

FERC ORDER NO. 741 IMPLEMENTATION

FERC ORDER NO. 741 MANDATES	CAISO	ERCOT ¹	ISO NEW ENGLAND	MISO	NYISO	PJM
						<p>PJM has submitted tariff revisions to FERC, as required under Order No. 741. The last of these revisions were approved by FERC on March 15, 2012 and became effective retroactively on December 13, 2011. PJM is in full compliance with Order No. 741.</p> <p><i>See PJM Interconnection, L.L.C., Order on Compliance Filing, Docket No. ER11-3972,000, 136 FERC ¶ 61,190 (2011) (order on compliance filing finding that PJM’s compliance filing complies with the requirements set forth in Order No. 741 and that PJM’s proposed minimum participation criteria are just and reasonable, and, therefore, conditionally accepting PJM’s proposed tariff revisions effective October 1, 2011);² PJM Interconnection, L.L.C., Order Accepting Compliance Filing, Docket No. ER11-3972-002, 138 FERC ¶ 61,183 (2012) (order accepting PJM’s November 29, 2011 compliance filing and granting a December 13, 2011, effective date);³ PJM Interconnection, L.L.C., Order Denying Rehearing, Docket Nos.</i></p>

¹ ERCOT is not subject to FERC regulation or the requirements of FERC Order No. 741. Nevertheless, the ERCOT Protocols and proposed revisions are comparable to the credit reform requirements of FERC Order No. 741.

² Available at: <http://elibrary.ferc.gov/idmws/common/OpenNat.asp?fileID=12766169>. FERC ordered PJM to submit a compliance filing within 90 days of the date of the order to clarify a provision of PJM’s proposed officer certification form, amend its tariff provisions regarding the cap on unsecured credit and elimination of unsecured credit in the FTR markets, and provide for compliance verification concerning minimum criteria for market participation).

³ Available at: <http://elibrary.ferc.gov/idmws/common/OpenNat.asp?fileID=12915576>. FERC found that PJM’s proposed compliance verification process complied with the FERC’s directives, and is just and reasonable and not unduly discriminatory or preferential. FERC rejected requests for an exemption for market participants that are regulated by banking regulators from PJM’s compliance verification policies and procedures. FERC also declined to require PJM to adopt indicated Participants’ proposal regarding when and how frequently PJM would verify a market participant’s compliance with risk management practices and policies. FERC found that PJM’s proposal that includes selecting participants for review on a random basis and/or based on identified risk factors strikes the appropriate balance between periodically verifying that participants are complying without unduly burdening participants. FERC declined to require PJM to revise its proposal to include an additional 14 days from the date the cure period expires to appeal a negative determination. FERC also stated that it expects PJM to explain any deficiencies in a market participant’s risk management policies when it notifies the participant that PJMSettlement is unable to complete its verification. FERC noted that PJM stated this in its answer. While FERC did not require tariff revisions to clarify this, they directed PJM to address this explanation in its business rules.

FERC ORDER NO. 741 MANDATES	CAISO	ERCOT ¹	ISO NEW ENGLAND	MISO	NYISO	PJM
						ER11-3972-001, et al., 138 FERC ¶ 61,182 (2012) (rejecting a request by the Electric Power Supply Association for rehearing of its FERC’s orders on all six RTOs’ filings to comply compliance with Order No. 741, as well as requests for rehearing of PJM’s Order No. 741 compliance filing submitted by several parties). ⁴
Limit the amount of unsecured credit extended to any market participant or aggregate corporate family to no more than \$50 million.	<p>The maximum amount of unsecured credit available to any market participant or group of market participant affiliates is \$50 million.⁵</p> <p>The CAISO submitted tariff revisions to satisfy this Order No. 741 mandate on June 30, 2011.⁶ FERC accepted the tariff revisions on September 15, 2011, effective as of October 1, 2011.⁷ Thus, the CAISO is in full compliance with this Order No. 741 mandate.</p>	Unsecured credit is subject to a \$50 million limit and is granted solely within ERCOT’s discretion. The \$50 million cap also is applied at the “corporate family” level and became effective December 1, 2011. ⁸	Effective October 1, 2011, ISO NE lowered to \$50 million the limits of certain types of unsecured credit that it previously extended above \$50 million. ⁹	<p>MISO is in full compliance and does not extend Unsecured Credit exceeding \$50 million to any market participant or aggregate corporate family.¹⁰</p> <p>Filing date: 6/30/11¹¹ FERC approval date: 9/15/11¹² Effective date: 10/1/11</p>	<p>The maximum amount of unsecured credit available to any one Market Participant, or group of affiliated Market Participants is \$50 million.¹³</p> <p>The NYISO submitted this tariff revision as required by Order No. 741. FERC approved this revision on September 15, 2011, 136 FERC ¶ 61,193 (the “September 15 Order”), at P 20.¹⁴ This revision became effective on October 18, 2011 and thus, the NYISO is in full compliance with this Order No. 741 mandate.</p>	The total amount of unsecured credit allowance, whether from a market participant’s own creditworthiness or from a guaranty, is capped at \$50 million. ¹⁵ On March 15, 2012, FERC accepted PJM’s proposed tariff revisions filed in compliance with FERC’s September 15, 2011 Order on PJM’s Order No. 741 Compliance Filing to ensure that Seller Credit, which is a form of unsecured credit, is included as part of the \$50 million unsecured credit allowance cap. ¹⁶ See <i>PJM Interconnection, L.L.C.</i> , Order Accepting Compliance Filing,

⁴ Available at: <http://elibrary.ferc.gov/idmws/common/OpenNat.asp?fileID=12915575>.

⁵ See CAISO Tariff § 12.1.1.

⁶ See filing letter at page 10, section entitled “Limit on Unsecured Credit.” Link to filing: http://www.caiso.com/Documents/2011-06-30_CredReforms_CompFiling_ER11-3973.pdf.

⁷ *California Independent System Operator Corporation*, 136 FERC ¶ 61,194, at Paragraph 16 (2011), available at: http://www.caiso.com/Documents/ER11-3973_Credit%20Policy%20Order_2011-09-15.pdf.

⁸ ERCOT Creditworthiness Standards.

⁹ *ISO New England and New England Power Pool*, 136 FERC ¶ 61,191 (2011), available at http://www.iso-ne.com/regulatory/ferc/orders/2011/sep/er11-3953-000_9-15-11_credit_order.pdf.

¹⁰ Link to MISO Tariff: <https://www.misoenergy.org/Library/Tariff/Pages/Tariff.aspx>.

¹¹ Link to 6/30/11 MISO filing: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Filings/2011-06-30%20Docket%20No.%20ER11-3970-000.pdf>.

¹² Link to 9/15/11 FERC order: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Orders/2011-09-15%20136%20FERC%2061.188%20Docket%20No.%20ER11-3970.pdf>

¹³ See NYISO Services Tariff Section 26.5.2.

