



December 14, 2023

VIA ELECTRONIC FILING

Honorable Kimberly D. Bose, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: *Revisions to ISO New England Inc. Transmission, Markets, and Services Tariff to Update the FCM Delivery Financial Assurance Calculation in the Financial Assurance Policy; Docket No. ER24-___-000*

REQUEST FOR ORDER IN 60 DAYS

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act,¹ ISO New England Inc. (the “ISO” or “ISO-NE”), joined by the New England Power Pool (“NEPOOL”) Participants Committee² (together, the “Filing Parties”),³ hereby submits proposed revisions to the ISO New England Inc. Transmission, Markets, and Services Tariff (“Tariff”). As more fully described in Sections III and IV of this transmittal letter, the Tariff revisions proposed in this filing amend the financial assurance requirements in the ISO New England Financial Assurance Policy (“FAP”)⁴ to reduce

¹ 16 U.S.C. § 824d (2006 and Supp. II 2009).

² Capitalized terms used but not defined in this filing are intended to have the meaning given to such terms in the ISO New England Inc. Transmission, Markets and Services Tariff (“Tariff”). Section II of the Tariff is the Open Access Transmission Tariff (“OATT”).

³ Under New England’s Regional Transmission Organization arrangements, the rights to make this filing of revisions to the Tariff under section 205 of the FPA belong to the ISO. NEPOOL, which pursuant to the Participants Agreement provides the sole Participant Processes for advisory voting on ISO matters, supported the revisions reflected in this filing and, accordingly, joins in this section 205 filing.

⁴ The Financial Assurance Policy is Exhibit IA to Section I of the Tariff. FAP Section VII contains provisions specific to the Forward Capacity Market and refers to “Designated FCM Participants” as Lead Market Participants, including Provisional Members that are Lead Market Participants transacting in the Forward Capacity Market. For purposes of this transmittal letter and accompanying testimony, the term “Market Participant” is used for clarity.

the risk of collateral shortfalls from defaulting Market Participants with Capacity Supply Obligations (“CSOs”) that incur net payment obligations (*i.e.*, penalties) under the pay for performance (“PFP”) construct of ISO-NE’s Forward Capacity Market (“FCM”). Specifically, the revisions to the FCM Delivery Financial Assurance formula proposed in this filing, which are collectively referred to as the “FAP Revisions”:

- (1) decrease the liquidation risk⁵ for winter CSO positions by increasing the scaling factor for the winter season months⁶ and, as a result, the collateral requirements for the winter season months to reflect the increasing risk of Capacity Scarcity Conditions (“CSCs”) occurring during the winter;
- (2) decrease the credit risk⁷ associated with CSOs by using more recent operating data to calculate the capacity weighted average performance (“CWAP”) of a Market Participant’s resource portfolio (*i.e.*, decreasing the time to incorporate a resource’s demonstrated operating performance into the FCM Delivery Financial Assurance formula);
- (3) decrease the clearing risk⁸ associated with CSOs by including, within the collateral calculation, amounts to cover realized penalty payments that occur within the current month which decreases the duration between realized penalty payment obligations from a recent CSC and when collateral requirements are updated; and
- (4) update various portions of the FCM Delivery Financial Assurance formula as conforming and clean-up changes.

The FAP Revisions are supported by the testimony of Mr. Christopher Nolan, Director, Market and Credit Risk, which is sponsored solely by the ISO (the “Nolan Testimony”).⁹ As addressed more fully in Section VI of this transmittal letter, ISO-NE respectfully requests that the FAP Revisions proposed herein become effective on March 1, 2024 and that the Commission issue an order accepting the FAP Revisions no later than February 12, 2024, 60 days from the date of this filing.

⁵ Liquidation risk is the risk that losses may continue to accrue against a CSO position post default up to the annual stop-loss limit in any Capacity Commitment Period before a Market Participant is able to close the position, and the risk that the defaulted position, when closed, is sold at a loss. *See infra* at p. 6.

⁶ Winter season months are: December, January, and February. Summer season months are: June, July, August, and September. Shoulder months are: March, April, May, October, and November.

⁷ Credit risk is the risk that a Market Participant will default on payment obligations arising from negative capacity payments associated with CSOs in the current delivery month. *See infra* at pp. 5-6.

⁸ Clearing risk is the risk that a Market Participant does not timely discharge settled payment obligations already incurred. *See infra* at p. 5.

⁹ The Nolan Testimony is Attachment 3 to this transmittal letter.

