1(c) states that “[t]he CAISO shall reevaluate the credit requirements for holding CRRs, and shall adjust the credit requirements accordingly, not less than monthly.”

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<sup>40</sup> Modesto Protest at 7 n.10 and M-S-R/Santa Clara Protest at 9 n.13 (*citing Cal. Indep. Sys. Operator Corp.*, 116 FERC ¶ 61,274, at P 1369 (2006)).

<sup>41</sup> TANC Protest at 16 (*citing Cal. Indep. Sys. Operator Corp.*, 119 FERC ¶ 61,053, at P 16 (2007)).

<sup>42</sup> CAISO Answer at 19 (citing CAISO Tariff sections 12.1.5, 12.1.5A.1, 12.4; MRTU Tariff section 12.1.3, 12.1.3.1.1, 12.4).

55. The CAISO argues that its proposed clarifications merely add details to ensure that the credit requirements address the credit risks associated with the particular CRR or CRR portfolio. The CAISO recognizes that CRR auction prices may not always reflect the credit risk, so the CAISO proposes to use historical expected values in certain circumstances. Similarly, the CAISO states that there will be circumstances where neither the CRR auction prices nor historical expected values adequately address the credit risk due to actual or anticipated market conditions that are not reflected in the calculations of those prices and values (e.g., a major derate of a transmission line). The CAISO claims that ensuring that credit requirements correspond to credit risks in both normal and extraordinary circumstances is consistent with the CAISO's credit policy and appropriate.

56. Although the CAISO agrees that methodologies for calculating increased credit requirements should be developed as part of a further stakeholder process, the CAISO argues that the proposed revisions to tariff section 12.6.3.1(c) can and should be implemented before such methodologies have been developed. However, the CAISO proposes to modify the CAISO and MRTU Tariff to state that, whenever the CAISO requests additional financial security from a market participant as a result of a change in CRR value that is not related to an adjustment due to monthly CRR auction price or an adjustment related to historical expected value, the CAISO will provide a written explanation of the reason for that request.<sup>43</sup> Moreover, the CAISO states that, if the written explanation does not satisfy the market participant, the market participant will be able to exercise its existing right to dispute any request for additional financial security.<sup>44</sup>

57. The CAISO disagrees that the triggers and methodology for imposing additional credit requirements should be included in the CAISO and MRTU Tariffs. The CAISO argues that, pursuant to the rule of reason, a public utility is required to file "only those practices that affect rates and service significantly, that are realistically susceptible of specification, and that are not so generally understood in any contractual arrangement as to render recitation superfluous."<sup>45</sup>

58. The CAISO notes that, in Order No. 890, the Commission applied the rule of reason to determine the creditworthiness provisions that must be included in transmission

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<sup>43</sup> *Id.* at 22 (citing CAISO Tariff and MRTU Tariff section 12.4.2).

<sup>44</sup> *Id.*

<sup>45</sup> *Id.* at 23 (citing *City of Cleveland v. FERC*, 773 F.2d 1368, 1376 (D.C. Cir. 1985)).

providers' Open Access Transmission Tariffs (OATTs).<sup>46</sup> The CAISO points to the Commission's statement that "requiring transmission providers to file all of their rules, standards and practices in their OATTs would be impractical and potentially administratively burdensome."<sup>47</sup> The CAISO states that the Commission has already concluded that the creditworthiness provisions in the CAISO Tariff satisfy the Order No. 890 requirements.<sup>48</sup> The CAISO claims that the CAISO and MRTU Tariffs already contain Order No. 890-compliant summaries of the procedures for determining the levels of secured and unsecured credit and for providing customers with reasonable notice of changes in credit levels and collateral requirements and procedures for providing customers with written explanations for any changes in credit levels or collateral requirements. The CAISO adds that the proposed tariff provisions only provide further information about the CAISO's existing authority to impose additional credit requirements and, therefore, it should not be required to include in the CAISO and MRTU Tariffs the triggers and methodology for imposing additional credit requirements.

