

What to Know About ISO/RTO Annual Certification Requirements

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Explore an overview of the annual certification requirements in each of the organized wholesale electricity markets operated by the independent system operators and regional transmission organizations (ISO/RTOs) in the United States. Each year, market participants must certify ongoing compliance through an officer's certification stating that they meet requirements to participate in the market.

This certification is provided to the ISO/RTOs upon entry into the market(s), then updated annually on 30 April. As a participant in these markets, you will need to certify that you meet:

- ~~Minimum capitalization requirements;~~

Background

The officer certification requirements arise from several sources and have undergone a series of changes over the years. In 2010, the Federal Energy Regulatory Commission (FERC) issued Order No. 741,¹ which required the ISO/RTOs to improve their credit and

risk management functions. Order No. 741 set forth the requirement for annual officer certification, along with minimum participation and capitalization requirements.

Shortly thereafter, in 2013, the Commodity Futures Trading Commission (CFTC) exempted certain products in the ISO/RTO markets that could be considered derivatives from its jurisdiction under the Commodity Exchange Act on the grounds that FERC or the Public Utility Commission of Texas (PUCT) was regulating those products and markets.² In particular, the CFTC noted the existence of minimum participation and minimum capitalization requirements as evidence of FERC's market oversight.

Following the default by GreenHat Energy LLC (GreenHat) in the markets operated by PJM Interconnection, L.L.C. (PJM) in 2018, most of the ISO/RTOs revisited and strengthened their credit and risk requirements. In particular, this involved the addition of Know Your Customer (KYC) elements to the initial market entry review and annual officer certification as well as heightened review of risk policies.

Also following the GreenHat default, many ISO/RTOs created credit committees to review risk and credit issues on an ongoing basis. PJM created the **Risk Management Committee** in 2021, which meets monthly to consider a range of risk and credit issues. The Southwest Power Pool, Inc. (SPP) has had a long standing **Credit Policies Working Group**. The Midcontinent Independent System Operator, Inc. (MISO) created the **Credit Practice Enhancement Task Team** that began meeting in September 2023. The California Independent System Operator (CAISO) created a limited stakeholder process to consider some discrete changes to its tariff regarding minimum participation through the **Billing, Payment and Credit Enhancements** initiative. Market participants must remain aware and up-to-date on these committees' proposals.

Risk Management and Operational Requirements

One of the ISO/RTOs' primary concerns is ensuring that market participants have strong risk management practices. They expect that market participants will have written risk management policies, procedures, and controls, all approved by an independent risk management function. These policies, procedures, and controls should include, but are not limited to, credit risks, liquidity risks, and market risks.

ISO/RTOs also expect that market participants have appropriate organizational structures with clearly defined roles and responsibilities that clearly segregate trading and risk management functions. This ensures that the individuals enforcing the risk management policies, and who are expected to have oversight responsibilities, are not those executing trades.

In addition to these requirements, ISO/RTOs expect that market participants in Financial Transmission Rights (FTR) auctions have at least weekly measurement of FTR mark-to-market (or mark-to-auction) exposure and FTR risk calculations. To learn more about these requirements, and how Yes Energy can help you meet them, please check out these blog posts:

- [What You Should Know About Mark-to-Market Calculations for FTRs and FTR Risk.](#)

Training Requirements

ISO/RTOs and FERC expect that when transacting in the ISO/RTO markets, employees or contractors have adequate training or expertise relative to their authority in that ISO/RTO. In the course of an investigation, FERC's Office of Enforcement sometimes requests a party to list what training traders have attended.

PJM's officer certification form requires that traders have appropriate training, with "appropriate" defined as "training that is (i) comparable to generally accepted practices in the energy trading industry, and (ii) commensurate and proportional in sophistication, scope and frequency to the volume of transactions and the nature and extent of the risk taken by the participant."³ This fairly broad definition gives market participants a significant degree of latitude in determining appropriate training requirements for their traders.

