



Commission grant SCE permission to intervene in this proceeding. SCE hereby reserves its rights to raise substantive issues regarding all aspects of this proceeding, and to file additional comments, as warranted by the proceeding. SCE designates the following person for service on the Commission's service list in this proceeding:

Erin K. Moore  
Southern California Edison Company  
2244 Walnut Grove Avenue  
Rosemead, CA 91770  
(626) 302-6848  
[erin.moore@sce.com](mailto:erin.moore@sce.com)

## **II. COMMENTS**

### **A. Introduction**

On September 4, 2009, the CAISO filed with the Commission proposed revisions to its Tariff to reduce the maximum Unsecured Credit Limit ("UCL") for market participants to \$50 million, in connection with the planned implementation of the CAISO's payment acceleration program. Given the transition period between the current payment cycle and payment acceleration the CAISO further requests for an effective date of January 5, 2010. The proposed effective date is intended to synch up the reduction in Estimated Aggregated Liabilities as a result of the payment acceleration program with the last pre-payment acceleration invoice being cleared.

### **B. Comments**

SCE is in agreement with the CAISO that unsecured credit is an important component of its market structure and should be made available to market participants that meet the assessment requirements set forth in tariff section 12.1.1.1 and further described in section 3 of the CAISO

Credit Management BPM.<sup>1</sup> However, the change proposed by the CAISO is neither necessary nor appropriate.

SCE agrees with and supports the position outlined in the Motion To Intervene and Comments of Pacific Gas and Electric Company filed with the Commission today. As Pacific Gas and Electric Company (“PG&E”) explains, the CAISO has not made – or even attempted to make – a case for the necessity of reducing the UCL to \$50 million. The CAISO has also not addressed – or attempted to mitigate – the costs that will be imposed on market participants such as SCE and PG&E.

The CAISO proposal for the reduction of the maximum Unsecured Credit Limit from \$150 million to \$50 million is based on the improvements made to the CAISO’s cash clearing cycle under the payment acceleration program. With payment acceleration the cash clearing cycle and corresponding outstanding liabilities will be reduced by about 70%, a reduction of the average cash clearing schedule from approximately 80 days to 25.<sup>2</sup> The basis for the CAISO proposed reduction is flawed in that it only takes into consideration the reduction in outstanding liabilities associated with transactions taking place in the CAISO-administered energy market, but completely fails to recognize the collateral requirements for participation in the annual Congestion Revenue Requirement (“CRR”) auction process.

For load serving entities that serve a large amount of load the collateral requirements for participation in the annual CRR auction can be substantial, with a high possibility of being well above the CAISO’s revised \$50 million dollar maximum credit limit. For creditworthy entities that currently use unsecured credit to participate in the CRR auction the CAISO has provided no justification for why it’s proposing to increase the costs of participation in the CAISO’s CRR markets.

Thus, SCE requests that the Commission summarily reject the CAISO’s proposal.

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<sup>1</sup> Credit Management BPM can be found at [www.bpm.caiso.com](http://www.bpm.caiso.com).

<sup>2</sup> CAISO Payment Acceleration memo to CAISO Board of Governors, dated December 8, 2009. <http://www.caiso.com/2098/2098b3c4579f0.pdf>.

Alternatively, if the Commission is unwilling to reject the proposal in its entirety, then SCE requests that FERC require the CAISO to modify its proposed language to temporarily increase the maximum UCL to \$150 million for the month in which the annual CRR auction occurs. The majority of the collateral requirements for participation in the CRR auction occur during the annual auction process; therefore SCE's proposal would impose only a temporary increase for the annual CRR process. Such an approach would keep the maximum Unsecured Credit Limit for participation in the energy markets at \$50 million and provide for a temporary increase in the maximum Unsecured Credit Limit for auction participation in the month of the annual CRR auction.

Collateral requirements for participation in the CRR annual auction are a function of the highest price/quantity pair of each CRR bid plus the credit margin requirement for holding the CRR to maturity. Market Participants who desire to participate in the annual CRR auctions are required to provide the CAISO with sufficient collateral to cover its participation and potential awards. The collateral requirements for auction participation do not change under the revised payment cycle associated with payment acceleration. Therefore, any reduction in the maximum Unsecured Credit Limit needs to take into consideration market participants overall collateral requirements for participation in all CAISO markets, not just the energy market. Overall collateral requirements will not necessarily decrease at the same 70% rate as the cash clearing cycle reduction under payment acceleration.

Under this approach, any additional amount of unsecured credit awarded will only go to support the collateral requirements for bidding into the annual CRR auction and cannot be used to offset energy market transactions. Once the auction is finished and awards are posted, collateral requirements resulting from holding a CRR would be considered part of daily energy market transactions and therefore be required to be covered under the maximum \$50 million dollar limit.

### **III. CONCLUSION**

For all of the foregoing reasons, SCE respectfully requests that the Commission allow SCE to intervene in this proceeding and be accorded full party status herein. SCE further requests that the Commission summarily reject the CAISO's proposal. In the alternative, SCE requests that the Commission require the CAISO modify its proposal to take into consideration the overall collateral requirements for participation in all CAISO markets, not just the requirements associated with only the energy market. Collateral requirements associated with the annual CRR auction are not impacted in any way by the CAISO's payment acceleration proposal and need to be considered when determining a revised Unsecured Credit Limit value. Temporarily increasing the maximum UCL for the month of the annual CRR auction will account for both the shortened cash clearing cycle for energy market transaction, and the unchanged collateral requirements to participate in the annual CRR auction.

Respectfully submitted,

JENNIFER R. HASBROUCK  
ERIN K. MOORE

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By: [Erin K. Moore](#)

Attorneys for  
SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue  
Post Office Box 800  
Rosemead, California 91770  
Telephone: (626) 302-6848  
Facsimile: (626) 302-3540  
E-mail: [Erin.Moore@SCE.com](mailto:Erin.Moore@SCE.com)

Dated: [September 25, 2009](#)

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing **INTERVENTION AND COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY ON THE CALIFORNIA INDEPENDENT SYSTEM OPERATOR'S UNSECURED CREDIT LIMIT FILING** upon each person designated on the official service list compiled by the Secretary in this proceeding.

Dated at Rosemead, California, this 25<sup>th</sup> day of September, 2009.

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Case Analyst

SOUTHERN CALIFORNIA EDISON COMPANY

2244 Walnut Grove Avenue  
Post Office Box 800  
Rosemead, California 91770  
Telephone: (626) 302-6846