59. Instead, the CAISO asserts that the triggers and methodology should be included in the CAISO's Credit Guide and Credit Management BPM because they will consist of details that implement the CAISO's existing tariff authority to impose additional credit requirements. The CAISO argues that this approach is consistent with the Commission's general recognition that the CAISO may include certain details in the BPMs. Moreover, the CAISO anticipates that these implementation details may need to be updated from time to time as new credit risks and circumstances arise that cannot be anticipated ahead of time but the CAISO needs to react promptly. The CAISO also anticipates that some of the practices will develop only as a result of actual experience. Therefore, although the CAISO commits to developing the triggers and methodology with stakeholder input and consulting with stakeholders to update them, the CAISO maintains that it will be impossible to modify them on a timely basis if the details were included in the CAISO and MRTU Tariffs. The CAISO concludes that for these reasons the right to implement this authority should not be contingent on the development of triggers and practices.

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<sup>46</sup> *Id.* (citing *Preventing Undue Discrimination and Preference in Transmission Service*, Order No. 890, FERC Stats. & Regs. ¶ 31,241, at P 1649 (2007), *order on reh'g*, Order No. 890-A, 73 Fed. Reg. 2984 (Jan. 16, 2008), FERC Stats & Regs. ¶ 31,261 (2007)).

<sup>47</sup> *Id.* (citing Order No. 890 at P 1651).

<sup>48</sup> CAISO Answer at 24 (citing *Cal. Indep. Sys. Operator Corp.*, 123 FERC ¶ 61,180, at P 43 (2008)).

### **Commission Determination**

60. We accept the CAISO's proposed revisions to tariff section 12.6.3.1(c), subject to the CAISO making a compliance filing, within 30 days of the date of this order, reflecting the additional modifications proposed in its Answer.<sup>49</sup> We agree with the CAISO that CRR auction prices and expected CRR prices based on historical values may not always be sufficient to assess credit risks. Therefore, we find that the CAISO's proposal to permit the adjustment of credit requirements based on anticipated market conditions, which may not be reflected in historical values or auction prices, is a just and reasonable approach to reducing credit risks associated with market participants defaulting on CRR obligation payments. We note that tariff section 12.4.2 already provides market participants with the right to dispute additional security requests and that the CAISO commits to providing a written explanation of credit adjustments not related to CRR auction prices or expected CRR prices based on historical values. Moreover, we agree with the CAISO that the proposed tariff language includes a level of specificity consistent with prior Commission guidance.<sup>50</sup> Accordingly, we find that the proposed revisions are just and reasonable and accept them.

61. Additionally, we accept the CAISO's commitment to develop the methodologies for calculating increased credit requirements through a stakeholder process and encourage the CAISO to complete this process prior to the start of MRTU. However, because these methodologies are not before the Commission and have not been developed yet, we are unable to determine whether it might be appropriate to include aspects of these methodologies in the MRTU Tariff. Therefore, we find that it is premature to rule on this matter. We note our prior directive to Commission staff to convene a technical conference six months following MRTU implementation to provide parties with a final opportunity to identify remaining provisions contained only in the BPMs that should be included in the MRTU tariff.<sup>51</sup> If parties continue to believe that aspects of the methodologies for calculating increased credit requirements should be included in the MRTU Tariff, parties may bring this matter to the Commission's attention during the technical conference. We also note that CAISO's MRTU Tariff contains a process for revising the BPMs.<sup>52</sup> This process includes a ten day period in which

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<sup>49</sup> *Id.* at 21-22. Because we find the CAISO proposal to include the CRR's historical expected value into the CRR holding requirement credit calculation to determine the holder's initial credit requirement just and reasonable, we will not consider SoCal Edison's recommendation.

<sup>50</sup> Order No. 890 at P 1649.

<sup>51</sup> March 24 Order, 122 FERC ¶ 61,271 at P 123.