I. DESCRIPTION OF THE FILING PARTIES AND COMMUNICATIONS

The ISO is the independent, private, non-profit entity that serves as the Regional Transmission Organization (“RTO”) for New England. The ISO operates the New England bulk power system and administers New England’s organized wholesale electricity market pursuant to the Tariff and the Transmission Operating Agreement (“TOA”) with the New England Participating Transmission Owners. In its capacity as an RTO, the ISO has the responsibility to protect the short-term reliability of the New England Control Area and to plan and operate the system according to reliability standards established by the ISO, the Northeast Power Coordinating Council, Inc. and the North American Electric Reliability Corporation.

NEPOOL is a voluntary association organized in 1971 pursuant to the New England Power Pool Agreement, and it has grown to include more than 530 members. The participants include all of the electric utilities rendering or receiving service under the Tariff, as well as independent power generators, marketers, load aggregators, brokers, consumer-owned utility systems, end users, developers, demand resource providers, and a merchant transmission provider. Pursuant to revised governance provisions accepted by the Commission,¹⁰ the participants act through the NEPOOL Participants Committee. The Participants Committee is authorized by Section 6.1 of the Second Restated NEPOOL Agreement and Section 8.1.3(c) of the Participants Agreement to represent NEPOOL in proceedings before the Commission. Pursuant to Section 2.2 of the Participants Agreement, “NEPOOL provide[s] the sole Participant Processes for advisory voting on ISO matters and the selection of ISO Board members, except for input from state regulatory authorities and as otherwise may be provided in the Tariff, TOA and the Market Participant Services Agreement included in the Tariff.”

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¹⁰ *ISO New England Inc.*, 109 FERC ¶ 61,147 (2004).

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II. STANDARD OF REVIEW

The FAP Revisions are submitted pursuant to Section 205 of the Federal Power Act, which “gives a utility the right to file rates and terms for services rendered with its assets.”¹² Under Section 205, the Commission “plays ‘an essentially passive and reactive’ role”¹³ whereby it “can reject [a filing] only if it finds that the changes proposed by the public utility are not ‘just and reasonable.’”¹⁴ The Commission limits this inquiry “into whether the rates proposed by a utility are reasonable – and [this inquiry does not] extend to determining whether a proposed rate schedule is more or less reasonable than alternative rate designs.”¹⁵ The FAP Revisions filed herein “need not be the only reasonable methodology, or even the most accurate.”¹⁶ As a result, even if an intervenor or the Commission develops an alternate proposal, the Commission must accept the Tariff revisions proposed in this Section 205 filing if the revisions are just and reasonable.¹⁷

III. BACKGROUND

A. Current FCM Delivery Financial Assurance Formula

FCM Delivery Financial Assurance is one component of the financial assurance that a Market Participant is required to provide if it is participating in the FCM and has acquired a CSO.¹⁸ One design feature of the ISO’s FCM is the “pay-for-performance” or “PFP” construct which provides incentives for resources that perform during CSCs and, conversely, penalizes resources

¹¹ Due to the joint nature of this filing, the Filing Parties respectfully request a waiver of Section 385.203(b)(3) of the Commission’s regulations to allow the inclusion of more than two persons on the service list in this proceeding.

¹² *Atlantic City Elec. Co. v. FERC*, 295 F.3d 1, 9 (D.C. Cir. 2002).

¹³ *Id.* at 10 (quoting *City of Winnfield v. FERC*, 744 F.2d 871, 876 (D.C. Cir. 1984)).

¹⁴ *Id.* at 9.

¹⁵ *Cities of Bethany, Bushnell et al. v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir.), *cert. denied*, 469 U.S. 917 (1984) (“*Cities of Bethany*”); *see also ISO New England Inc.*, 114 FERC ¶ 61,315 at P 33 and n.35 (2005), (*citing Pub. Serv. Co. of New Mexico v. FERC*, 832 F.2d 1201, 1211 (10th Cir. 1987) and *Cities of Bethany* at 1136).

¹⁶ *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995) (*citing Cities of Bethany* at 1136).

¹⁷ *Cf. Southern California Edison Co., et al.*, 73 FERC ¶ 61,219 at 61,608 n.73 (1995) (“Having found the Plan to be just and reasonable, there is no need to consider in any detail the alternative plans proposed by the Joint Protesters.”) (*citing Cities of Bethany* at 1136).