¹⁴ A copy of the September 15 Order is available on the NYISO’s website at http://www.nyiso.com/public/webdocs/documents/regulatory/orders/2011/09/FERC_Ord_Ord_No_741_Crdt_Rfrms_9_15_11.pdf.

¹⁵ PJM Tariff, Attachment Q, Section II.F.

¹⁶ PJM Interconnection, L.L.C., November 29, 2011 Filing, Docket No. ER11-3972, at 13.

FERC ORDER NO. 741 MANDATES	CAISO	ERCOT ¹	ISO NEW ENGLAND	MISO	NYISO	PJM
<p>Adopt a settlement period of no more than seven days with an additional seven days to receive payment.</p>	<p>The CAISO has a weekly settlement cycle, issuing invoices every Wednesday, with payment due four business days later.¹⁷</p> <p>The CAISO submitted tariff revisions to satisfy this Order No. 741 mandate on June 30, 2011.¹⁸ FERC accepted the tariff revisions on September 15, 2011, effective as of October 1, 2011.¹⁹ Thus, the CAISO is in full compliance with this Order No. 741 mandate.</p>	<p>On August 16, 2011 and October 18, 2011, the ERCOT Board of Directors approved Protocol changes to tighten the Real Time settlement and payment cycle: (i) Combining Real Time settlements with DAM settlements into one “daily” invoice with both DAM and RT settlement statements on it; and (ii) Shortening the RT payment timeline by two bank business days. The “daily” invoice will be paid within 3 bank business days instead of five. These changes should ensure that approximately 90% of Real Time days are settled and paid within 15 days with the weighted average settlement and payment cycle being no more than 15 days. Settlement and payment timelines longer than the above are expected to be primarily due to weekend and holiday schedules. ERCOT is in the process of implementing these Protocol changes and expects completion by December 2012.²⁰</p>	<p>Effective January 26, 2011, ISO NE has implemented twice-weekly billing for hourly charges.²¹</p>	<p>MISO is in full compliance and invoices on the seven-day settlement of charges and credits (S7). MISO requires payment within seven days. MISO reflected this change in a Business Practice Manual and FERC requested that MISO update its Tariff to include the settlement changes. MISO added the applicable language to Section 7 of its Tariff.²²</p> <p>Initial filing date: 6/30/11²³ FERC response date: 9/15/11²⁴ Amended filing date: 12/14/11²⁵ FERC approval date: 3/15/12²⁶ Effective date: 10/1/11</p>	<p>NYISO Services Tariff Section 7.2 and OATT Section 2.7.3 established, effective October 1, 2011, a weekly settlement cycle for approximately 99% of the dollar volume of NYISO-administered market transactions.</p> <p>The NYISO submitted this tariff revision as required by Order No. 741. FERC approved this revision on September 15, 2011. This revision became effective on October 1, 2011 and thus, the NYISO is in full compliance with this Order No. 741 mandate.²⁷</p>	<p>Docket No. ER11-3972-002, 138 FERC ¶ 61,183 (2012).</p> <p>PJM’s settlement period for most products and services is one week. Payment on all invoices is due within three business days.²⁸</p>

¹⁷ See CAISO Tariff § 11.29.2 & 11.29.10.

¹⁸ See filing letter at pages 4-10, section entitled “Shortening the Settlement Cycle.” Link to filing: http://www.caiso.com/Documents/2011-06-30_CredReforms_CompFiling_ER11-3973.pdf

¹⁹ California Independent System Operator Corporation, 136 FERC ¶ 61,194, at Paragraph 12 (2011), available at: http://www.caiso.com/Documents/ER11-3973_Credit%20Policy%20Order_2011-09-15.pdf.

²⁰ ERCOT Protocol, Sections 9.5.4, 9.6, and 9.7 as modified by NPRR 347 and NPRR391 (which currently are being implemented).

²¹ ISO New England and New England Power Pool, 132 FERC ¶ 61,046 (2010), available at http://www.iso-ne.com/regulatory/ferc/orders/2010/jul/er10-942-000_7-16-10_order_unsecured_credit.pdf. Notice of effective date available at http://www.iso-ne.com/regulatory/ferc/filings/2010/nov/er10-2933-001_11-18-10_unsecured_credit.pdf.

²² Link to MISO Tariff: <https://www.misoenergy.org/Library/Tariff/Pages/Tariff.aspx>.

²³ Link to 2/3/11 MISO filing: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Filings/2011-02-03%20Docket%20No.%20ER11-2831-000.pdf>.

²⁴ Link to 9/15/11 FERC order: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Orders/2011-09-15%20136%20FERC%2061,188%20Docket%20No.%20ER11-3970.pdf>

²⁵ Links to 12/14/11 MISO filing: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Filings/2011-12-14%20Docket%20No.%20ER11-3970-000.pdf>.

²⁶ Link to 3/15/12 FERC order: <http://www.ferc.gov/whats-new/comm-meet/2012/031512/E-22.pdf>

²⁷ See September 15 Order at P 25.

FERC ORDER NO. 741 MANDATES	CAISO	ERCOT ¹	ISO NEW ENGLAND	MISO	NYISO	PJM
<p>Eliminate unsecured credit in the financial transmission rights market.</p>	<p>Market participants are required to post secured collateral for bidding or holding CRRs.²⁹</p> <p>The CAISO submitted tariff revisions to satisfy this Order No. 741 mandate on June 30, 2011.³⁰ FERC accepted the tariff revisions on September 15, 2011, effective as of October 1, 2011 subject to certain compliance requirements related to the treatment of federal agencies.³¹ In all other respects, the CAISO is in compliance with this Order No. 741 mandate.</p> <p>In its September 15, 2011, order FERC directed the CAISO to submit a compliance filing that contained tariff revisions stating that a federal agency is deemed to provide secured collateral if it provides an executed letter setting forth the information described above.³² On December 14, 2011, the CAISO submitted a compliance filing that contained the tariff revisions required by FERC.³³ A federal agency is deemed to have provided secured collateral if it provides a letter executed by an officer that: (1) attests that the</p>	<p>On October 18, 2011, the ERCOT Board of Directors approved Protocol changes that will ensure that the CRR Auction and CRR forward mark-to-market values are fully collateralized rather than being subject to unsecured credit. ERCOT is in the process of implementing these changes and expects completion by December 2012.³⁶</p>	<p>Effective January 26, 2011, ISO NE has eliminated the use of unsecured credit for all FTRs for all ISO NE market participants.³⁷</p>	<p>MISO is in full compliance and has eliminated the use of Unsecured Credit to support financial transmission rights (FTR) allocations and exposure. MISO later amended the initial filing to exclude auction revenue rights exposure from the financial transmission rights exposure calculation where market participants were allocated auction revenue rights and do not own any financial transmission rights.³⁸</p> <p>Filing date: 2/3/11³⁹ FERC approval date: 4/6/11⁴⁰ Effective date: 4/5/11 Amended filing date: 6/30/11⁴¹ FERC approval date: 9/15/11⁴² Amendment effective date: 10/1/11</p>	<p>Market Participants are required to post collateral, and are not permitted to use unsecured credit, to satisfy credit requirements for bidding on or holding TCCs.⁴³</p> <p>With the exception of credit requirements related to Fixed Price TCCs, the NYISO eliminated the use of unsecured credit in the TCC market effective November 12, 2009.⁴⁴</p> <p>The NYISO submitted tariff revisions to eliminate the use of unsecured credit to meet credit requirements related to Fixed Price TCCs as required by Order No. 741. FERC approved these revisions on September 15, 2011. These revisions became effective on October 1, 2011 and thus, the NYISO is in full compliance with this Order No. 741 mandate.⁴⁵</p>	<p>In the FTR market, unsecured credit is not allowed, and collateral, which is required on a portfolio basis based upon path-specific historical values, must be established prior to bidding into the auction.⁴⁶ On March 15, 2012, FERC accepted PJM's proposed tariff revisions filed in compliance with FERC's September 15, 2011 Order on its Order No. 741 Compliance Filing to remove the possibility that Seller Credit, which is a form of unsecured credit, could be used as credit for FTRs.⁴⁷ <i>PJM Interconnection, L.L.C.</i>, Order Accepting Compliance Filing, Docket No. ER11-3972-002, 138 FERC ¶ 61,183 (2012) (accepting PJM's November 29, 2011 compliance filing and granting a December 13, 2011, effective date).</p>