<sup>52</sup> *Id.* P 83; *see also* MRTU Tariff section 22.11.1.

stakeholders may submit comments on a proposed revision to a BPM before it is included in the BPM<sup>53</sup> and an appeal process.<sup>54</sup>

### **3. Affiliate Disclosure Requirements**

62. The CAISO and MRTU Tariffs require a CRR holder to disclose to the CAISO the identities of all affiliates that are also CRR holders or market participants.<sup>55</sup> The CAISO claims that, to enhance its monitoring of CRR holdings and CAISO market activity for anomalous market behavior, gaming or the exercise of market power, this disclosure requirement should be broadened to account for every CRR holder, candidate CRR holder and affiliate. To this end, the CAISO proposes to apply the disclosure requirements to candidate CRR holders and require the disclosure of all affiliates, not only affiliates that are CRR holders or market participants. These revisions are indicated in MRTU Tariff section 39.9 and CAISO Tariff, App. BB, Part H, section 39.9. The CAISO also proposes revising tariff section 12.1.1.1 to indicate that information disclosed pursuant to tariff section 39.9 will be one of the qualitative factors used by the CAISO to calculate unsecured credit limits.

63. The CAISO argues that the need for this provision was highlighted when a candidate CRR holder failed to disclose its relationship with another candidate CRR holder. The CAISO contends that it should have as much information as possible about the entity holding or proposing to hold CRRs due to the risks associated with CRRs (i.e., the CRR value is difficult to estimate, can switch from positive to negative and have a high prospective negative value) and the new and different entities desiring to hold these instruments. The CAISO states that this information would include an entity's affiliates outside of the CAISO markets (e.g., whether a CRR holder or candidate holder has affiliates participating in other organized electricity markets or engaged in risky lines of business, including defaulting in the PJM Interconnection, L.L.C.).<sup>56</sup>

#### **Comments**

64. Financial Group argues that requiring the disclosure of all entities that are affiliates or become affiliates of a CRR holder or candidate CRR holder will impose unduly burdensome reporting requirements that will not solve the CAISO's concerns.

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<sup>53</sup> MRTU Tariff section 22.11.1.5.

<sup>54</sup> *Id.* section 22.11.1.6.

<sup>55</sup> CAISO Transmittal Letter at 20 (citing CAISO Tariff, App. BB, new Part M, section 39.9; MRTU Tariff section 39.9).

<sup>56</sup> *Id.* at 21 (citing *PJM Interconnection, L.L.C.*, 122 FERC ¶ 61,279 (2008)).

Financial Group states that market participants will have to institute procedures to monitor new affiliates and notify the CAISO every time the participant creates a new affiliate. Financial Group asserts that the burden is compounded because the proposed rule applies to foreign affiliates conducting business solely overseas and affiliates not engaged in wholesale energy trading. Financial Group claims that the on-going tracking of these affiliates' identifies will force its members to spend unreasonable amounts of time, money and resources to comply. Financial Group adds that, notwithstanding good faith efforts to comply and the expenditure of resources, its members may be unable to timely comply due to their size, scope and global reach and the dynamic nature of their business.

65. Financial Group contends that, pursuant to FPA section 205, the Commission should reject this revision because the CAISO has failed to demonstrate a meaningful nexus between the burdensome reporting requirement and the stated goal of managing the credit exposure for participating in the CRR markets. Financial Group argues that, contrary to the CAISO's assertion, the defaults experienced in PJM by holders of negatively valued firm transmission rights, did not occur because PJM failed to require the companies to disclose all their affiliates. Financial Group adds that many, if not all, of its members provide parent guarantees to the ISOs and RTOs, including the CAISO. Financial Group argues that the guarantor's identity, which the CAISO has, is the only one of any consequence. Financial Group also protests that the CAISO refers to "affiliates engaged in risky lines of business" without explaining what constitutes such business activity and how having a list of all of a participant's affiliates will allow the CAISO to curb defaults in the CRR market. Financial Group also questions the CAISO ability to evaluate and monitor all reported affiliates.

