

## RTO West Liability and Risk Management Work Group Proposed Strategies to Manage RTO West Credit Risk Issues

<b>PROPOSED STRATEGY</b> <i>(Identify proposed strategy)</i>	<b>PROBLEM ADDRESSED</b> <i>(Identify how the proposed strategy would be implemented and what it is designed to accomplish)</i>	<b>POTENTIAL CONSEQUENCES/PROBLEMS</b> <i>(Describe likely consequences and policy implications)</i>	<b>IMPLEMENTATION STEPS</b> <i>(Describe any tasks remaining to carry out strategy)</i>
<p><b>1. <u>Rigorous SC Credit Standards:</u></b></p> <p>Rigorous RTO West Scheduling Coordinator (“SC”) Credit Standards (the “Credit Standards”) will be proposed to minimize financial risk faced by RTO West and the filing utilities with respect to purchases of Imbalance Energy.<sup>1</sup></p>	<p><i>Rigorous Credit Standards would:</i></p> <ul style="list-style-type: none"> <li>• Afford RTO West the ability to manage financial liability that may arise if FERC requires RTOs to serve as partial or absolute providers of last resort of Imbalance Energy;</li> <li>• Reduce RTO West’s monetary exposure for the purchase and provision of Imbalance Energy, especially during times of high volatility and unpredictability in the price of Imbalance Energy in the market, as well as for other financial obligations SCs may incur (such as for other Ancillary Services or Grid Management Charges);</li> <li>• Reduce the filing utilities’ monetary exposure when both RTO West and the SC are unable to pay for Imbalance Energy and other liabilities; and</li> <li>• Reduce the likelihood for increased</li> </ul>	<p><i>Rigorous Credit Standards could result in the following:</i></p> <ul style="list-style-type: none"> <li>• Some SCs may be unable to qualify, which may result in a limited number of available SCs.</li> </ul>	<ul style="list-style-type: none"> <li>• Liability and Risk Management Work Group to complete draft SC credit requirements; and</li> <li>• RTO West work group designated to be responsible for tariff appendix to evaluate and incorporate draft SC credit requirements as appropriate.</li> </ul>

<sup>1</sup> “Imbalance Energy,” as defined in Schedule 4 of Order 888-A’s pro forma OATT, is energy “provided when a difference occurs between the scheduled and the actual delivery of energy to a load located within a Control Area over a single hour.” A transmission provider is required to offer Imbalance Energy service “when the Transmission Service is used to serve load within its Control Area.” Order 2000 requires an RTO to have “adequate arrangements” in place to provide Ancillary Services but affords the RTO some measure of flexibility to meet these obligations, “including contractual arrangements, indirect or direct control of specified generation facilities, and market mechanisms.” While reliance on Imbalance Energy to serve load is of primary concern to the RTO West credit work group, the work group also acknowledges the credit risk involved in a Scheduling Coordinator’s purchase of Transmission and Ancillary Services. The work group recommends that RTO West include each SC’s purchase of Transmission and Ancillary Services in the RTO West credit exposure report.