¹⁸ *See* FAP Section VII. CSOs associated with any Energy Efficiency measures are excluded from the FCM Delivery Financial Assurance calculation. *See* FAP Section VII.A.

that do not perform or underperform during such conditions.¹⁹ Resultantly, a resource's net capacity payments (*i.e.*, payments or charges based on performance during a CSC event) may be negative and, therefore, the FAP contains financial assurance requirements to collateralize the possibility of net payment obligations under PFP.²⁰

A Market Participant with a resource that has a CSO is required to add FCM Delivery Financial Assurance to its total financial assurance requirements calculation.²¹ The following is the current formula for the calculation of FCM Delivery Financial Assurance:

$$[\text{DFAMW} \times \text{PE} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \times \text{SF} \times \text{DF}] - \text{MCC}$$

Each variable is described below and in the Nolan Testimony. Further, as explained in the Nolan Testimony, generally, this formula is designed to address three types of risk: clearing risk, credit risk, and liquidation risk.²² Each risk is addressed by a different portion of the formula.

Clearing risk is the potential that a Market Participant does not pay its incurred FCM Charges in a timely manner and is covered by the MCC variable.²³ The MCC, or monthly capacity charge, variable collateralizes Market Participants' monthly capacity payments (*i.e.*, performance penalties) that have been incurred but not yet billed.²⁴

Credit risk is the potential that a Market Participant will default on payment obligations arising from negative capacity payments associated with a CSO and is covered by the following portion of the formula: $\text{DFAMW} \times \text{PE} \times \max[(\text{ABR}-\text{CWAP}), 0.1]$.²⁵ The DFAMW (delivery financial assurance MW) variable represents the MW amount on which a Market Participant must submit FCM Delivery Financial Assurance, the PE (potential exposure) variable is the dollar per MW value that will apply in calculating the Market Participant's FCM Delivery Financial Assurance, and the $\max[\text{ABR}-\text{CWAP}), 0.1]$ reflects the performance of the Market Participant's capacity resources against the system

¹⁹ See ISO New England Inc. and New England Power Pool, Filings of Performance Incentives Market Rule Changes, Docket Nos. ER14-1050-000 and ER14-1050-001, January 17, 2014 ("January 17 Filing"); ISO New England Inc. and New England Power Pool, Compliance Filing of Two-Settlement Forward Capacity Market Design, Docket Nos. ER14-2419-000, July 14, 2014 ("July 14 Filing"). See also ISO New England Inc. and New England Power Pool, Order on Tariff Filing and Instituting Section 206 Proceeding, 147 FERC ¶61,172 (May 30, 2014); ISO New England Inc., Order on Compliance Filing, 149 FERC ¶61,009 (October 2, 2014); ISO New England Inc., Letter Order Accepting Compliance Filing in Docket No. ER14-2419-002 (January 15, 2015) (collectively, the "2014 PFP Filing").

²⁰ *Id.*; FAP Section VII.A.

²¹ See FAP Section VII.A.

²² See Nolan Testimony at pp. 4-5.

²³ *Id.* at pp. 5-6.

²⁴ *Id.*

²⁵ *Id.* at pp. 4-5; 6-12.

needs.²⁶ The ABR, or average balancing ratio, value within that portion of the formula is a system-wide value that reflects the amount of capacity reserves needed to avoid a CSC.²⁷ The CWAP, or capacity weighed average performance, reflects the assumed operating performance of the Market Participant's resources during CSCs based on historical performance data from the prior three Capacity Commitment Periods on a weighted average basis.²⁸

Finally, liquidation risk is the potential that losses may continue to accrue against a defaulted CSO up to the annual stop-loss in any Capacity Commitment Period prior to a Market Participant being able to close the position and, that the defaulted position, is sold at a loss.²⁹ Liquidation risk is covered by the SF or "scaling factor" variable.³⁰ The scaling factor is a month specific multiplier applied to a Market Participant's FCM Delivery Financial Assurance.³¹

B. Reevaluation of FCM Delivery Financial Assurance

While the ISO's PFP collateral design (*i.e.*, the FCM Delivery Financial Assurance formula) has performed well during the short duration CSCs that have occurred to date, there is an increasing risk of CSCs resulting from extreme weather and, at the same time, the Capacity Performance Payment Rates will increase in 2024 and again in 2026.³² Increased Capacity Performance Payment Rates mean that the penalties incurred by resources that underperform will also increase, exacerbating any collateral shortfall risks.³³ Furthermore, the ISO has monitored the disputes between PJM Interconnection, L.L.C. ("PJM") and its members over Winter Storm Elliott "non-performance" charges and generator defaults.³⁴ Each of these triggered the ISO's analysis

²⁶ *Id.* at pp. 6-11.

²⁷ *Id.* at pp. 7-11.

²⁸ *Id.*

²⁹ *Id.* at pp. 4-5.

³⁰ *Id.* at pp. 12-14. There is one other variable in the formula. The DF, or discount factor, variable is not directly related to these three types of risk; it is a multiplier that accounts for the phase-in of the Capacity Performance Payment Rate and as explained below, the FAP Revisions include deletion of the DF variable as it is no longer applicable.