66. If the CAISO seeks to accurately assess a participant's credit by learning about its affiliates, Financial Group suggests that the CAISO require CRR holders, candidate CRR holders and CAISO market participants to disclose affiliates that participate or plan to participate in any CAISO market and common guarantors. If the CAISO demonstrates that affiliate activities in other ISOs or RTOs could affect its credit management, then Financial Group suggests that the CAISO request disclosure of all affiliates that participate in any ISO or RTO (e.g., affiliates that are not members of the CAISO but are members of PJM and participate in the FTR auctions).

### **CAISO Answer**

67. The CAISO clarifies that the purpose of the disclosure requirements is to provide the CAISO with information concerning the nature of the entities that hold CRRs or propose to hold CRRs to mitigate the financial risks such entities impose on CAISO market participants and to enhance the CAISO's monitoring of CRR holdings.

68. In response to the Financial Group's concerns, the CAISO proposes first to modify tariff section 39.9 to state that each CRR holder or candidate CRR holder must notify the

CAISO of all affiliates that are CRR holders, candidate CRR holders or market participants and their guarantors and any affiliate participating in an organized electricity market in North America. Second, the CAISO proposes to modify tariff section 12.1.1 to state that the CAISO has the authority to obtain from a market participant that requests an unsecured credit limit financial and/or other information concerning all of the market participant's affiliates. Third, the CAISO proposes to modify CAISO Tariff section 12.1.1.1 and MRTU Tariff section to state that the CAISO will use such information as one of the qualitative factors it considers in determining the market participant's or a guarantor's unsecured credit limit.

69. The CAISO states that, before it extends an unsecured credit limit to a market participant, the CAISO should have sufficient information to evaluate whether the activities of the market participant or its affiliates have the potential to affect the overall financial health of that market participant. The CAISO claims that having knowledge that affiliates are involved in risky business practices or situations will allow the CAISO to perform additional due diligence and to set, or deny, unsecured credit limits in a way that potentially limits downside credit risk for all participants in the CAISO markets, which will increase market participant confidence in those markets. Due to the prospective obligations of CRRs and due to the fact that CRR values can change because of unanticipated circumstances, the CAISO claims that it is not possible to calculate the credit risk with a sufficiently high level of certainty. The CAISO asserts that it should be able to require a candidate CRR Holder to disclose, for example, that it is affiliated with the entities that defaulted in the PJM. The CAISO argues that this additional information will allow the CAISO to put into place heightened monitoring of both the entity's credit standing and heightened market monitoring of its CRR portfolio and the CRR portfolios of any affiliates.

### **Commission Determination**

70. We accept the CAISO's proposed CRR affiliate disclosure requirement, subject to the CAISO making the revisions proposed in its Answer. We find that the CAISO proposal to require entities to disclose affiliates participating in organized electricity markets is a reasonable requirement that will potentially benefit all CAISO market participants by limiting the credit risks associated with CRR holders defaulting on their CRR obligation payments and that the disclosure requirement, with the revisions proposed in the Answer, is not unduly burdensome. We agree with the CAISO that in some cases it may be appropriate to consider affiliate relationships as one of the qualitative factors when determining unsecured credit limits. Accordingly, we direct the CAISO to make a compliance filing, within 30 days of the date of this order, revising tariff sections 39.9 and 12.1.1, CAISO Tariff section 12.1.1.1, and MRTU Tariff section 12.1.1.2 consistent with the additional modifications proposed in its Answer.