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	rates for Transmission Services due to increased RTO West, generator, and transmission-owner exposure to financial liability.		
<p><b>2. <u>Metering Capabilities and Billing Cycle:</u></b></p> <p><b>a. Minimum Metering Requirements:</b> SCs should be responsible for providing the metering capability to measure Imbalance Energy for each SC on a daily or weekly basis.</p> <p><b>b. SCs Without Adequate Metering:</b> The Credit Standards should provide for the following:</p> <ul style="list-style-type: none"> <li>• Limitations on the involvement of SCs without sufficient metering capabilities;</li> <li>• Pooling SCs without sufficient metering capabilities to share in the cost of the credit risk with other similarly situated SCs; and</li> <li>• Increased collateral deposits from SCs without sufficient metering capabilities.</li> </ul> <p><b>c. Billing Provisions:</b> The RTO West billing and settlement process should provide for a short billing cycle for Imbalance Energy under which:</p> <ul style="list-style-type: none"> <li>• RTO West would issue preliminary settlement statements for Imbalance Energy usage on a daily basis;</li> <li>• RTO West would bill for Imbalance Energy on a weekly basis (based on</li> </ul>	<p><i>Minimum metering requirements, together with adequate metering and billing provisions in the Credit Standards, would:</i></p> <ul style="list-style-type: none"> <li>• Reduce RTO West’s monetary exposure for the purchase and provision of Imbalance Energy, by minimizing the outstanding amounts owed by SCs for Imbalance Energy;</li> <li>• Reduce the filing utilities’ monetary exposure when both RTO West and the SC are unable to pay for Imbalance Energy liabilities;</li> <li>• Provide RTO West the ability to quickly identify and suspend SCs that are failing to pay, failing to meet credit standards, or fast approaching financial distress;</li> <li>• Prevent RTO West from being required to float large amounts of credit for months at a time; and</li> <li>• Allow SCs the economic choice to either increase collateral or to rapidly pay for Imbalance Energy services used, possibly helping to ease some of the liquidity pressure an SC may otherwise face through weekly capital outlays.</li> </ul>	<p><i>Minimum metering requirements, together with adequate metering and billing provisions in the Credit Standards, could result in the following:</i></p> <ul style="list-style-type: none"> <li>• The cost of participating in RTO West will increase as the cost of additional metering increases; and</li> <li>• Metering requirements may put an SC under liquidity pressure because the SC will be paying RTO West for Imbalance Energy on a weekly basis and may be collecting from customers on a monthly basis.</li> </ul>	<ul style="list-style-type: none"> <li>• Minimum metering requirements to be specified in scheduling coordinator tariff appendix (or by reference to separate metering appendix) - <i>responsibility:</i> groups with task of drafting scheduling coordinator tariff appendix (in coordination with metering appendix group if necessary);</li> <li>• Credit standards in scheduling coordinator tariff appendix to create linkage between metering capability, settlement period, and collateral requirements - <i>responsibility:</i> Liability and Risk Management Work Group; and</li> <li>• Billing and Settlements tariff appendix to provide for option to more rapidly settle Imbalance Energy charges - <i>responsibility:</i> Billing and Settlements Work Group.</li> </ul>

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<p>actual usage when metering is sufficient to determine or as an estimate based on historical usage when actual usage is not available); and</p> <ul style="list-style-type: none"> <li>• RTO West could charge SCs for the cost of working capital based on the difference between actual and scheduled quantities, so SCs are discouraged from underscheduling to take advantage of any float.</li> </ul>			

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<p><b>3. <u>Facilitate Development of Services and Policies That Promote Increased Energy Price Elasticity by Adding Demand Response Elements</u></b></p>	<p><b>Problem:</b> The primary resources RTO West can use to achieve system balance are generation resources and demand resources that have the ability to respond exactly like generation. This moves the Imbalance Energy “market” outside of the realm of an actual market and into a scenario in which, in generation shortages, load (and RTO West) are forced to take these resources at any price (both for balancing load/resources and for responding to residual congestion). Increases risk of very high price spikes.</p> <p><b>Implementation:</b> Add an additional voluntary product to the Ancillary Services portion of the tariff designed to promote energy price elasticity through demand response.</p>	<ul style="list-style-type: none"> <li>• Allows consumers to decide whether to forgo consumption or consume power based on the value of forgoing consumption;</li> <li>• Possible discomfort on part of operators in using these resources (may seem “less reliable”); and</li> <li>• Could provide solid information to consider demand alternatives to building transmission in the planning process.</li> </ul>	<ul style="list-style-type: none"> <li>• Responsibility of RTO West Board of Trustees to decide upon and implement policies to support or facilitate demand market; and</li> <li>• Would need to develop physical infrastructure, including additional metering and communications capabilities, to enable participation before RTO West start-up for meaningful effect.</li> </ul>