²⁸ PJM Tariff, Section 7.1A.

²⁹ See CAISO Tariff § 12.6.2.

³⁰ See filing letter at pages 10-11, section entitled "Elimination of Unsecured Credit for Financial Transmission Rights Markets." Link to filing: http://www.caiso.com/Documents/2011-06-30_CredReforms_CompFiling_ER11-3973.pdf

³¹ *California Independent System Operator Corporation*, 136 FERC ¶ 61,194, at Paragraph 24 (2011), available at: http://www.caiso.com/Documents/ER11-3973_Credit%20Policy%20Order_2011-09-15.pdf.

³² *California Independent System Operator Corporation*, 136 FERC ¶ 61,194, at Paragraphs 26-27 (2011), available at: http://www.caiso.com/Documents/ER11-3973_Credit%20Policy%20Order_2011-09-15.pdf.

³³ See filing letter at pages 3-4, section entitled "Elimination of Unsecured Credit in CRR Markets – Demonstration of Financial Security by Federal Agencies." Link to filing: http://www.caiso.com/Documents/2011-12-14_ER11-3973_CredRefComp.pdf

³⁴ See Tariff § 12.6.2.2.

³⁵ *California Independent System Operator Corporation*, 138 FERC ¶ 61,181, at Paragraph 28 (2012), available at http://www.caiso.com/Documents/2012-03-15_ER11-3973_order.pdf.

³⁶ ERCOT Protocol, Sections 16.11.4.1 and 16.11.4.6 as modified by NPRR 400 (which currently is being implemented).

³⁷ *ISO New England and New England Power Pool*, 132 FERC ¶ 61,046 (2010), available at http://www.iso-ne.com/regulatory/ferc/orders/2010/jul/er10-942-000_7-16-10_order_unsecured_credit.pdf. Notice of effective date available at http://www.iso-ne.com/regulatory/ferc/filings/2010/nov/er10-2933-001_11-18-10_unsecured_credit.pdf.

FERC ORDER NO. 741 MANDATES	CAISO	ERCOT ¹	ISO NEW ENGLAND	MISO	NYISO	PJM
	<p>federal agency is lawfully authorized to participate in the CRR Auction and that any debt the federal agency incurs due its participation in the CRR Auction is a debt of the United States; (2) identifies the current year's appropriations for the federal agency from the United States Congress; and (3) verifies that the amount of the current year's appropriations for the federal agency from the United States Congress meets or exceeds the amount required to satisfy the credit requirements set forth in Section 12.1.³⁴</p> <p>On March 15, 2012, FERC issued an order that accepted the tariff revisions submitted in the December 14, 2011, filing, effective as of April 30, 2012.³⁵ Thus, as of April 30, 2012, the CAISO will be in full compliance with the directive in FERC's September 15, 2011 order.</p>					
Reinforce the ability of the ISO/RTO to offset market obligations owed to market participants against market	The CAISO expects to file tariff revisions to become a central counterparty to all market	ERCOT has submitted Nodal Protocol Revision Request (NPRR) 458, Establishment of ERCOT's	On April 30, 2012, ISO NE filed a package of tariff changes to establish itself as the central counterparty for	FERC granted MISO an extension of time to meet this requirement, allowing MISO to more fully	On April 30, 2012, the NYISO submitted tariff revisions, to comply with this Order No. 741 mandate,	Effective January 1, 2011, PJM revised its OA and Tariff to establish PJMSettlement Inc. as the

³⁸ Link to 3/15/12 FERC order: <http://www.ferc.gov/whats-new/comm-meet/2012/031512/E-22.pdf>.

³⁹ Link to 2/3/11 MISO filing: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Filings/2011-02-03%20Docket%20No.%20ER11-2831-000.pdf>

⁴⁰ Link to 4/6/11 FERC order: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Orders/2011-04-06%20Letter%20Order%20Docket%20No.%20ER11-2831-000.pdf>

⁴¹ Link to 6/30/11 MISO filing: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Filings/2011-06-30%20Docket%20No.%20ER11-3970-000.pdf>.

⁴² to 9/15/11 FERC order: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Orders/2011-09-15%20136%20FERC%2061,188%20Docket%20No.%20ER11-3970.pdf>

⁴³ See NYISO Services Tariff Sections 26.5 and 26.6.

⁴⁴ A copy of FERC's order approving these tariff revisions is available at: <http://elibrary.ferc.gov/idmws/common/downloadOpen.asp?downloadfile=20091104%2D3029%2822820035%29%2Epdf&folder=689105&fileid=12190941&trial=1>

⁴⁵ See September 15 Order at P 15.

⁴⁶ PJM Tariff, Attachment Q, Section V.A.

⁴⁷ FERC permitted the use of unsecured credit allowance for FTRs acquired prior to the June 2009 auction, noting that the elimination of the use of an unsecured credit allowance will be complete after May 2012. *PJM Interconnection, L.L.C.*, 136 FERC ¶ 61,190, at P 27 (2011).