#### 4. Participation in CRR Auctions

71. Tariff section 12.6.2 states that the credit requirement to participate in a CRR auction is the greater of \$500,000 or the sum of the absolute values of all bids for CRRs submitted by the participant in the relevant CRR auction. The CAISO states that this requirement is intended to ensure that: (1) auction participants bidding for positively priced CRRs have sufficient credit to cover winning bids equal to the bid prices and (2) auction participants bidding for negatively valued CRR have sufficient available credit (through an unsecured credit limit and/or financial security amount) to cover the payments from the CAISO for winning negatively valued CRRs. The CAISO argues that this requirement is not intended to provide credit coverage for holding the CRRs won in the auction and that the winner could default after the auction due to an inability to meet credit requirements for holding those CRRs.<sup>57</sup>

72. The CAISO states that, pursuant to tariff sections 12.6.3.2-12.6.3.4, the credit requirement that applies to each CRR holder includes the credit margin for the CRRs it holds. The CAISO points out, however, that the CAISO has not required CRR auction participants to establish credit coverage for the credit margin related to their bids during the auction. The CAISO argues that, as a result, there is a risk that an auction participant could acquire CRRs that have a credit requirement in excess of the auction participant's available credit during the auction and would be unable to post additional collateral.

73. To address this risk, the CAISO proposes revising tariff section 12.6.2 to state that the credit requirement necessary to participate in a CRR auction is the greater of \$500,000 or the sum equal to the sum of the absolute values of all bids for CRRs submitted by the participant in the relevant CRR auction plus the sum of the credit margins for all of the CRRs for which the auction participant submits bids in the relevant CRR auction. The CAISO states that this proposal provides credit coverage commensurate with the risk of the CRRs. The CAISO also proposes adding language to tariff section 12.6.2 stating that a CRR holder or candidate CRR holder that fails to provide sufficient credit in the CRR auction will: (1) not be permitted to participate in the CRR auction or (2) have bids exceeding its available credit limit to participate in the CRR auction rejected by the CAISO on a last-in, first-out basis. The CAISO states that the latter action is a new proposal that gives the CAISO the flexibility to reject bids in excess of the available credit limit without requiring the CAISO to forbid participation in the CRR auction. The CAISO also proposes ministerial changes to tariff sections 12.6.2 and CAISO Tariff section 12.6.3.1(c).<sup>58</sup> The revision to the latter section removes a

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<sup>57</sup> The CAISO states that the New York Independent System Operator and the Midwest Independent Transmission System Operator have recognized the default risks associated with negative, zero and low-positive priced CRRs. *Id.* at 22.

<sup>58</sup> *See id.* at 24-25.

reference to credit requirements for long-term CRRs that parallels a change to the MRTU Tariff, which it proposed in Docket Nos. ER06-615-016 and ER08-367-000.<sup>59</sup>

### **Comments**

74. Powerex supports the proposed revisions to tariff section 12.6.2 to increase the amount of financial security to establish credit for participating in CRR auctions because it will ensure that auction participants are sufficiently financially responsible for their auction bids and will increase the amount of security available in case of default. SoCal Edison supports the revisions because the incorporation of the credit margin into the bidding requirement calculation should prevent a participant from being awarded CRRs and immediately defaulting due to the CRR holding requirement (i.e., collateral call) associated with its CRR awards.

### **Commission Determination**

75. We find that the proposed revisions to tariff section 12.6.2 are just and reasonable provisions addressing the identified risk. Accordingly, we accept the proposed revisions. We also accept the proposed revision to CAISO Tariff section 12.6.3.1(c) as just and reasonable.

## **5. Netting of Offsetting CRRs**

76. Tariff section 12.6.3.1(b) explains how the credit requirements for holding CRRs are determined on the portfolio basis. The CAISO states that the first step of the process involves the netting of offsetting CRRs, which occurs before the CAISO calculated the credit holding requirements for the remaining CRRs. The CAISO proposes revision to this tariff section to explain the first step more clearly.

77. No comments or protests were filed regarding the proposed revisions to tariff section 12.6.3.1(b). We find that the proposed tariff revisions are just and reasonable and, therefore, accept them.

