# Description of Approach to Proposed RTO West Scheduling Coordinator Credit Requirements

As part of its overall strategy to address credit issues affecting RTO West, the RTO West Liability and Risk Management Work Group (the "Work Group") has develop a draft set of scheduling coordinator credit requirements. This paper describes some of the key objectives and considerations that helped shape those credit requirements.

Above all, the credit requirements are intended to strike a fair balance. They are designed to provide reasonable protection to RTO West (and those who can be affected by RTO West's solvency and financial obligations) without imposing unreasonable burdens on scheduling coordinators. The credit requirements also seek to avoid transferring risks and costs associated with less creditworthy market participants onto those that are more creditworthy.

The scheduling coordinator credit requirements are typical of many credit policies in that they have four basic components:

1. An application process to establish initial creditworthiness and access to unsecured credit (including submission of supporting information);

2. Obligations to keep credit-related information current;

3. Requirements for collateral deposits for anticipated financial obligations that exceed approved levels of unsecured credit; and

4. Remedies for failures to meet payment obligations or creditworthiness standards.

One of the most critical aspects of striking a fair balance through the credit requirements is the method of calculating credit exposure. These provisions calibrate the amount of collateral a scheduling coordinator must provide to several factors, including: (a) the volume of business the scheduling coordinator is expected to conduct, (b) the resources it has available to meet its load service commitments, (c) the degree to which the scheduling coordinator's metering capability allows close tracking of energy deliveries and consumption, and (d) how quickly a scheduling coordinator is willing to settle outstanding payment obligations.

These provisions will impose lower collateral requirements on those entities that conduct business at low volume or in a manner that minimizes non-delivery and non-payment risks. Those entities that engage in high-volume, high-risk types of transactions (or that elect not to implement measures, such as sophisticated metering, that allow RTO West to adequately monitor risk) will bear the costs of their own risk choices by posting greater collateral to assure payment. Thus, an organization that has adequate generation resources or contract rights to meet its obligations and adequate metering to keep RTO West informed of its status (therefore presenting low risk that RTO West will have to provide large amounts of imbalance energy to cover the scheduling coordinator's loads) will not need to post as much collateral as an organization with higher risk approaches, such as waiting until near real-time to purchase needed energy and limited metering that permits imbalance settlement only on a monthly basis.

The credit requirements are designed to create incentives for scheduling coordinators to: (a) make adequate arrangements to meet load, (b) install and maintain more sophisticated metering capabilities, and (c) minimize reliance on RTO West imbalance energy purchases. Greater costs (of posting increased collateral) will fall on those scheduling coordinators whose manner of doing business creates greater risk, rather than on all scheduling coordinators equally. The Work Group intends that these credit requirements will be coupled with an imbalance energy pricing structure that reinforces incentives against using imbalance energy as a resource for load service.