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<p><b>4. <u>Encourage Healthy Market for Products That Enable SCs To Hedge Ancillary Services (Imbalance Energy) Price Risk</u></b></p>	<p><b>Problem:</b> The ability to manage price risks efficiently will help manage credit risk arising from high, volatile power prices that may arise from time to time. Efficient hedging tools can be used to shift price risk from those unwilling to bear it (Scheduling Coordinators, for instance) to those willing to bear that risk (speculators and market participants with a counterposition). In California, utilities were unable to hedge price risk effectively for a variety of reasons, including institutional resistance from regulators. One possible strategy for an SC that is having financial difficulties would be to require that SC to purchase appropriate hedging instruments to protect it from excessive losses from, for example, inflated Imbalance Energy markets.</p> <p><b>Implementation:</b> Encourage collaboration of SCs and third parties to develop a financial market for hedging instruments (options, futures contracts, swap agreements, contracts for differences, etc.) so that effective hedging devices are available for those that want them.</p>	<ul style="list-style-type: none"> <li>• Creates a method of shifting price risk to those willing to accept it;</li> <li>• Allows credit risk to be allocated to a broader pool of market participants and speculators than would otherwise be the case, thereby dispersing credit risk;</li> <li>• Promotes efficiency in pricing, as financial markets tend to discipline prices through arbitrage and other techniques; and</li> <li>• Utility commissions must allow the costs of hedging to flow through to ratepayers—even if the hedge turns out to be an unnecessary expenditure when prices move favorably, thereby making the hedge unnecessary.</li> </ul>	<ul style="list-style-type: none"> <li>• Responsibility of RTO West Board of Trustees to decide upon and implement policies to support development and use of external market for hedging products;</li> <li>• Interested parties would need to work with each other (outside of the RTO West service structure) to develop hedging products and markets for trading them; and</li> <li>• Utility commissions must develop policies that allow utilities to recover reasonable hedging expenses.</li> </ul>

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<p><b>5. <u>SC's Collateral Deposits:</u><sup>2</sup></b></p> <p><b>a. Collateral Requirements:</b> The amount of collateral an SC will be required to post will be calibrated according to the following factors:</p> <ul style="list-style-type: none"> <li>• The volume of business the scheduling coordinator is expected to conduct;</li> <li>• The resources it has available to meet its load service commitments;</li> <li>• The degree to which the scheduling coordinator's metering capability allows close tracking of energy deliveries and consumption;</li> <li>• How quickly a scheduling coordinator is willing to settle outstanding payment obligations; and</li> <li>• Market prices.</li> </ul> <p><b>b.</b> SCs will be required to post additional collateral if they reach their credit limits (or come within some predetermined percentage of such limits).</p>	<p><i>SC Collateral Deposits would:</i></p> <ul style="list-style-type: none"> <li>• Minimize the credit risk of SC nonpayment.</li> </ul>	<p><i>SC Collateral Deposits could result in the following:</i></p> <ul style="list-style-type: none"> <li>• Some SCs may be unable to meet collateral requirements, which may result in a limited number of available SCs; and</li> <li>• Collateral increases, <i>e.g.</i>, due to regular margin calls, may put an SC under liquidity pressure.</li> </ul>	<ul style="list-style-type: none"> <li>• Credit Standards in scheduling coordinator tariff appendix to specify collateral requirements - <u>responsibility</u>: Liability and Risk Management Work Group.</li> </ul>

<sup>2</sup> Collateral requirements may need to be adjusted for increased risk due to an SC's purchase of Transmission Services and Ancillary Services.