## **6. Transfers of CRRs**

78. Tariff section 12.6.3.1(d) explains transfers of CRRs. The CAISO proposes to add language to the tariff section to clarify that CRRs transferred through the secondary registration system will be treated like auctioned CRRs when the CAISO calculates the credit requirements for holding the CRRs, regardless of whether the CRRs were originally allocated or purchased at auction or acquired through the secondary registration system. The CAISO also proposes to clarify that CRRs assigned to load-

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<sup>59</sup> *Id.* at 25.

gaining or load-losing LSEs as a result of load migration will be treated like allocated CRRs when the CAISO calculates the credit requirements for holding the CRRs.

79. No comments or protests were filed regarding the proposed revisions to tariff section 12.6.3.1(d). We find that the proposed tariff revisions are just and reasonable and, therefore, accept them.

#### **D. Delay in MRTU Implementation**

80. When the CAISO conducted the first annual CRR release process in 2008, it assumed MRTU would start on April 1, 2008.<sup>60</sup> Consequently, the CAISO released CRRs for Season 2 (April 1 to June 30), Season 3 (July 1 to September 30) and Season 4 (October 1 to December 31) of 2008.<sup>61</sup> The CAISO also indicated that, for the second annual CRR allocation that would take place in 2009, it would treat Season 1 (January 1 to March 31) of 2009 as a “Year One” season, subject to source verification.<sup>62</sup> As a result of the change in the anticipated MRTU start-up date to fall 2008, the CAISO proposes the following tariff revisions:

##### **1. Definitions of CRR Years**

81. The CAISO proposes revisions to the tariff definitions of CRR Years One and Two.<sup>63</sup> The CAISO proposes defining (1) CRR Year One as the second, third and fourth quarters of calendar year 2008 and the first quarter of calendar year 2009 and (2) CRR Year Two as the second, third and fourth quarters of calendar year 2009 and the first quarter of calendar year 2010. The CAISO proposed revisions to the definition of CRR Years Three and Four are discussed below.<sup>64</sup>

82. No comments or protests were filed regarding the proposed revisions to the definitions of CRR Year One and Two. We find that the proposed tariff revisions are just and reasonable and, therefore, accept them.

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<sup>60</sup> *Id.* at 5.

<sup>61</sup> *Id.* at 6.

<sup>62</sup> *Id.*

<sup>63</sup> *See id.* (citing Att. A, CAISO Tariff App. BB, Part G; Att. C, MRTU Tariff Att. A).

<sup>64</sup> *See infra* at P 92.

**2. Historical Reference Period for Source Verification for Last Quarter of Revised CRR Year One**

83. During the first annual CRR release process in 2007, the CAISO used calendar year 2006 as the historical reference period to verify sources during the second, third and fourth quarter of 2008.<sup>65</sup> Now that the CAISO proposes to redefine CRR Year One as the second, third and fourth quarters of 2008 *and* the first quarter of 2009, the CAISO needs to define the historical reference period for source verification for the first quarter of 2009. The CAISO proposes to use the first quarter (January 1 to March 31) of 2007 as the historical reference period for this proposed last quarter of CRR Year One.<sup>66</sup> The CAISO proposes this historical reference period because it is the most recent first-quarter historical period that will ensure that eligible parties would not have had an opportunity to engage in strategic energy contracting behavior to alter their CRR allocation eligibility. The CAISO adds that the proposed historical reference period will allow parties to closely match their CRR holdings with their current ownership and contractual rights to energy sources. Finally, the CAISO states that the proposed historical reference period adheres to the principle that source verification should occur in a period when supply decisions could not have been influenced by the knowledge that the CAISO would use the period in question as a source verification period in the CRR allocation process.

84. No comments or protests were filed regarding this issue. We find that these proposed tariff revisions are just and reasonable and, therefore, accept them.