³¹ See FAP Section VII.A; Nolan Testimony at pp. 12-14.

³² See Nolan Testimony at pp. 2-3; Tariff Section III.13.7.2.5. For the three Capacity Commitment Periods beginning June 1, 2018 and ending May 31, 2021, the Capacity Performance Payment Rate will be \$2000/MWh. For the three Capacity Commitment Periods beginning June 1, 2021 and ending May 31, 2024, the Capacity Performance Payment Rate will be \$3500/MWh. For the Capacity Commitment Period beginning on June 1, 2024 and ending on May 31, 2025, the Capacity Performance Payment Rate will be \$5455/MWh. For the Capacity Commitment Period beginning on June 1, 2025 and ending on May 31, 2026 and, thereafter, the Capacity Performance Payment Rate will be \$9337/MWh. See Tariff Section III.13.7.2.5.

³³ See Nolan Testimony at pp. 2-3.

³⁴ See *PJM Interconnection, LLC*, ER23-2975-000; see also *PJM, 80 Parties Agree to Trim Winter Storm Elliott Penalties*, Utility Dive (Oct. 2, 2023), <https://www.utilitydive.com/news/pjm-calpine-talen-winter-storm-elliott-penalties-settlement-agreement->

of FCM Delivery Financial Assurance to determine if sufficient collateral will be posted as the Capacity Performance Payment Rate increases.³⁵

To evaluate the sufficiency of the FCM Delivery Financial Assurance formula, the ISO performed several stress tests (historical and forward looking) to see how the methodology performed during longer duration CSCs at the increased Capacity Performance Payment Rate (\$9337/MWh as of June 1, 2026).³⁶ First, the ISO evaluated how the FCM Delivery Financial Assurance methodology performed during CSCs to date (through summer 2023).³⁷ This evaluation concluded that PFP penalties were adequately covered by collateral requirements during these three events.³⁸ Included in this review, was a detailed analysis of the most recent CSC that occurred during Winter Storm Elliott on December 24, 2022.³⁹

Second, the ISO conducted forward-looking collateral stress tests with four test scenarios: three based on worst case scenarios (one for summer and two for winter) from a recent one-time extreme weather study on the operational impacts of extreme weather⁴⁰ conducted by ISO-NE and the Electric Power Research Institute (“EPRI”) and one based on the actual CSCs that occurred during Winter Storm Elliot in December 2022.⁴¹ The worst case scenarios that the ISO selected from the PEAT study to stress test the PFP collateral methodology were 21-day events that appear most stressful to the future New England power system in terms of energy availability both in the summer and winter.⁴² The CSO portfolio in these scenarios was based on generation resources that cleared in FCA 16 (*i.e.*, the resource mix for the 2025-2026 Capacity Commitment Period) as well as state-sponsored resources under contract or that have been collected under recent RFPs.⁴³

[ferc/695296/#:~:text=The%20PJM%20Interconnection%20and%2080,the%20Federal%20Energy%20Regulatory%20Commission.](https://www.ferc.gov/695296/#:~:text=The%20PJM%20Interconnection%20and%2080,the%20Federal%20Energy%20Regulatory%20Commission.)

³⁵ See Nolan Testimony at pp. 2-3.

³⁶ *Id.* at pp. 3-4.

³⁷ *Id.* at pp. 14-17.

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ See Stephen George & Jinye Zhao, Operational Impact of Extreme Weather Events: Preliminary Results of Energy Adequacy Studies for Winter 2027, ISO NEW ENGLAND (May 16, 2023) (“Winter 2027 Presentation”), https://www.iso-ne.com/static-assets/documents/2023/08/a10_operational_impact_of_extreme_weather_events.pdf; see also Stephen George & Jinye Zhao, Operational Impact of Extreme Weather Events: Preliminary Results of Energy Adequacy Studies for Winter 2032, ISO NEW ENGLAND (Aug. 15, 2023) (“Winter 2032 Presentation”), https://www.iso-ne.com/static-assets/documents/2023/08/a10_operational_impact_of_extreme_weather_events.pdf. This extreme weather study, which focused on quantifying the region’s energy adequacy risk, is now commonly referred to as “Probabilistic Energy Adequacy Tool”, or “PEAT,” study.

⁴¹ See Nolan Testimony at pp. 17-19.