Many ISO/RTOs provide a variety of optional training courses on their markets, available on their websites or in person. Only two ISO/RTOs specify required courses for traders engaging in their markets:

- ~~EWING COUNTY PUBLIC UTILITIES DISTRICT, INC. (ECPUD) and~~

We strongly recommend encouraging traders to take any available and relevant training courses offered by an ISO/RTO.

Minimum Capitalization Requirements

All ISO/RTO markets, including the Electric Reliability Council of Texas (ERCOT), have established minimum requirements to participate in the markets. These requirements arise out of the CFTC's requirements as part of its exemption of ISO/RTO transactions from its jurisdiction under the CEA.⁴

Each ISO/RTO requires audited financial statements to demonstrate compliance with these requirements, though some ISO/RTOs permit alternatives when audited financials are not available. Each market participant must demonstrate that they meet the following criteria, both initially when entering the market and on a continuing basis:

3. ~~EWING COUNTY PUBLIC UTILITIES DISTRICT, INC. (ECPUD) and~~

Many ISO/RTOs permit a market participant to post a letter of credit, corporate guaranty, or cash if a market participant is unable to meet the above criteria.

Minimum Participation Requirements

In addition to the minimum capitalization requirements set forth in the CEA, each ISO/RTO requires a further showing of minimum participation requirements under requirements set forth by FERC or the PUCT, as applicable. Some of these requirements match the minimum capitalization requirements, but some differ slightly. Further, a market participant posting a letter of credit or corporate guaranty to meet minimum capitalization requirements may be required to post additional funds to meet the minimum participation requirements. In the below chart, we use the acronym MPR for “market participation requirement” and TNW for “tangible net worth.”

Market	FTR MPR	Non-FTR MPR	Financials?	Posting Option?	Tariff Location
PJM	US\$1 m TNW or US\$10 m assets	US\$500,000 TNW or US\$5 m assets	Yes	Corporate guaranty of at least US\$500,000 or unlimited	Tariff Attachment
MISO	US\$1 m TNW or US\$10 m assets	US\$500 k TNW or US\$5 m assets	Yes	Corporate guaranty of US\$500,000 for non-FTR or US\$1 m for FTR	Tariff Attachment
ISO-NE	US\$1 m TNW or US\$10 m assets	N/A	Yes	May supplement with additional financial assurance	Tariff Attachment
NISO	US\$1 m TNW or US\$10 m assets	N/A	Yes	US\$200,000 for non-FTR or US\$500,000 for FTR	MST Attachment
SPP	US\$10 m TNW or US\$20 m assets	US\$1 m TNW or US\$10 m assets	Yes	US\$200,000 for non-FTR or US\$2 m for FTR	Tariff Attachment

Market	FTR MPR	Non-FTR MPR	Financials?	Posting Option?	Tariff Section
CAISO	US\$1 m TNW or US\$10 m assets	N/A	Yes	US\$500,000 for a new market participant; US\$100,000 for existing ³	
ERCOT	US\$1 m TNW or US\$10 m assets	US\$500,000 TNW or US\$5 m assets	Yes	Irrevocable letter of credit	Section 166

Note that several of the ISO/RTOs have made changes to their minimum requirements over the past two years in response to the GreenHat default referenced above as well as other factors, so continued monitoring of requirements is necessary.

Conclusion

As you prepare to execute an annual officer certification on behalf of your company, closely review the requirements and certifications you are making to ensure there have been no changes or otherwise reportable events.

Footnotes

¹ *Credit Reforms in Organized Wholesale Electric Markets*, Order No. 741, 133 FERC ¶ 61,060 (2010), *order on reh'g*, Order No. 741-A, 134 FERC ¶ 61,126, *order on reh'g*, Order No. 741-B, 135 FERC ¶ 61,242 (2011).

² ~~See 16 CFR 163.101(a)(1) (2013) (requiring ISO/RTOs to file their tariffs with the Act, 78 Fed. Reg. 19880 (2013)).~~

³ PJM Tariff, Attachment Q, Appendix 1 (Annual Officer Certification Form) at § 1.

⁴ *Id.* at n.2.

⁵ Note that CAISO is in the process of changing this requirement, to remove the option for US\$100,000 for existing market participants.

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