FERC ORDER NO. 741 MANDATES	CAISO	ERCOT ¹	ISO NEW ENGLAND	MISO	NYISO	PJM
<p>obligations owed by market participants.</p>	<p>transactions by April 30, 2012.</p> <p>On January 24, 2012, FERC issued a notice that granted all ISOs and RTOs an extension of time to April 30, 2012, to comply with this Order No. 741 mandate.⁴⁸</p> <p>On April 30, 2012, FERC issued a notice granting CAISO an extension of time to May 25, 2012, to comply with this Order No. 741 mandate.⁴⁹</p> <p>On May 25, 2012, CAISO filed with FERC proposed tariff revisions establishing it as central counterparty to all transactions settled by CAISO and requesting an effective date of September 1, 2012.⁵⁰</p>	<p>Central Counterparty Role, revising the Protocols in order to reflect the new central counterparty status of the ISO. ERCOT anticipates that the NPRR will be approved by the ERCOT Board of Directors on September 18, 2012. ERCOT expects to implement these revisions by the end of 2012.</p>	<p>market participant transactions. The filing was made with a requested effective date of January 1, 2013 and is currently pending at FERC.⁵¹</p> <p>Comments and a limited protest were filed on May 14 and May 21. The ISO filed an answer and also joined NYISO and MISO in an answer to Exelon's comments on May 29, 2012.</p>	<p>explore the central counterparty approach. MISO initially pursued the security interest option to address this requirement but received overwhelming stakeholder support for a central counterparty approach. MISO filed Tariff revisions on 4/30/12 to become the central counterparty with a requested 1/1/13 effective date.</p> <p>Motion date: 1/17/12⁵² FERC motion granted date: 1/24/12⁵³ Filing extension date: 4/30/12</p>	<p>that clarify the NYISO's role as the single counterparty to Market Participant transactions and establish that the NYISO, as the counterparty, will take title to the products that are the subject of the transactions it administers.⁵⁴ The NYISO requested a July 1, 2012 effective date for these tariff revisions.</p> <p>Upon FERC's approval of this filing, the NYISO will be in full compliance with this minimum participation criteria mandate.</p> <p>The NYISO will provide CFTC staff with copies of any future filings made with FERC with respect to this Order No. 741 mandate on the same day that the filings are made with FERC.</p>	<p>central counterparty to transactions in the PJM markets. According to the FERC filing, "[t]he purpose of the filed revisions is to clarify that there is a single, specified counterparty to market participants with respect to all 'pool' transactions in the markets operated by PJM and for transmission service."⁵⁵ Under the new PJM regime:</p> <ul style="list-style-type: none"> - PJMSettlement takes "title to all power that is purchased and sold in the 'pool transactions' in the [PJM-administered] markets"⁵⁶; - the revisions to PJM's structure establish that "PJMSettlement will be a buyer to each market seller and a seller to each market buyer, <i>taking title to electricity and other products and assuming liability for payables, in its own name and right</i>"⁵⁷; and - the interposition of PJMSettlement

⁴⁸ Notice of Extension of Time, Docket No. RM10-13-000 (Jan. 24, 2012), available at: <http://dialog.newsedge.com/portal.asp?site=2007100814443105593225&searchfolderid=pg2007100814522209759333&block=default&portlet=ep&nzesm=on&syntax=advanced&display=Electric+Utilities+Brokering&action=sitetopics&mode=realtime&nzenb=left&criteria=%5Btopic%3Dbroker%5D&searchID=730071&datetime=%5Bt-minus%3D7%5D&hdlaction=story&storyid=%5Bstoryid=ooEaXZ2MBtUNQ63d41jeGO2ijxtURgwxvwYf2m9hYBwfOLkbtN9EFu9LIdUPFcWn%5D&rtcrdata=on&epname=USDOLLAR&>

⁴⁹ Notice of Extension of Time, Docket No. RM10-13-000 (Apr. 30, 2012), available at: <http://dialog.newsedge.com/portal.asp?site=2007100814443105593225&searchfolderid=pg2007100814522209759333&block=default&portlet=ep&nzesm=on&display=Internet+Regulatory&Nextseq=15-next&action=sitetopics&mode=realtime&nzenb=left&criteria=%5Btopic%3Dinereg%5D&datetime=%5Bt-minus%3D7%5D&searchID=19014&hdlaction=story&storyid=%5Bstoryid=lnkasqyqPNMKCaubRFZfiJ4-5NmoxdlKeeY7XxWAGR0aDpodEq1wL9d-d4bmVXY%5D&rtcrdata=on&epname=TRADENUZ&>

⁵⁰ Link to filing: <http://www.caiso.com/Documents/May252012Order741CentralCounterpartyCompFiling.pdf>.

⁵¹ ISO-NE's central counterparty filing is available at http://www.iso-ne.com/regulatory/ferc/filings/2012/apr/er12-1651-000_4-30-12_ccp_filing.pdf

⁵² Link to 1/17/12 MISO motion: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Filings/2012-01-17%20Docket%20No.%20RM10-13-000.pdf>.

⁵³ Link to 1/24/12 FERC extension notice: <http://elibrary.ferc.gov/idmws/common/OpenNat.asp?fileID=12873786>

⁵⁴ A copy of this filing is available at: http://www.nyiso.com/public/webdocs/documents/regulatory/filings/2012/04/NYISO_Order_741_Tariff_Filing_all_docs_4-30-12.pdf.

⁵⁵ PJM Filing with FERC, *PJM Interconnection, L.L.C., and PJM Settlement, Inc.*, Docket No. ER10-1196-000, at 1 (May 5, 2010).

⁵⁶ *Id.* at 9.

⁵⁷ *Id.* (emphasis added).

⁵⁸ *Id.*

FERC ORDER NO. 741 MANDATES	CAISO	ERCOT ¹	ISO NEW ENGLAND	MISO	NYISO	PJM
						as a counterparty in PJM-administered markets does not extend to certain bilateral contracts and self-supply transactions (which PJM considers to be non-pool transactions, which is to say, outside of the organized markets it administers). ⁵⁸
Limit the time period by which a market participant must cure a collateral call to no more than two days.	A market participant has two business days to resolve a request from CAISO for additional collateral, either by posting the collateral or by demonstrating to the CAISO's satisfaction that it is not necessary. ⁵⁹ The CAISO submitted tariff revisions to satisfy this Order No. 741 mandate on June 30, 2011. ⁶⁰ FERC accepted the tariff revisions on September 15, 2011, effective as of October 1, 2011. ⁶¹ Thus, the CAISO is in full compliance with this Order No. 741 mandate.	If an entity's Total Potential Exposure, as defined in the Protocols, equals or exceeds its credit limit (<i>i.e.</i> , its financial security plus its unsecured credit, if applicable), ERCOT requires the entity to post additional collateral within two bank business days. ⁶²	Effective October 1, 2011, ISO NE has reduced the permissible time in which to cure a collateral call to two days. ⁶³	MISO is in full compliance and requires all market participants to cure collateral calls within 2 Business Days. ⁶⁴ Filing date: 6/30/11 ⁶⁵ FERC approval date: 9/15/11 ⁶⁶ Effective date: 10/1/11	Market Participants must cure collateral calls within two business days from the date of the NYISO's request, or any shorter time period specified by the NYISO. ⁶⁷ The NYISO submitted this tariff revision as required by Order No. 741. FERC approved this revision on September 15, 2011. This revision became effective on October 1, 2011 and thus, the NYISO is in full compliance with this Order No. 741 mandate. ⁶⁸	The PJM Tariff provides that a participant has two business days from notification of a breach or a collateral call to remedy the breach or satisfy the collateral call. ⁶⁹
Provide minimum participation criteria. that applies equally to all market participants	Market participants must attest annually (subject to CAISO verification) that they satisfy minimum participation requirements related to capitalization, risk	ERCOT has submitted Nodal Protocol Revision Request (NPRR) 438, Additional Minimum Counter-Party Qualification Requirements, Including Risk Management	Effective October 1, 2011, new Section II.A in the Financial Assurance Policy establishes minimum criteria for participation in ISO NE's markets. The criteria	MISO is in full compliance and requires market participants to meet the minimum participation criteria, including capitalization requirements, in order to remain	NYISO Services Tariff Section 26.1 sets forth minimum participation criteria related to capitalization, risk management, training, and operational capabilities that each	The PJM Tariff currently includes a two-pronged set of minimum participation requirements. The first prong requires market participants to provide an annual certification by a