⁴² *Id.*

⁴³ *Id.*

Once the ISO selected these cases, the ISO applied the increased Capacity Performance Payment Rate of \$9337/MWh.⁴⁴

The results of these stress tests indicate that extreme weather events occurring later in the winter season results in sizable collateral shortfalls.⁴⁵ As explained in more detail in the Nolan Testimony, only a small amount of net losses (*i.e.*, PFP payment penalties minus capacity revenues) were incurred during the summer test case due to non-performance.⁴⁶ However, collateralization of net losses significantly deteriorates through the winter as the collateral scaling factors reduce and operating performance data from the current Capacity Commitment Period is not reflected in collateral obligations until the following year's Capacity Commitment Period.⁴⁷

The purpose of the FAP Revisions proposed in this filing and described further below is to mitigate the risks, specifically the collateral shortfall risks, identified during the historical and forward looking stress tests.

IV. DESCRIPTION OF THE PROPOSED TARIFF REVISIONS

As noted above, the FAP Revisions include three enhancements to the FCM Delivery Financial Assurance formula: (1) increase of the scaling factor for winter season months; (2) inclusion of more recent operating performance data in the CWAP calculation; and (3) inclusion of a new variable in the FCM Delivery Financial Assurance formula to collateralize performance penalties that have been incurred in the current month, but not yet billed. The FAP Revisions also include conforming and clean-up changes.

A. FAP Revisions to Increase the Scaling Factor for the Winter Season Months

The FAP Revisions increase the scaling factor, the month-specific multiplier within the FCM Delivery Financial Assurance formula, for the winter season months to be the same as the summer season months. As noted above and explained in the Nolan Testimony, the purpose of the scaling factor variable is to mitigate the liquidation risk (*i.e.*, the risk that losses may continue to accrue against a Market Participant's CSO position post default).⁴⁸ Upon a resource's default, the performance payment penalties will continue to accrue within a month up to the monthly stop-loss and in consecutive months, up to the annual stop-loss.⁴⁹ This risk exists because, after a

⁴⁴ The forward looking stress test scenario using Winter Storm Elliott as a test case applied the actual CSCs that occurred during Winter Storm Elliot in December 2022 with the resource mix for the 2025-2026 Capacity Commitment Period. *See* Nolan Testimony at pp. 17-19.

⁴⁵ *See* Nolan Testimony at pp. 19-20.

⁴⁶ *Id.*

⁴⁷ *Id.*

⁴⁸ *Id.* at pp. 12-14.

⁴⁹ *Id.*

resource default occurs, the resource is not terminated from the market and, until the Market Participant can close the position through a bilateral contract, it continues to be exposed to charges.⁵⁰

The liquidation risk and, therefore, the scaling factor is not uniform across all months of the Capacity Commitment Period as the risk of CSCs varies seasonally and, during the summer and winter, there are consecutive high-risk months.⁵¹ As a result, the current scaling factors are set at a level that results in higher collateral requirements earlier in the summer or winter season.⁵² However, even though the current scaling factors reflect that there is some increased risk for CSCs in the winter (as opposed to shoulder months), the scaling factors for the winter months are currently lower than the summer months because the initial PFP design was based on historical data from 2010-2013 which reflected that summer was the riskiest season.⁵³

The PEAT study (*i.e.*, the ISO's more recent study of the operational impact of extreme weather events published in 2023), however, highlights an increasing risk of CSCs (and energy shortfall) during winter months over the next decade.⁵⁴ As such, potential collateral shortfalls under the existing FCM Delivery Financial Assurance formula will continue to grow during winter months and pose a significant risk to the New England Markets.⁵⁵ Therefore, ISO-NE proposes to revise the scaling factors for the winter season months to align with those for the summer season months.⁵⁶ Specifically, the ISO proposes to change the December scaling factor to 2.000, the

⁵⁰ *Id.*

⁵¹ See Nolan Testimony at pp. 12-14; 22-23.

⁵² Under the currently effective FAP, the scaling factors are as follows: June – 2.000; December and July 1.732; January and August 1.414; and all other months – 1.000. FAP Section VII.A.

⁵³ See Nolan Testimony at pp. 22-23; 2014 PFP Filing, Montalvo Testimony at 12; 19. The initial scaling factors were based on the conclusions of a report prepared by the Analysis Group in 2013 called Assessment of the Impact of ISO-NE's Proposed Forward Capacity Market Performance Incentives. See Todd Schatzki & Paul Hibbard, *Assessment of the Impact of ISO-NE's Proposed Forward Capacity Market Performance Incentives*, ANALYSIS GROUP (Sept. 2013) ("Analysis Group Assessment"), https://www.analysisgroup.com/globalassets/content/insights/publishing/a3b_analysis_group_fcm_pi_impact_assessment_report_09_2013.pdf; see also, *e.g.*, 2014 PFP Filing, Montalvo Testimony at 19. Historically, the summer was considered a riskier season as a result of reserve shortages arising due to insufficient aggregate resources available to meet load. *Id.*