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<p><b>6. <u>Explore Ways To Calibrate Credit Exposure Calculations To Reflect Changing Market and Other Conditions:</u></b></p> <ul style="list-style-type: none"> <li>The RTO West Board of Trustees and those responsible for RTO West’s credit risk management should explore ways in which they could quickly “mark to market” the figures they use to calculate how much credit exposure there is from a particular SC; and</li> <li>RTO West should develop a credit exposure report procedure to track the status of the SC’s compliance with credit requirements and collateral status.</li> </ul>	<p><i>The ability to update credit exposure calculations to reflect evolving market conditions would:</i></p> <ul style="list-style-type: none"> <li>Provide more exact tools to make sure that credit support requirements match, as closely as possible, actual credit exposure from particular SCs; and</li> <li>At times when market conditions are favorable, avoid requiring more collateral than needed because of infrequent credit exposure calculations based on historical prices.</li> </ul>	<p><i>The ability to update credit exposure calculations to reflect evolving market conditions could result in the following:</i></p> <ul style="list-style-type: none"> <li>Sudden “spikes” in collateral requirements (and resulting “margin” calls) when expected or actual prices for Imbalance Energy or other costs incurred by SCs rise rapidly; and</li> <li>Sudden and unexpected SC suspensions under adverse market conditions if SCs are unable to quickly meet collateral “margin” calls.</li> </ul>	<ul style="list-style-type: none"> <li>RTO West Board of Trustees and credit risk management personnel.</li> </ul>
<p><b>7. <u>SC Penalties for Failure To Meet Load:</u></b></p> <p>The Credit Standards should contain economic disincentives to use Imbalance Energy or to underschedule.</p> <p><b>a. Two-Tiered Structure:</b> The Credit Standards will provide for a two-tiered structure of charges with respect to Imbalance Energy. This will permit an SC to incur a limited amount of Imbalance Energy liability with a small charge with respect to market price, which will account for reasonable errors in forecasting and other areas. If an SC exceeds a certain</p>	<p><i>Penalties and disincentives for failure to meet load would:</i></p> <ul style="list-style-type: none"> <li>Create disincentives for SCs to use Imbalance Energy to service their load obligations and encourage SCs to submit balanced schedules;</li> <li>Impose the cost of Imbalance Energy on the parties who create the problem; and</li> <li>The fund would minimize the credit risk associated with SC nonpayment.</li> </ul>	<p><i>Penalties and disincentives for failure to meet load could result in the following:</i></p> <ul style="list-style-type: none"> <li>High penalties could cause SCs to go into default (however, removing those SCs may be beneficial); and</li> <li>Implementing a penalty percentage based on the full market cost to the system leads to questions regarding (1) the ability to determine after the fact how much energy was used to relieve real-time congestion versus to serve the difference between schedule and actual and (2) whether the SC outside the spread should pay the higher price for only its portion or for the entire</li> </ul>	<ul style="list-style-type: none"> <li>Liability and Risk Management Work Group to develop policies designed to further credit-related objectives and to coordinate with content group working on market design and Ancillary Services to develop final recommendation on Imbalance Energy incentive provisions.</li> </ul>

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<p>range, the SC will be required to pay a harsher penalty.</p> <p><b>b. Self-Provision:</b>  SCs will be allowed to trade imbalances to reduce the amounts that they will pay to RTO West or that will be paid by RTO West for Imbalance Energy. Self-providers would have the energy they provide set off against their imbalances to determine their net imbalance. A different penalty may apply for self-provision due to the possible strain that may be placed on the system. It remains undecided whether an SC will be allowed to trade unreasonable imbalances that would otherwise be subject to a penalty.</p> <p><b>c. Penalty for Unreasonable Imbalances:</b>  A penalty will apply for both (i) load demand in excess of [X percent] scheduled and (ii) Imbalance Energy furnished by RTO West in excess of [X percent] of the schedule. The penalty could be very high, such as an additional percentage markup.</p> <p><b>d. Calculating the Penalty:</b>  The penalty will be calculated based on a forecast of Imbalance Energy to be used for the year and will be adjusted annually.</p> <p>The money collected by RTO West that exceeds the amounts it pays for Imbalance</p>		<p>portion.</p>	

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Energy will be deposited in a fund to cover SC defaults and/or to reward SCs who are scheduling within the spread.			
<p><b>8. <u>SC Suspension or Termination</u> :</b></p> <p>An SC may be temporarily suspended or permanently terminated as an SC when the SC (i) fails to pay for Imbalance Energy or (ii) fails to meet or continue to meet the Credit Standards, (iii) fails to maintain collateral requirements, and/or (iv) defaults under a Scheduling Coordinator Agreement.</p>	<p><i>Suspension and termination provisions in the Credit Standards would:</i></p> <ul style="list-style-type: none"> <li>Minimize the credit risk of SC nonpayment by temporarily suspending or permanently terminating SCs before there is significant risk of a large default.</li> </ul>	<p><i>Suspension and termination provisions in the Credit Standards could result in the following:</i></p> <ul style="list-style-type: none"> <li>Some SCs may be suspended, which may result in a limited number of available SCs;</li> <li>Problems finding SC services for the existing customers of the suspended or terminated SC, and problems associated with use of a backup SC (“Backup SC”);</li> <li>Public policy concerns: Public policy may prevent RTO West from suspending service to an SC, even when a provision exists allowing RTO West to do so (<i>e.g.</i>, when an SC will be unable to acquire the energy needed to meet all of its Load Service Obligations, the State may not support a termination);</li> <li>Legal concerns: States may need to become involved in developing applicable rules and legal authority for suspending RTO West service to SCs; and</li> <li>Tariff concerns: RTO West could be required to obtain FERC’s permission before suspending a Transmission Customer’s service for failure to pay for service provided, as provided in article 7.3 of the pro forma OATT (which requires a transmission provider to obtain FERC’s permission before terminating service to a</li> </ul>	<ul style="list-style-type: none"> <li>Credit Standards in scheduling coordinator tariff appendix must create clear right of RTO West to suspend or terminate delinquent SCs; customers of the delinquent SC would have to contract with a replacement SC, or there would have to be a Backup SC (an entity that is able and has agreed to provide SC services to the customers of suspended or terminated SCs - <i>responsibility</i>: Liability and Risk Management Work Group.</li> <li>Federal and state regulators and policy makers must support policies that allow RTO West to protect itself from becoming a de facto load-serving entity because of an unlimited obligation to supply Imbalance Energy.</li> </ul>