⁵⁹ See CAISO Tariff § 12.4.1.

⁶⁰ See filing letter at page 16, section entitled "Grace Period to 'Cure' Collateral Posting." Link to filing: http://www.caiso.com/Documents/2011-06-30_CredReforms_CompFiling_ER11-3973.pdf.

⁶¹ *California Independent System Operator Corporation*, 136 FERC ¶ 61,194, at Paragraph 62 (2011), available at http://www.caiso.com/Documents/ER11-3973_Credit%20Policy%20Order_2011-09-15.pdf.

⁶² ERCOT Protocol, Section 16.11.5 (3).

⁶³ *ISO New England and New England Power Pool*, 136 FERC ¶ 61,191 (2011), available at http://www.iso-ne.com/regulatory/ferc/orders/2011/sep/er11-3953-000_9-15-11_credit_order.pdf.

⁶⁴ Link to 3/15/12 FERC order: <http://www.ferc.gov/whats-new/comm-meet/2012/031512/E-22.pdf>.

⁶⁵ Link to 6/30/11 MISO filing: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Filings/2011-06-30%20Docket%20No.%20ER11-3970-000.pdf>.

⁶⁶ to 9/15/11 FERC order: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Orders/2011-09-15%20136%20FERC%2061,188%20Docket%20No.%20ER11-3970.pdf>.

⁶⁷ See NYISO Services Tariff Section 26.11.

⁶⁸ See September 15 Order at P 58.

⁶⁹ PJM Tariff, Attachment Q, Section VII.

FERC ORDER NO. 741 MANDATES	CAISO	ERCOT ¹	ISO NEW ENGLAND	MISO	NYISO	PJM
	<p>management, training and operational capabilities to comply with CAISO directions.⁷⁰</p> <p>The CAISO submitted tariff revisions to satisfy this Order No. 741 mandate on June 30, 2011.⁷¹ FERC accepted the tariff revisions on September 15, 2011, effective as of October 1, 2011.⁷² Thus, the CAISO is in full compliance with this Order No. 741 mandate.</p>	<p>Capability Requirements, to establish minimum requirements for Counter-Parties to participate in the ERCOT markets. In addition, the NPRR will require ERCOT to verify the risk management framework for specified Counter-Parties. ERCOT anticipates that the NPRR will be approved by the ERCOT Board of Directors on September 18, 2012.</p> <p>In essence, the new eligibility requirements will specify that relevant market participants must:</p> <ul style="list-style-type: none"> - have appropriate expertise in markets; - have appropriate operational capabilities to respond to ERCOT directions; - meet minimum capitalization requirements; and - maintain a risk management framework appropriate to the ERCOT markets in which it 	<p>require that market participants annually submit a list of principals and a description of, <i>inter alia</i> any material litigation, sanctions imposed by the FERC, SEC, or CFTC, any bankruptcies, mergers or acquisitions, and any operations in wholesale electricity markets other than ISO NE's markets.</p> <p>These criteria apply to all types of participants except those with less than \$100,000 in financial assurance requirements.</p> <p>In addition, ISO NE has established capitalization requirements for customers and applicants.</p> <p>ISO NE also requires that each market participant annually submit certificates that attest that the participant has: risk management procedures and internal controls appropriate to the risks that it enters in the market; trained personnel related to its participation in New</p>	<p>certified and transact in the market. MISO's minimum participation criteria apply to all market participants.</p> <p>Initial filing date: 6/30/11⁷⁸ FERC approval date: 9/15/11⁷⁹ Effective date: 10/1/11</p>	<p>Market Participant must satisfy, and at all times remain in compliance with, to participate in the NYISO-administered markets.</p> <p>The NYISO submitted these tariff revisions as required by Order No. 741. FERC conditionally approved these revisions on September 15, 2011, subject to the NYISO further revising its tariffs to establish a periodic compliance verification process as part of its minimum participation criteria. These revisions became effective on October 1, 2011.</p> <p>As discussed in more detail below, on April 5, 2012, the NYISO submitted tariff revisions to establish a periodic compliance verification process. FERC approved these revisions on May 9, 2012. These revisions become effective on June 30, 2012 and thus, the NYISO is in</p>	<p>senior officer during a period beginning January 1 and ending April 30. For market participants applying to become new PJM members, such certification must be provided together with the prospective member's credit application. Appendix 1 to Attachment Q of the PJM Tariff sets forth the certification form, which requires certain representations regarding the participant's risk management policies and transaction activities. If the participant fails to comply with these provisions, or the certification itself, the participant will be ineligible to transact in the PJM markets. Furthermore, certain FTR Participants must provide PJM with a copy of their current governing risk control policies, procedures and controls. The second prong addresses participant capitalization requirements. A participant establishes full</p>

⁷⁰ See CAISO Tariff § 12.1.

⁷¹ See filing letter at pages 11-13, section entitled "Minimum Criteria for Market Participation." Link to filing: http://www.aiso.com/Documents/2011-06-30_CredReforms_CompFiling_ER11-3973.pdf.

⁷² *California Independent System Operator Corporation*, 136 FERC ¶ 61,194, at Paragraphs 41-48 (2011), available at http://www.aiso.com/Documents/ER11-3973_Credit%20Policy%20Order_2011-09-15.pdf.

⁷³ ERCOT Protocol, Section 16.2.1, 16.8.1, 16.11.5(c), 16.11.4.1, 16.16 (the changes to these sections that effectuate this aspect of Order 741 are pending approval of NPRR 438 by the ERCOT Board of Directors and subsequent implementation).

⁷⁴ ERCOT Protocol, Section 16.11.1.

⁷⁵ *ISO New England and New England Power Pool*, 136 FERC ¶ 61,191 (2011), available at http://www.iso-ne.com/regulatory/ferc/orders/2011/sep/er11-3953-000_9-15-11_credit_order.pdf.