⁵⁴ See Stephen George & Jinye Zhao, Operational Impact of Extreme Weather Events: Preliminary Results of Energy Adequacy Studies for Winter 2027, ISO NEW ENGLAND (May 16, 2023) ("Winter 2027 Presentation"), https://www.iso-ne.com/static-assets/documents/2023/08/a10_operational_impact_of_extreme_weather_events.pdf; see also Stephen George & Jinye Zhao, Operational Impact of Extreme Weather Events: Preliminary Results of Energy Adequacy Studies for Winter 2032, ISO NEW ENGLAND (Aug. 15, 2023) ("Winter 2032 Presentation"), https://www.iso-ne.com/static-assets/documents/2023/08/a10_operational_impact_of_extreme_weather_events.pdf; see also Nolan Testimony at pp. 22-23.

⁵⁵ See Nolan Testimony at pp. 22-23.

⁵⁶ See Nolan Testimony at pp. 21-23; Revised FAP VII.A.

January scaling factor to 1.732, and the February scaling factor to 1.414, which is the same as, respectively, the values of the June (the beginning of the summer season) scaling factor, July scaling factor, and August scaling factor.⁵⁷ Increasing the scaling factors significantly reduces the risk of collateral shortfalls during the winter season due to extreme weather.⁵⁸ As explained in the Nolan Testimony, collateralization of net losses (*i.e.*, performance penalty payments minus capacity revenues) significantly deteriorates through the winter as the collateral scaling factors reduce.⁵⁹ The same issue did not occur in the summer because the scaling factor for the summer season months is higher than the winter season months in the currently effective FAP.⁶⁰ By revising the FCM Delivery Financial Assurance formula so that the winter scaling factors equal the summer scaling factors, the collateral shortfalls in the stress test scenarios decreased by \$9 million.⁶¹

B. FAP Revisions to Use More Recent Operating Data to Calculate the CWAP (Capacity Weighted Average Performance) of a Market Participant's Resource Portfolio

To reduce credit risk exposure (*i.e.*, the risk that a Market Participant will default on payment obligations arising from negative capacity payments associated with CSOs in the current delivery month), the ISO also proposes to revise the FAP to calculate a Market Participant's CWAP using more recent operating data (*i.e.*, a Market Participant's operating performance from the most recent CSC occurring in the current delivery season).⁶² As noted above, CWAP, or capacity weighted average performance, is the capacity weighted average performance of a Market Participant's portfolio over the past three Capacity Commitment Periods.⁶³ As CWAP is a proxy for future performance, generally, the better a Market Participant's resources have performed, the higher its CWAP value will be, resulting in lower collateral requirements.⁶⁴ The worse a Market Participant's resources have performed, the lower its CWAP value will be, resulting in higher collateral requirements.⁶⁵

⁵⁷ See Revised FAP Section VII.A.

⁵⁸ See Nolan Testimony at pp. 21-24.

⁵⁹ *Id.* at pp. 19-20; 21-24.

⁶⁰ *Id.*

⁶¹ *Id.* at p. 23.

⁶² See Revised FAP Section VII.A; Nolan Testimony at pp. 6; 24-25.

⁶³ See *supra* pp. 5-6; Nolan Testimony at pp. 7-11; 24-25.

⁶⁴ See Nolan Testimony at pp. 7-11; 24-25. The CWAP variable excludes from a Market Participant's portfolio, any resource that has reached its annual stop-loss and the resource with the largest Capacity Supply Obligation. See FAP Section VII.A; Nolan Testimony at pp. 11-12. Therefore, FCM Delivery Financial Assurance is calculated based on the assumption that those resources would be unavailable during a CSC event. *Id.*

⁶⁵ *Id.*

Currently, the CWAP calculation includes the operating performance of a Market Participant's resources during CSCs occurring in the prior three Capacity Commitment Periods on a weighted average basis.⁶⁶ Although performance scores are typically available approximately four to five business days after a CSC occurs, that data does not get incorporated into the CWAP calculation until the start of a new Capacity Commitment Period.⁶⁷ For example, actual performance data from the summers of Capacity Commitment Periods 2022-2023, 2023-2024, and 2024-2025 are applied to the CWAP to calculate collateral for Capacity Commitment Period 2025-2026.⁶⁸ This time-lag results in potential under-collateralization of non-performing resources until the collateral requirement is adjusted the following year.⁶⁹