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		customer for failure to pay for service provided).	
<p><b>9. <u>Termination of Imbalance Energy Service:</u></b></p> <p>The Scheduling Coordinator Agreement and RTO West Tariff will allow RTO West to terminate Imbalance Energy service for any or all of the following reasons:</p> <ul style="list-style-type: none"> <li><b>a.</b> SC’s failure to pay;</li> <li><b>b.</b> SC’s failure to meet Credit Standards;</li> <li><b>c.</b> SC’s failure to meet collateral requirements; or</li> <li><b>d.</b> Other financial reasons, including an SC’s material adverse change evidencing a risk of either a or b above.</li> </ul>	<p><i>Termination provisions would:</i></p> <ul style="list-style-type: none"> <li>• Minimize the credit risk of SC nonpayment by terminating service to an SC’s load before there is significant risk of a large default.</li> </ul>	<p><i>Termination provisions could result in the following:</i></p> <ul style="list-style-type: none"> <li>• Imbalance Energy provision could be discontinued;</li> <li>• Public policy concerns: Public policy may prevent RTO West from terminating service to an SC’s load, even when a provision exists allowing RTO West to do so (<i>e.g.</i>, when an SC will be unable to acquire the energy needed to meet all of its Load Service Obligations, the State may not support a termination);</li> <li>• Legal concerns: States may need to become involved in developing applicable rules and legal authority for terminating RTO West service to SCs’ loads;</li> <li>• Physical termination concerns: RTO West must be able to physically terminate an SC’s load, which will require appropriate operational switching mechanisms—though the threat of termination may be sufficient to promote SC compliance;</li> <li>• Tariff concerns: RTO West could be required to obtain FERC’s permission before terminating a Transmission Customer’s service for failure to pay for service provided, as provided in article 7.3 of the pro forma OATT; and</li> </ul>	<ul style="list-style-type: none"> <li>• Credit Standards in SC tariff appendix must create clear right of RTO West to terminate service to delinquent SCs – <i>responsibility</i>: Liability and Risk Management Work Group;</li> <li>• Federal and state regulators and policy makers must support policies that allow RTO West to protect itself from becoming a de facto load-serving entity because of an unlimited obligation to supply Imbalance Energy or to continue serving customers of delinquent SCs; and</li> <li>• In some cases there may be no physical way to terminate the load, short of terminating service at the retail level. This is especially true in cases of retail deregulation.</li> </ul>