⁷⁶ http://www.iso-ne.com/regulatory/ferc/filings/2011/dec/er11_3953_002_12-8-11_risk_assessment.pdf.

⁷⁷ *ISO New England and New England Power Pool*, 138 FERC ¶ 61,185 (2012), available at http://www.iso-ne.com/regulatory/ferc/orders/2012/mar/er11-3953-002_3-15-12_order_accept_fap_compliance.pdf.

⁷⁸ Link to 6/30/11 MISO filing: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Filings/2011-06-30%20Docket%20No.%20ER11-3970-000.pdf>.

⁷⁹ Link to 9/15/11 FERC order: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Orders/2011-09-15%20136%20FERC%2061,188%20Docket%20No.%20ER11-3970.pdf>

⁸⁰ A copy of the May 9, 2012 FERC order is available on the NYISO's website at http://www.nyiso.com/public/webdocs/documents/regulatory/orders/2012/05/2012_05_09_FERC_Ltr_Ord_Accept_Fng_MP_Rsk_Mngmnt_Plcs_Prcdrs.pdf.

⁸¹ PJM Tariff, Attachment Q, Section Ia.

⁸² *Id.*, Attachment Q.

FERC ORDER NO. 741 MANDATES	CAISO	ERCOT ¹	ISO NEW ENGLAND	MISO	NYISO	PJM
		<p>transacts or wishes to transact. Counterparties will be required to provide an annual certification that they have met these requirements, attested by an officer of the company.</p> <p>ERCOT also is proposing minimum capitalization requirements. Proposed capitalization requirements are higher for counterparties transacting or wishing to transact in the CRR markets. Counterparties who fail to meet the capitalization requirements would be required to post an “Independent Amount” in addition to any collateral posted with respect to market positions.⁷³</p> <p>Each Counter-Party must meet ERCOT’s creditworthiness standards.⁷⁴</p> <p>ERCOT expects to implement these new participation and verification requirements by the end of 2012.</p>	<p>England Markets; and procedures in place to effectively communicate with ISO-NE.⁷⁵</p> <p>ISO-NE has also filed with FERC, in December 2011, a proposal to include an additional step involving the submission by FTR market participants of those entities’ risk management procedures.⁷⁶</p> <p>The proposal was accepted by FERC on March 15, 2012, with an effective date of May 1, 2012. [The changes to the certification were accepted with an effective date of February 6, 2012].⁷⁷</p>		<p>full compliance with this Order No. 741 mandate.⁸⁰</p>	<p>compliance with the minimum capitalization requirements through audited financials showing either tangible net worth in excess of \$1 million or tangible assets in excess of \$10 million if the participant is active in the FTR market, and half of either amount if the participant is not active in the FTR market. Compliance could be established either by the participant itself or through a guaranty from a compliant guarantor. Participants that are not fully compliant would be allowed to transact through a third party who meets the eligibility standards, or through the provision of collateral (only cash or a letter of credit held by PJM). The “collateral option” requires a minimum \$500,000 of collateral for participants that are active in the FTR market and \$200,000 of collateral for participants that are active in virtual bidding but not FTRs. A 10% reduction would be assessed on all collateral beyond those minimums and the remaining collateral value would then be available to satisfy PJM’s normal credit requirements.⁸¹</p> <p>PJM’s credit policy applies to all Participants.⁸²</p>
<p>Provide examples of when a market administrator may invoke the “material adverse change” to justify requiring additional collateral.</p>	<p>Section 12.1.1.5 of the CAISO Tariff lists examples of circumstances constituting a “material change in financial condition” that would permit the CAISO to reduce any unsecured credit available to the affected entity and, as a result, require it to post additional collateral. Examples include a credit agency downgrade, certain financial restatements, and a default in another market.</p> <p>The CAISO submitted tariff</p>	<p>ERCOT may request additional collateral if ERCOT determines that the calculated exposure does not adequately match the financial risk created by a Counter-Party’s activities under the Protocols.⁸⁵</p>	<p>Effective October 1, 2011, ISO NE has added two examples of what may constitute a “material adverse change” ((1) the sanctioning of the market participant or non-market participant transmission customer or any of its principals by the Commission, the Securities and Exchange Commission, the CFTC, any exchange monitored by the National Futures Association, or any entity responsible for regulating activity in energy markets; and (2) a significant change in the market</p>	<p>MISO is in full compliance and updated its Tariff by supplementing pre-FERC Order 741 material adverse change measures to add a significant increase in credit default spreads and a significant decrease in market capitalization to material adverse change measures.⁸⁷</p> <p>Filing date: 6/30/11⁸⁸ FERC approval date: 9/15/11⁸⁹ Effective date: 10/1/11</p>	<p>NYISO Services Tariff Section 26.13 sets forth examples of circumstances when the NYISO may declare a material adverse change as justification for requiring additional collateral (e.g., a significant decline in a Market Participant’s market capitalization, a significant increase in a Market Participant’s credit default swap spreads).</p> <p>The NYISO submitted this tariff revision as required by Order No. 741. FERC approved this revision on</p>	<p>PJM may independently determine that there is a material change in the financial condition of a participant from available information regardless of whether the participant has informed PJM of the change. In its FERC Order No. 741 compliance filing, PJM added three additional illustrative examples to the list of what constitutes a material change in financial condition: (i) a financial default in another organized wholesale electric market, futures exchange, or clearing house; (ii)</p>

FERC ORDER NO. 741 MANDATES	CAISO	ERCOT ¹	ISO NEW ENGLAND	MISO	NYISO	PJM
	<p>revisions to satisfy this Order No. 741 mandate on June 30, 2011.⁸³ FERC accepted the tariff revisions on September 15, 2011, effective as of October 1, 2011.⁸⁴ Thus, the CAISO is in full compliance with this Order No. 741 mandate.</p>		<p>participant's or non-market participant transmission customer's market capitalization) and revised the Financial Assurance Policy to provide that, in the event of a material adverse change, the ISO may require additional financial assurance or a different form of financial assurance.⁸⁶</p>		<p>September 15, 2011. This revision became effective on October 1, 2011 and thus, the NYISO is in full compliance with this Order No. 741 mandate.⁹⁰</p>	<p>revocation of a license or other authority by any Federal or State regulatory agency, where the license or authority is required or important to the participant's continued business, such as a market-based rate authorization or a State license to serve retail load;⁹¹ and (iii) a significant change in credit default spreads, market capitalization, or other market-based risk measurement criteria, such as a recent increase in Moody's KMV Expected Default Frequency that is noticeably greater than the increase in its peers rates, or a collateral default swap premium normally associated with an entity rated lower than investment grade. This third addition specifically provides illustration of possible forward-looking metrics which PJM may utilize in determining whether a material adverse change has</p>

⁸³ See filing letter at pages 13-16, section entitled "Meaning of a 'Material Adverse Change.'" Link to filing: http://www.caiso.com/Documents/2011-06-30_CredReforms_CompFiling_ER11-3973.pdf.