As a result, the revised CWAP calculation includes the data from the prior three years *and* operating performance data from the relevant group of months within the current Capacity Commitment Period.⁷⁰ Applying this revised methodology to the stress test cases, the collateral shortfalls are significantly reduced.⁷¹ Specifically, in the January test case, those shortfalls were reduced by \$28 million (from \$72 million to \$44 million) and, in the February test case, they were reduced by \$36 million (from \$86 million to \$50 million).⁷² When the CWAP methodology changes are combined with the proposed scaling factor revisions the collateral shortfall reductions are even more dramatic (the February test case reduction is from \$86 million under-collateralization to \$26 million).⁷³ Consistent with the PFP financial assurance design previously accepted by the Commission, there continues to a reasonable level of under-collateralization as the FCM Delivery Financial Assurance methodology was not designed to fully collateralize the potential for non-performance payments.⁷⁴

⁶⁶ FAP Section VII.A. Specifically, the CWAP calculation is a look back within the relevant group of months in the prior three Capacity Commitment Periods: "Three separate groups of months shall be used for this purpose: June through September, December through February, and all other months." *Id.*

⁶⁷ See Nolan Testimony at pp. 24-25.

⁶⁸ *Id.*

⁶⁹ *Id.*

⁷⁰ See Revised FAP Section VII.A; Nolan Testimony at p. 24. As explained in Footnote 66, the CWAP calculation uses relevant groups of months for the historical operating performance date. Accordingly, when the FAP Revisions incorporate the concept of incorporating more current operating data into the CWAP variable, the incorporation of such data is also based on the existing groups of months. See Nolan Testimony at pp. 24-25.

⁷¹ *Id.* at pp. 25-26.

⁷² *Id.*

⁷³ *Id.* at pp. 27-28.

⁷⁴ *Id.* at pp. 23-24; 25-28 ; 2014 PFP Filing, Montalvo Testimony at pp.19-20 (explaining that while the maximum possible exposure is the annual stop-loss limit, the probability that a resource will hit the monthly stop-loss limit three months in a row - the annual stop-loss limit equals three times the monthly stop-loss limit - is low. Thus, requiring Market Participants to post financial assurance up to the annual stop-loss limit would unnecessarily over-collateralize the market).

C. *Changes to Collateralize Intra-month Penalties Resulting from CSCs*

The third component of the FAP Revisions adds a variable to the FCM Delivery Financial Assurance formula to ensure that performance penalties are collateralized within the month during which a CSC occurs, reducing the current lag between the incurrence of penalties and the collateralization of those penalties the following month.⁷⁵ While the first two FAP Revisions described above focused on collateralizing risks that may occur, this FAP Revision addresses the timely collateralization of penalties that have already been incurred (*i.e.*, clearing risk).⁷⁶ Currently, the MCC or monthly capacity charge component of the FCM Delivery Financial Assurance formula is an amount equal to all capacity payments incurred in previous months, but not yet billed.⁷⁷ This value is either added to, or subtracted from, a Market Participant's FCM Delivery Financial Assurance (depending on whether it is a charge or a credit) and is estimated from the first day of the current delivery month until the value is replaced with the actual settled value when settlement is complete.⁷⁸

The current method of increasing collateral requirements on the first day of the month following the incurrence of penalties from a recent CSC results in unsecured credit exposure during the month in which the CSC occurred.⁷⁹ If a CSC, resulting in penalties, occurs early in a month, there could be a time-lag of up to twenty-two days between the date when the PFP penalties are calculated and the resulting collateral increases on the first day of the following month.⁸⁰

To address this intra-month exposure to unsecured obligations resulting from PFP penalties, the FAP Revisions include a new variable in the FCM Delivery Financial Assurance calculation, "intra-month collateral" or "IMC."⁸¹ Unlike the MCC variable, which equals all capacity payments incurred in previous months, but not yet paid, the amount of additional collateral required for a Market Participant's IMC equals the estimated monthly capacity payments incurred during a current delivery month limited by the monthly stop-loss.⁸² The IMC is an estimated value to reflect the time it takes to finalize the settlements related to CSCs.⁸³ Typically, upon the occurrence of a CSC, provisional operating performance scores are available to a Market

⁷⁵ See Revised FAP Section VII.A; Nolan Testimony at pp. 28-29.

⁷⁶ See Nolan Testimony at pp. 28-30.

⁷⁷ FAP Section VII.A.

⁷⁸ *Id.*

⁷⁹ See Nolan Testimony at pp. 28-30.

⁸⁰ *Id.*

⁸¹ See Revised FAP Section VII.A.

⁸² *Id.*

⁸³ See Nolan Testimony at pp. 28-30.

