HEADLINES

Staff Presentation | Proposed Revisions to Credit Practices in Organized Wholesale Electric Markets

July 28, 2022

Docket Nos. RM22-13-000, EL22-62-000

Items E-1 & E-2 | News Release

Good morning, Mr. Chairman and Commissioners.

Items E-1 and E-2 were developed in response to the technical conference held by Commission staff in February 2021 regarding the credit practices of regional transmission organizations (RTOs) and independent system operators (ISOs), as well as post-technical conference comments submitted thereafter.

Item E-1 is a draft notice of proposed rulemaking (NOPR) that would permit RTOs and ISOs to share among themselves credit-related information regarding their market participants.

Generally, RTO/ISO tariffs do not contain provisions which provide for the sharing of a market participant's credit-related information with other RTOs/ISOs without the express consent of the market participant. In fact, some RTO/ISO tariff provisions treat certain credit-related information of market participants as confidential which may effectively prohibit the sharing of such information. Also, market participants who are experiencing financial difficulties are unlikely to voluntarily consent to such sharing of information. Thus, tariff provisions that limit sharing market participant credit-related information between RTOs/ISOs may hamper the ability of RTO/ISOs to gather potentially relevant risk information and perform accurate credit assessments that help limit the likelihood of defaults in their markets and mitigate the severity of any defaults that do occur.

To address these concerns, the draft NOPR proposes to amend the Commission's regulations to require RTOs/ISOs to include in their tariffs provisions that permit them to share market participants' credit-related information with other RTOs/ISOs. The draft NOPR also proposes to permit the receiving RTO/ISO to use credit-related information received from another RTO/ISO to the same extent and for the same purposes that the receiving RTO/ISO may use credit-related information collected from its own market participants.

These proposed changes would allow RTOs/ISOs to share a range of credit-related information, including, for example, lists of market participants with positions in that market, or information that a market participant failed to meet a collateral call or has unresolved credit or collateral issues. Without these proposed changes to their tariffs, RTOs/ISOs may be restricted in sharing with each other market participants' credit-related information due to confidentiality provisions in their tariffs.

Market participants increasingly operate in multiple organized wholesale electric markets and their trading activities have become more complex and sophisticated. The ability of RTOs/ISOs to timely share credit-related information would likely improve their ability to accurately assess market participants' credit exposure and risks related to their activities across organized wholesale electric markets. This ability could enable RTOs/ISOs to respond to credit events more quickly and effectively, which helps minimize the overall risks of unexpected defaults by market participants in organized wholesale electric markets.

Comments on this draft notice of proposed rulemaking are due 60 days after the date of publication in the Federal Register.

Item E-2 is a draft order to show cause that finds that the existing tariffs of certain RTOs and ISOs appear to be unjust and unreasonable in the absence of one or both of two policies: (1) mark-to-auction mechanisms for the calculation of financial transmission right (FTR) market participants' collateral requirements and/or (2) volumetric minimum collateral requirements for FTR market participants. The responding RTOs/ISOs are: the California Independent System Operator Corporation (CAISO), ISO New England Inc. (ISO-NE), New York Independent System Operator, Inc. (NYISO), and Southwest Power Pool Inc. (SPP).

Generally, mark-to-auction collateral requirements help ensure that market participants post adequate collateral to meet the evolving risk of their portfolio as the value of the portfolio changes over time. Volumetric minimum collateral requirements ensure that required collateral cannot be reduced below the applicable $/MWh threshold.

The draft order directs each of these RTOs/ISOs within 90 days of the date of this order either: (1) to show cause as to why its tariff remains just and reasonable and not unduly discriminatory or preferential; or (2) to explain what changes to its tariff it believes would remedy the identified concerns if the Commission were to determine that the tariff has in fact become unjust and unreasonable or unduly discriminatory or preferential and, therefore, proceeds to establish a replacement tariff.

While discussions at the February 2021 technical conference highlighted numerous different approaches to managing risk in the FTR markets, the draft order indicates that these two specific practices, a mark-to-auction mechanism and a volumetric minimum collateral requirement for FTRs, may be particularly critical to effectively managing credit risk.

The draft order recognizes, however, that there are meaningful differences among the FTR markets of the various RTO/ISOs and that a one-size fits all approach to mitigating credit risk may not be appropriate. Therefore, while the order indicates that mark-to-auction and volumetric minimum collateral requirements may address the identified concerns, the order recognizes there may be alternative solutions to address such concerns.

We are happy to answer any questions you may have. Thank you.

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