⁸⁴ *California Independent System Operator Corporation*, 136 FERC ¶ 61,194, at Paragraph 55-59 (2011), available at: http://www.caiso.com/Documents/ER11-3973_Credit%20Policy%20Order_2011-09-15.pdf.

⁸⁵ ERCOT Protocol, Section 16.11.4.1 (3).

⁸⁶ *ISO New England and New England Power Pool*, 136 FERC ¶ 61,191 (2011), available at http://www.iso-ne.com/regulatory/ferc/orders/2011/sep/er11-3953-000_9-15-11_credit_order.pdf.

⁸⁷ Link to 3/15/12 FERC order: <http://www.ferc.gov/whats-new/comm-meet/2012/031512/E-22.pdf>.

⁸⁸ Link to 6/30/11 MISO filing: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Filings/2011-06-30%20Docket%20No.%20ER11-3970-000.pdf>.

⁸⁹ Link to 9/15/11 FERC order: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Orders/2011-09-15%20136%20FERC%2061,188%20Docket%20No.%20ER11-3970.pdf>.

⁹⁰ See September 15 Order at P 53.

⁹¹ PJM also revised Sections I.A.5 and I.B.5 of Attachment Q of the PJM Tariff to add that the existence of ongoing investigations of the participant by the CFTC are required to be disclosed.

FERC ORDER NO. 741 MANDATES	CAISO	ERCOT ¹	ISO NEW ENGLAND	MISO	NYISO	PJM
						<p>occurred.</p> <p>If PJM determines that a participant is required to provide financial security because of a material change in financial condition, PJM will provide the participant with a written explanation of why such determination was made.⁹²</p>
<p>Engage in periodic verification of market participant risk management policies and procedures.</p>	<p>On September 15, 2011, FERC’s order on the CAISO’s June 30, 2011, Order No. 741 compliance filing directed the CAISO to submit a compliance filing that contained tariff revisions to establish periodic verification of market participant risk management policies and procedures.⁹³ On December 14, 2011, the CAISO filed proposed tariff revisions with FERC to establish a periodic process for verification of risk management policies and procedures of market participants that hold CRR portfolios that meet certain risk criteria.⁹⁴ On March 15, 2012, FERC issued an order that accepted the tariff revisions, effective April 30, 2012, subject to a compliance filing due by May 14, 2012, to clarify when and how often the CAISO will conduct verification of all market participants and to revise the CAISO tariff by incorporating the risk management criteria set forth in the CAISO’s Business Practice Manual for Credit Management.⁹⁵ Thus, as of April 30, 2012, the CAISO will be in compliance with the March 15, 2012 FERC order, to the extent it accepted the CAISO’s tariff revisions</p>	<p>Within the scope of the proposed eligibility requirements, which is expected to be approved by the ERCOT Board of Directors on September 18, 2012 (see above summary on minimum participation requirements), market participants would be subject to periodic verification of their risk management framework to be performed either by ERCOT or an agent acting on ERCOT’s behalf.⁹⁷</p>	<p>As discussed above, the annual certification requirement became effective on October 1, 2011.⁹⁸</p> <p>The additional risk management assessment process was accepted by FERC on March 15, 2012, with an effective date of May 1, 2012. [The changes to the certification were accepted with an effective date of February 6, 2012].⁹⁹</p>	<p>MISO is in full compliance and requires all market participants to certify the implementation of risk policies and procedures. FERC requested that MISO establish risk verification as part of its minimum participation criteria. MISO established and utilizes defined, monthly risk-based criteria and random-selection criteria for risk policy verification.¹⁰⁰</p> <p>Initial filing date: 6/30/11¹⁰¹ FERC response date: 9/15/11¹⁰² Effective date: 10/1/11 Amended filing date: 12/14/11¹⁰³ FERC approval date: 3/15/12¹⁰⁴ Amendment effective date: 2/13/12</p>	<p>Pursuant to Services Tariff Section 26.1.3, the NYISO may require any Market Participant, at any time, to submit its risk management policies and description of internal controls to the NYISO for review. In addition to this existing discretion to request risk management policies and procedures from any Market Participant, on April 5, 2012, the NYISO filed proposed tariff revisions with FERC to establish a periodic process for verification of risk management policies and procedures with respect to two categories of Market Participants.¹⁰⁵ First, all Market Participants that pose significant risk in the TCC market will be subject to annual verification and all new applicants to the TCC market will be subject to verification prior to commencing any activity in the TCC market. Second, the NYISO will annually select for verification, on a random basis, 10-20% of Market Participants that are not already subject to verification.</p> <p>In addition, when reviewing a Market Participant’s risk management policies and procedures, the NYISO will verify</p>	<p>PJM verifies officer certifications, described above, for all participants speculating in PJM’s FTR markets by requiring such participants to submit applicable risk control policies for review. Additionally, PJM applies this same verification requirement periodically as a spot check, either randomly or based on identified risk factors, on other market participants to reinforce the importance of the annual officer certification.¹⁰⁷ Such review includes verification that: (1) the risk management framework is documented in a risk policy addressing market, credit and liquidity risks; (2) the Participant maintains an organizational structure with clearly defined roles and responsibility that clearly segregates trading and risk management functions; (3) there is clarity of authority specifying the types of transactions into which traders are allowed to enter; (4) the Participant has requirements that traders have adequate training relative to their authority in the systems and PJM markets in which they transact; (5) as appropriate, risk limits are in place to control risk exposures; (6)</p>

⁹² PJM Tariff, Attachment Q, Section I.B.3.

⁹³ *California Independent System Operator Corporation*, 136 FERC ¶ 61,194, at Paragraph 49 (2011), available at http://www.aiso.com/Documents/ER11-3973_Credit%20Policy%20Order_2011-09-15.pdf.

⁹⁴ See filing letter at pages 4-5, section entitled “Minimum Participation Criteria – Officer-Certified Statements and Verification Process.” Link to filing: http://www.aiso.com/Documents/2011-12-14_ER11-3973_CredRefComp.pdf.

⁹⁵ *California Independent System Operator Corporation*, 138 FERC ¶ 61,181, at Paragraphs 18-19 (2012), available at http://www.aiso.com/Documents/2012-03-15_ER11-3973_order.pdf.

FERC ORDER NO. 741 MANDATES	CAISO	ERCOT ¹	ISO NEW ENGLAND	MISO	NYISO	PJM
	The CAISO filed the clarifying tariff revisions to comply with the March 15, 2012 order on May 14, 2012. ⁹⁶				compliance with the following eight criteria: (1) the risk management framework is documented in a risk policy addressing market, credit and liquidity risks; (2) the Market Participant maintains an organizational structure with clearly defined roles and responsibilities that appropriately segregates trading and risk management functions; (3) there is clarity of authority specifying the types of transactions into which traders are allowed to enter; (4) the Market Participant has requirements	reporting is in place to ensure that risks and exceptions are adequately communicated throughout the organization; (7) processes are in place for qualified independent review of trading activities; and (8) as appropriate, there is periodic valuation or mark-to-market of risk positions. If principles or best practices relating to risk management in PJM-type markets are published by a third-party industry association, PJM, following stakeholder discussion and notice,

⁹⁶ Filing available at <http://www.caiso.com/Documents/May142012CredRefCompFilingER12-1785.pdf>.