**3. Treatment of Seasons 2 and 3 of 2009 and Released CRRs for Seasons 2 and 3 of 2008**

85. The CAISO Tariff and MRTU Tariff CRR provisions allow entities to designate, through the PNP, a certain percentage of their CRRs for renewal after the first year.<sup>67</sup> In CRR Contingency Plan proceeding, in Docket No. ER08-519-000, NCPA noted that the CAISO filing did not mention the PNP or whether the termination of any CRRs pursuant to the CRR Contingency Plan would affect CRR designations under the PNP.<sup>68</sup> In the

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<sup>65</sup> CAISO Transmittal Letter at 6.

<sup>66</sup> *Id.* (citing Att. A, CAISO Tariff App. BB, Part H, section 36.8.3.4.1; Att. C, MRTU Tariff section 36.8.3.4.1).

<sup>67</sup> *See* CAISO Tariff and MRTU Tariff section 36.8.3.5.

<sup>68</sup> *See* March 31 Order, 122 FERC ¶ 61,296 at P 37.

March 31 Order, the Commission directed the CAISO to make a compliance filing to address if and how the CRR Contingency Plan will affect the PNP.<sup>69</sup>

86. In the instant filing, the CAISO explains that, due to the delay in MRTU implementation until at least fall 2008, the seasonal CRRs that the CAISO released for Season 2 (April 1 to June 30) and Season 3 (July 1 to September 30) of 2008 will not be in effect during MRTU market operations.<sup>70</sup> As a result, the CAISO states that it needs to determine whether to: (1) treat Seasons 2 and 3 of 2009 as CRR Year Two seasons and allow the awarded CRRs for Seasons 2 and 3 of 2008 to be nominated for renewal in the PNP or (2) treat these seasons as Year One Seasons and require source verification for these periods. The CAISO proposes the first alternative.<sup>71</sup> The CAISO contends that this proposal is consistent with market participants' expectations at the time they made their nominations in the first annual CRR allocation process.<sup>72</sup>

87. SoCal Edison supports this proposal. We find that these proposed tariff revisions are just and reasonable and, therefore, accept them. We also find that the CAISO's explanation of how the delay in MRTU implementation until Fall 2008 will affect the PNP satisfies the Commission request, in the March 31 Order, for an explanation of if and how the CRR Contingency Plan will affect the PNP.

#### **4. Impact on Long-Term CRRs**

88. The CAISO points out that the delay in MRTU implementation impacts the treatment of long-term CRRs nominated and awarded for Seasons 2 and 3 in CRR Year One from seasonal CRRs awarded in Tiers 1 and 2. The CAISO explains that, due to the delay, the awarded long-term CRRs are based upon seasonal CRRs that will not be in

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<sup>69</sup> *Id.* P 39.

<sup>70</sup> The CAISO notes that, if MRTU goes live during fall 2008, the seasonal CRRs released for Season 4 (October 1 to December 31) of 2008 will be in effect and used to manage congestion costs. The CAISO confirms that, if MRTU is implemented during the last quarter of 2008, the PNP process for Season 4 of 2009 will be available to allow the seasonal CRRs awarded in CRR Year One to be nominated for renewal. CAISO Transmittal Letter at 11.

<sup>71</sup> *Id.* at 8 (citing Att. A, CAISO Tariff App. BB, Part H, section 36.8.3.5.1; Att. C, MRTU Tariff section 36.8.3.5.1 (governing the annual CRR allocation beyond CRR Year One)).

<sup>72</sup> *Id.* at 9.

effect during MRTU market operations. The CAISO raises three issues related to this change.

89. First, the CAISO notes that, consistent with the MRTU Tariff definition, the term of these long-term CRRs is ten years; however, they were actually constructed by combining a one-year seasonal CRR with a nine-year term extension awarded. The CAISO explains that, although the delay in MRTU implementation does not affect the nine-year extension, it renders moot the initial one-year seasonal CRR. The CAISO states that, as a result, these long-term CRRs will be in effect for nine years rather than ten years. The CAISO does not propose new tariff provisions to address this change in term length.

