

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

RTO/ISO Credit Principles and Practices)	Docket Nos. AD21-6-000
Credit Reforms in Organized Wholesale Electric Markets))	AD20-6-000

**POST-TECHNICAL CONFERENCE COMMENTS OF
SOUTHWEST POWER POOL INC.**

Southwest Power Pool, Inc. (“SPP”) respectfully submits the following comments in response to the Federal Energy Regulatory Commission’s (“Commission”) Notice Inviting Post-Technical Conference Comments.¹ SPP has also joined the comments of the ISO/RTO Council (“IRC”) that specifically address matters of information sharing. As other commenters have stated, SPP appreciates the Commission’s focus on the credit-related issues SPP and other similarly situated organizations face in the administration of their respective markets. SPP’s comments here focus on the questions in the Notice concerning minimum capitalization requirements.

I. COMMENTS IN RESPONSE TO QUESTIONS REGARDING MINIMUM CAPITALIZATION REQUIREMENTS

3. Minimum Capitalization Requirements

Question:

Are existing RTO/ISO minimum capitalization requirements sufficient to protect the markets without creating an undue burden on market participants? How, if at all, should

¹ Notice Inviting Post-Technical Conference Comments, Docket Nos. AD21-6-000 and AD20-6-000 (April 21, 2021) (“Notice”).

minimum capitalization requirements differ for different types of market participants or market activity? Should minimum capitalization requirements be directly calibrated to the anticipated market activity of market participants? Should position limits be established based on a tiered approach to minimum capitalization requirements?

Response:

SPP is concerned that current minimum capitalization requirements are generally insufficient for protecting market participants from the risk of uplifted losses in the event of a market participant's default, particularly in the financial transmission rights markets. In the aftermath of the GreenHat Energy LLC ("GreenHat") default, it appears that existing minimum capitalization requirements for financial transmission rights trading provide a baseline of minimal assurance of a market participant's ability to withstand an adverse financial outcome. For protection of other market participants and the health of the markets in general, SPP believes that baseline should be strengthened for entities trading financial transmission rights.

While a market participant's actual market activity is factored into most Independent System Operators' ("ISO") and Regional Transmission Organizations' ("RTOs") collateral requirement calculations, minimum capitalization requirements should not be based merely on the scope of an entity's anticipated activity in a particular market. Minimum capitalization should be a gatekeeping measure of an entity's ability to absorb losses prior to entering a particular market and being allowed to take transactional positions. The correlation between losses and megawatt volumes in a portfolio could increase rapidly and outrun imposed trading limits and restrictions. Additionally, the act of adjusting and re-assessing minimum capitalization requirements based upon anticipated

trading volumes would be an administrative burden that could result in additional staffing and system enhancement costs for marginal benefit. Position limits could still play a role in addition to minimum capitalization requirements, however. Market administrators should have the ability and authority to impose position limits and the discretion to implement them in a manner they believe prudent to protect their markets.

The GreenHat default prompted SPP to review its risk assessment and credit practices for potential vulnerabilities, including minimum capitalization requirements. SPP's current minimum capitalization requirements were adopted a decade ago in compliance with the Commission's Order No. 741. SPP believes history has since shown that undercapitalized market participants pose a serious threat to ISO/RTO markets. SPP has worked with its stakeholders to review the sufficiency of current minimum capitalization requirements for market participants that transact in SPP's Transmission Congestion Rights ("TCR") market. Based on this review, SPP determined that increased capitalization requirements for such market activity would help reduce the risk of potential default in the TCR market in a range of default scenarios, not only one as large as the GreenHat default.

Accordingly, SPP plans to propose capitalization requirement enhancements designed to help ensure that settled losses can be better absorbed by a TCR market participant. SPP believes such measures would be appropriate and prudent, as the ultimate goal of such enhancements is to reduce the risk of a TCR-related default and the resulting losses that would be borne by SPP members.

II. CONCLUSION

SPP respectfully requests that the Commission consider these comments.

Respectfully submitted,

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