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		<ul style="list-style-type: none"> <li>RTO as market participant concerns: RTO West will not be protected when termination would result in RTO West acquiring a Load Service Obligation (e.g., when no Backup SC is available).</li> </ul>	
<p><b>10. <u>Backup SC:</u></b></p> <p>The Scheduling Coordinator Agreement and RTO West Tariff should address the need for a Backup SC to serve existing load when an existing SC is suspended or terminated. The Backup SC should not be obligated to assume the obligations of the SC it replaced, and the loads will be required to enter into new contracts with the Backup SC. Options for Backup SCs include the following: (i) a third party willing to contract with RTO West to act as Backup SC, (ii) the State, (iii) an incumbent utility, and/or (iv) an RTO West subsidiary.</p>	<p><i>Use of Backup SCs would:</i></p> <ul style="list-style-type: none"> <li>Limit or eliminate the question of what to do with an SC's customers once the SC has been suspended or terminated and make it more feasible to suspend or terminate an SC.</li> </ul>	<p><i>Use of Backup SCs could result in the following:</i></p> <ul style="list-style-type: none"> <li>Customers may be required to enter into new contracts with the Backup SC, which would result in the imposition of potentially different contract terms and less favorable financial positions;</li> <li>Customers being potentially responsible for financial failures of defaulting Scheduling Coordinator;</li> <li>A Backup SC may be unwilling to assume some existing customers or existing agreements of the suspended or terminated SC;</li> <li>The Backup SC may be the same entity as the terminated or suspended SC;</li> <li>Using an RTO West subsidiary as a Backup SC raises concerns related to RTO West's potential role as provider-of-last-resort of Imbalance Energy, and RTO West may not have sufficient financial resources to be a Backup SC; and</li> <li>The State may not assume the suspended or terminated SC's obligations.</li> </ul>	<ul style="list-style-type: none"> <li>RTO West will need to identify a party or parties willing and able to serve as Backup SCs and enter into appropriate agreements with these parties;</li> <li>Backup SCs should be subject to the same Credit Standards as all SCs;</li> <li>The transition to a Backup SC must be orderly; and</li> <li>RTO West Tariff and Scheduling Coordinator Agreements must provide for RTO West's right to substitute Backup SC for suspended SC - <i>responsibility</i>: group responsible for drafting scheduling coordinator tariff appendix.</li> </ul>

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<b>11. <u>Increase RTO West’s Working Capital or Capital Reserves</u></b>	<p><b>Problem:</b> The settlement process may contain a very short interval between RTO West’s receipt of money and the time at which it must pay its invoices. If there is a shortage of revenue, RTO West has no ability to cover (except through immediate borrowing) the money owing to SCs, so the consequences of the revenue shortage flows immediately to the market, creating substantial “creditworthiness” impacts.</p> <p><b>Implementation:</b> Funds could be collected in RTO West’s uplift charge or through penalties to those who overuse Imbalance Energy. In cases of revenue shortfalls, the fund could be drawn upon to allow 100 percent payment of the funds owing to SCs. RTO West should identify a dollar level at which there is too much money in this fund and how that situation would be addressed. Tariff would need to reflect this capability.</p>	<ul style="list-style-type: none"> <li>• The region pays for revenue shortage problems before they actually occur, which adds cost;</li> <li>• Could help improve RTO West’s credit standing;</li> <li>• Might slightly lower bids if generators decreased their assessment of the risk of doing business in the RTO West market; and</li> <li>• Provides for some stability of the financial side of the Energy Imbalance market in the case of a delay in payment or a default.</li> </ul>	<ul style="list-style-type: none"> <li>• Responsibility of RTO West Board of Trustees to determine working capital requirements and to establish the means for funding working capital requirements; and</li> <li>• RTO West Tariff may need to include provisions to facilitate funding of increased working capital requirements to address credit issues.</li> </ul>
<b>12. <u>Seek Contingent Cost-Adjustment Charge as Part of Rate Filing</u></b>	<p><b>Problem:</b> RTO West may need immediate additional cash for operations. Rather than incurring the cost of maintaining large cash reserves, it may be more efficient to obtain advance FERC approval of a rate for this contingency.</p> <p><b>Implementation:</b> RTO West should develop an automatic adjustment provision in its rate structure to accommodate the need for cash.</p>	<ul style="list-style-type: none"> <li>• The ability to raise cash quickly by invoking the provisions of a contingent rate may help RTO West adjust to an unanticipated need for cash. The contingent rate may not generate cash quickly enough to solve a cash shortfall without other tools; nevertheless, it is another tool to manage a credit event.</li> </ul>	<ul style="list-style-type: none"> <li>• FERC would need to approve tariff provisions allowing for contingency adjustable charges.</li> </ul>