90. Second, the CAISO states that, because the first quarter of 2009 will be in CRR Year One and the last three quarters will be in CRR Year Two,<sup>73</sup> the staggered increases in the amount of seasonal CRRs that an LSE is allowed to nominate as long-term CRRs will be different for different quarters of 2009.

91. The CAISO explains that, for the first quarter of 2009, an LSE may nominate long-term CRRs from any of the seasonal CRRs it was allocated in the PNP up to a maximum of twenty percent of the LSE's adjusted load metric.<sup>74</sup> The CAISO further explains that, for the second, third and fourth quarters of 2009, an LSE may nominate long-term CRRs from any of the seasonal CRRs it was allocated in the PNP up to a maximum of thirty percent of the LSE's adjusted load metric.<sup>75</sup> The CAISO states that it is able to apply previously accepted tariff provisions for CRR Year One and Two to the respective quarters of calendar year 2009 to effectuate these changes.

92. However, the CAISO proposes revisions to the tariff definitions of CRR Year Three and Four to accommodate the staggered increase in the maximum amount of

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<sup>73</sup> *See supra* at P 81.

<sup>74</sup> CAISO Transmittal Letter at 10 (citing CAISO Tariff, App. BB, Part H, section 36.8.3.1.3.1; MRTU Tariff section 36.8.3.5.2.1). The adjusted load metric consists of the LSE's load metric minus any MWs of load covered by existing transmission contracts, converted rights, and transmission ownership rights. MRTU Master Definition Supplement, App. A. The load metric is the basis of an LSE's load eligible for CRR allocation and is calculated as the level of load for a defined time period that is exceeded in only 0.5 percent of the hours of that time period based on historical or forecast load data. *Id.*

<sup>75</sup> CAISO Transmittal Letter at 10 (citing CAISO Tariff, App. BB, Part H, section 36.8.3.5.2.1; MRTU Tariff section 36.8.3.5.2.1).

seasonal CRRs obtained through the prior tiers that can be nominated as long-term CRRs.<sup>76</sup>

93. SoCal Edison supports the eligibility of season four CRRs for the PNP in the next annual release. SoCal Edison also supports treating season one long-term CRRs under the Year One limit and seasons two to four long-term CRRs under the Year Two limit. We find that these proposed tariff revisions are just and reasonable and, therefore, accept them.

The Commission orders:

(A) With the exception of the 30-day rule, the proposed revisions to the CAISO Tariff are hereby conditionally accepted, subject to modification, to become effective July 30, 2008, as discussed in the body of this order.

(B) The proposed revisions to the MRTU Tariff are hereby conditionally accepted, subject to modification, effective upon the date of MRTU implementation, as discussed in the body of this order.

(C) The Commission hereby finds that the CAISO has satisfactorily complied with the Commission's directive to explain if and how the CRR Contingency Plan will affect the priority nomination process, as discussed in the body of this order.

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<sup>76</sup> *Id.* at 11 (citing Att. A, CAISO Tariff App. BB, Part G, definitions of CRR Year Three and CRR Year Four; Att. C, MRTU Tariff Att. A, definitions of CRR Year Three and CRR Year Four). The CAISO notes that, currently, in the years subsequent to CRR Year One, the percentage of the LSEs adjusted load metric that can be nominated as long-term CRRs increases from twenty to thirty percent in CRR Year Two. The CAISO adds that, currently, in CRR Year Three, the limit increases by ten percent to forty percent and, in CRR Year Four and all subsequent years, it increases to fifty percent of its adjusted load metric. *Id.* at 10-11 (citing CAISO Tariff, App. BB, Part H, section 36.8.3.5.2.1; MRTU Tariff section 36.8.3.5.2.1).

(D) The CAISO is hereby directed to make compliance filings, within 30 days of the date of this order, as discussed in the body of this order.

By the Commission.

( S E A L )

Nathaniel J. Davis, Sr.,  
Deputy Secretary.