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FERC Tightens Credit Practices in Organized Markets

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A ***final rule*** that tightens and standardizes credits practices for organized wholesale electricity markets "” independent system operators (ISO) and regional transmission organizations (RTO) "” was issued by FERC October 21. To comply with the credit practices prescribed in the new rule, ISOs and RTOs will have to amend their open-access tariffs to: (i) shorten and standardize billing and payment periods; (ii) cap the unsecured credit that a market participant and its affiliates may hold; (iii) eliminate unsecured credit in markets for financial transmission rights; (iv) allow wholesale power marketers a choice among options for netting transactions; (v) establish minimum creditworthiness criteria for market participation; (vi) clarify when a market administrator may demand additional collateral of a market participant under a "material adverse change clause"; and (vii) adhere to a two-day grace period for satisfying calls for additional collateral. They have until June 30, 2011 to do so. The new regulations are designed to standardize credit practices across organized markets and thereby lessen the possibility that any adverse consequences of credit practices in one market could spread to neighboring markets. FERC acknowledges that tighter credit practices may increase the cost of doing business in organized markets, but averting further defaults as have occurred in recent years justifies that increased cost, according to the agency. FERC notes in particular that the cost of defaults not backed by sufficient collateral are generally borne by all market participants, and a default by a major participant in one credit environment could easily spread. Strict, standardized credit practices applicable to all organized markets from the California ISO to ISO New England and from the Southwest Power Pool to the New York ISO are therefore necessary, the agency ruled. FERC explicitly rejected suggestions that individual ISOs and RTOs be afforded flexibility to set their own unique credit practices for participants in their respective markets.