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<p><b>13. <u>Allow RTO West To Obtain a Limited Portfolio of Interconnected Operations Services</u></b></p>	<p><b>Problem:</b> For a variety of reasons, RTO West may be required to participate in the energy markets as part of its obligation to act as a supplier of Ancillary Services as a last resort. If it is limited to day-ahead or next-hour purchases, generators may have market power to exact exorbitant rents. This proved to be a huge problem in the California markets. To defeat such strategies by generators, RTO West should be allowed to obtain a limited portfolio of Interconnected Operations Services for any period up to one year from the date such arrangements are made and in a manner expected to minimize the cost and risk associated with fulfilling its obligations as the provider of last resort.</p> <p><b>Implementation:</b> Make clear that RTO West may take forward positions in the energy markets for purposes of protecting itself from energy supply or price risk.</p>	<ul style="list-style-type: none"> <li>• Raises the concern that RTO West is in the energy business, although this proposal is limited to providing transmission products and is limited in time to 90 days;</li> <li>• If RTO West is risk-averse, it may enter into forward contracts to protect against low-probability events, thereby raising costs; and</li> <li>• The Transmission Operating Agreement may have to be revised to allow RTO West to be in the energy markets for 90 days.</li> </ul>	<ul style="list-style-type: none"> <li>• Transmission Operating Agreement may need to be revised to allow RTO West to be in the energy markets for up to 90 days - <i>responsibility</i>: filing utility representatives that prepared revised form of Transmission Operating Agreement for December 1, 2001 FERC filing.</li> </ul>
<p><b>14. <u>Means To Recover Uncollectible SC Debts:</u></b></p> <p>a. Spread cost of default to all users; and  b. RTO West has ability to recover shortfall quickly.</p>	<p><b>Problem:</b> RTO West may have a debt that becomes, finally, uncollectible. RTO West must develop procedures to identify such debts (including defining a time at which a debt will be called uncollectible) and a fair and clear method for spreading uncollectible costs. This strategy may include the use of a liquidated-damages clause in Scheduling Coordinator Agreements or the negotiation of “netting” agreements.</p>	<ul style="list-style-type: none"> <li>• Since no potential payer is at fault, broad socialization of these costs may be justified. Some potential payers may not be included in this socialization (<i>i.e.</i>, any parties that are not subject to the RTO West uplift charge).</li> </ul>	<ul style="list-style-type: none"> <li>• RTO West Tariff “uplift” provisions would need to allow RTO West to charge Transmission Customers for uncollectible SC debts - <i>responsibility</i>: RTO West Pricing Group or RTO West Board of Trustees if policy not specified by Pricing Group.</li> </ul>

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	<ul style="list-style-type: none"> <li>• Gives the RTO an alternative to bankruptcy when there are major defaults; reduces need for capital reserves.</li> </ul>		
<p><b>15. <u>After RTO West purchases Imbalance Energy, RTO West Auctions the Power to Another Party To Transfer the Accounts- Receivable Risk from RTO West to the Outside Party:</u></b></p> <p>As an example:</p> <p><b>a.</b> The RTO purchased \$100 of power and charges the Scheduling Coordinator a \$5 fee, for a total of \$105.</p> <p><b>b.</b> The RTO auctions the power and sells it to a third party for \$100, payable immediately to the RTO.</p> <p><b>c.</b> The Scheduling Coordinator owes the third party \$105 and owes the RTO \$5 (resulting in a 10 percent penalty).</p> <p><b>d.</b> This scenario allows the RTO to immediately recoup 95 percent of its cash and transfers the risk of collections to the third party.</p> <p><b>e.</b> This proposal is similar to accounts-receivable factoring, except RTO West’s responsibility for payment to the third-party purchaser is transferred to the Scheduling Coordinator.</p>	<p><i>Reselling Imbalance Energy would:</i></p> <ul style="list-style-type: none"> <li>• Spread the risk of collections from the RTO to outside parties; and</li> <li>• Allow the Scheduling Coordinator the ability to buy the contract at full price and avoid any additional penalty.</li> </ul>	<p><i>Reselling Imbalance Energy could result in:</i></p> <ul style="list-style-type: none"> <li>• The RTO trading arm would be purchasing and selling on behalf of the RTO, very similar to a regular trading entity;</li> <li>• The credit strength of a Scheduling Coordinator is tested by the true market, since the third-party purchaser of the auctioned power will be extending the trade credit to the Scheduling Coordinator; and</li> <li>• This proposal would create a new market for the auctioned power contract.</li> </ul>	<ul style="list-style-type: none"> <li>• A full trading entity would need to be established for the Imbalance Energy transactions; and</li> <li>• A minimum floor could be defined so that the Scheduling Coordinator would not be penalized more than 10 percent.</li> </ul>