⁹⁷ ERCOT NPRR 438 (pending stakeholder process).

⁹⁸ *ISO New England and New England Power Pool*, 136 FERC ¶ 61,191 (2011), available at http://www.iso-ne.com/regulatory/ferc/orders/2011/sep/er11-3953-000_9-15-11_credit_order.pdf;

⁹⁹ *ISO New England and New England Power Pool*, 138 FERC ¶ 61,185 (2012), available at http://www.iso-ne.com/regulatory/ferc/orders/2012/mar/er11-3953-002_3-15-12_order_accept_fap_compliance.pdf.

¹⁰⁰ Link to 3/15/12 FERC order: <http://www.ferc.gov/whats-new/comm-meet/2012/031512/E-22.pdf>

¹⁰¹ Link to 6/30/11 MISO filing: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Filings/2011-06-30%20Docket%20No.%20ER11-3970-000.pdf>.

¹⁰² Link to 9/15/11 FERC order: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Orders/2011-09-15%20136%20FERC%2061.188%20Docket%20No.%20ER11-3970.pdf>

¹⁰³ Links to 12/14/11 MISO filing: <https://www.misoenergy.org/Library/Repository/Tariff/FERC%20Filings/2011-12-14%20Docket%20No.%20ER11-3970-000.pdf>.

¹⁰⁴ Link to 3/15/12 FERC order: <http://www.ferc.gov/whats-new/comm-meet/2012/031512/E-22.pdf>

¹⁰⁵ As background, the NYISO submitted a filing, on December 14, 2011, to comply with FERC’s September 15 Order directing the NYISO to revise its tariffs to establish a periodic compliance verification process as part of its minimum participation criteria. *See* September 15 Order at P 47. A copy of the NYISO’s December 14 filing is available at: http://www.nyiso.com/public/webdocs/documents/regulatory/filings/2011/12/NYISO_Cmplnc_Order_741_all_docs_12-14-11.pdf. On March 15, 2012, FERC issued an order, 138 FERC ¶ 61,186 (the “March 15 Order”), rejecting the NYISO’s December 14 filing and its proposed risk management verification compliance process and directing the NYISO to submit a filing proposing a new compliance process within 60 days. A copy of the March 15 Order is available at: http://www.nyiso.com/public/webdocs/documents/regulatory/orders/2012/03/2012_03_Ord_rjct_Ord_741_Crdt_Vrfctn_Cmplnc_Prcss_Drct_Nw_Flg_ER11_3949_003.pdf. In the March 15 Order, FERC concluded that the NYISO’s proposed exclusion from the NYISO’s verification process of Market Participants that had both three years of experience in the TCC market and adequate capitalization was inconsistent with the September 15 Order. FERC found that the group of Market Participants selected by the NYISO for verification was inadequate and the NYISO’s proposed process was not periodic. *See* March 15 Order at P 17. To address FERC’s concerns, the NYISO proposed, in its April 5, 2012 filing, a revised risk management verification process to eliminate this exclusion, require annual verification of Market Participants that pose significant risk in the TCC market, and broaden the range of Market Participants potentially subject to review to include annual verification of 10-25% of Market Participants selected on a random basis. A copy of this April 5, 2012 filing is available at: http://www.nyiso.com/public/webdocs/documents/regulatory/filings/2012/04/NYISO_Cmplnc_Flg_Ord_741.pdf.

¹⁰⁶ A copy of the May 9, 2012 FERC order is available on the NYISO’s website at http://www.nyiso.com/public/webdocs/documents/regulatory/orders/2012/05/2012_05_09_FERC_Ltr_Ord_Acpt_Flg_MP_Rsk_Mngmnt_Plcs_Prcdrs.pdf.

¹⁰⁷ PJM Tariff, Attachment Q, Section Ia.A (as revised by PJM’s further compliance filing submitted to FERC on November 29, 2011 in Docket No. ER11-3972-002).

¹⁰⁸ Available at: <http://elibrary.ferc.gov/idmws/common/OpenNat.asp?fileID=12915576>. FERC found that PJM’s proposed compliance verification process complied with the FERC’s directives, and is just and reasonable and not unduly discriminatory or preferential. FERC rejected requests for an exemption for market participants that are regulated by banking regulators from PJM’s compliance verification policies and procedures. FERC also declined to require PJM to adopt indicated Participants’ proposal regarding when and how frequently PJM would verify a market participant’s compliance with risk management practices and policies. FERC found that PJM’s proposal that includes selecting participants for review on a random basis and/or based on identified risk factors strikes the appropriate balance between periodically verifying that participants are complying without unduly burdening participants. FERC declined to require PJM to revise its proposal to include an additional 14 days from the date the cure period expires to appeal a negative determination. FERC also stated that it expects PJM to explain any deficiencies in a market participant’s risk management policies when it notifies the participant that PJMSettlement is unable to complete its verification. FERC noted that PJM stated this in its answer. While FERC did not require tariff revisions to clarify this, they directed PJM to address this explanation in its business rules.

FERC ORDER NO. 741 MANDATES	CAISO	ERCOT ¹	ISO NEW ENGLAND	MISO	NYISO	PJM
					<p>that traders have adequate training and/or experience relative to their authority in the systems and markets in which they transact; (5) as appropriate, risk limits are in place to control risk exposures; (6) reporting is in place to ensure that risks are adequately communicated throughout the organization; (7) processes are in place for qualified independent review of trading activities; and (8) as appropriate, there is periodic valuation or mark-to-market of risk positions.</p> <p>FERC approved these revisions on May 9, 2012. These revisions become effective on June 30, 2012 and thus, the NYISO is in full compliance with this Order No. 741 mandate.¹⁰⁶</p>	<p>may apply such principles or best practices in determining the sufficiency of the Participant's risk controls. PJM may retain outside expertise to perform this review and verification. A Participant's continued eligibility to participate in the PJM markets is conditioned upon PJM notifying the Participant of successful completion of PJM's verification. If within 14 days of notification of unsuccessful completion of the verification process, the Participant demonstrates to PJM that it has filed with FERC an appeal of PJM's risk management verification determination, then the Participant will retain its transaction rights pending FERC's determination on the appeal.</p> <p><i>See PJM Interconnection, L.L.C., Order Accepting Compliance Filing, Docket No. ER11-3972-002, 138 FERC ¶ 61,183 (2012).</i> In this order, the Commission accepted PJM's November 29, 2011 filing submitted to comply with the September 15, 2011 order on its Order No. 741 compliance filing. The Commission granted a December 13, 2011, effective date, as requested.¹⁰⁸</p>