Participant in its Market Information Server (MIS) report approximately five business days later.⁸⁴ The IMC variable will not calculate until three days after the publication of this report to allow Market Participants adequate time to increase their collateral based on the report.⁸⁵ Once a new month begins, the MCC variable will collateralize any penalties that have been incurred but not yet billed, and the IMC variable will reduce accordingly.⁸⁶

D. Conforming and Clean-Up Revisions

The FAP Revisions also include several clarifying and clean-up changes to the FCM Delivery Financial Assurance formula:

- Deletion of the “DF” or “discount factor” variable from the FCM Delivery Financial Assurance formula.⁸⁷ This variable was a multiplier applied to the formula for the three Capacity Commitment Periods beginning June 1, 2018 and ending May 31, 2021 to reflect the phase in of the Capacity Performance Payment Rate as the PFP design was implemented.⁸⁸ Because those Capacity Commitment Periods have passed, the discount factor is no longer applicable and can be deleted.⁸⁹
- Updating the ABR, or average balancing ratio, variable to make it consistent with the CWAP variable.⁹⁰ As noted above, the Market Participant specific CWAP variable is calculated using operating data from the relevant group of months from the prior three Capacity Commitment Periods.⁹¹ The ABR variable, which reflects system wide performance (as opposed to market participant specific performance), similarly uses data from the prior three Capacity Commitment Periods.⁹² The FAP Revisions update the ABR calculation so that it also includes data from the current Capacity Commitment Period, consistent with the revisions to the CWAP.⁹³

⁸⁴ *Id.*

⁸⁵ *Id.* at pp. 29-30.

⁸⁶ *Id.*

⁸⁷ *See* Revised FAP Section VII.A.

⁸⁸ *See* 2014 PFP Filing, Montalvo Testimony at 22-24.

⁸⁹ *See* Nolan Testimony at p. 30.

⁹⁰ *See* Revised FAP Section VII.A.

⁹¹ *See* supra FN 66; Nolan Testimony at pp. 30-31.

⁹² *Id.*

⁹³ *See* Revised FAP Section VII.A.

- Updating of the word “instant” to “current” within the “PE,” “ABR,” and “CWAP” variables when describing the current Capacity Commitment Period for consistency throughout the formula.⁹⁴ This is not a substantive change and does not affect the current/future calculation of such variables, but rather updates the language for clarity and consistency.⁹⁵

V. STAKEHOLDER PROCESS

The FAP Revisions were considered through the complete NEPOOL Participant Processes⁹⁶ and supported by the NEPOOL Participants Committee. The ISO presented the FAP Revisions described in this transmittal letter at the September 26, 2023, October 30, 2023, and November 28, 2023 NEPOOL Budget and Finance Subcommittee meetings. No subcommittee member objected to the revisions. At its December 7, 2023 meeting, the NEPOOL Participants Committee voted unanimously in support of the FAP Revisions, with no opposition and one abstention.⁹⁷

VI. REQUESTED EFFECTIVE DATE

The ISO requests an effective date of March 1, 2024 for the FAP Revisions and an order no later than February 12, 2024 which is 60 days from the date of this filing. An effective date on the first of the month (*i.e.*, March 1, 2024) will minimize disruption to Market Participants and allow for cleaner implementation of the revised financial assurance requirements. Importantly, receiving an order no later than February 12, 2024 will allow the ISO to properly test the software changes that will be required to implement the FAP Revisions.

VII. ADDITIONAL SUPPORTING INFORMATION

Section 35.13 of the Commission’s regulations generally requires public utilities to file certain cost and other information related to an examination of traditional cost-of-service rates. However, the FAP Revisions are not a traditional “rate,” and the Filing Parties are not traditional investor-owned utilities. In light of these circumstances, the Filing Parties submit the following additional information in substantial compliance with relevant provisions of Section 35.13, and request a waiver of Section 35.13 of the Commission’s regulations to the extent the content or form deviates from the specific technical requirements of the regulations.

⁹⁴ *Id.*

⁹⁵ *See* Nolan Testimony at p. 31.

⁹⁶ Participant Processes has the meaning given in Participants Agreement Among ISO New England Inc. as the Regional Transmission Organization for New England and the New England Power Pool and the Entities that are from Time To Time Parties hereto constituting the Individual Participants.

⁹⁷ Jon Lamson in the End User sector abstained from the vote.

35.13(b)(1) – Materials included herewith are as follows:

- ♦ this transmittal letter;
- ♦ marked sections of the Tariff reflecting the FAP Revisions;
- ♦ clean sections of the Tariff reflecting the FAP Revisions;
- ♦ the Nolan Testimony;
- ♦ a list of the governors, utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont, and other entities, to which a copy of this filing is being sent electronically.

35.13(b)(2) – As noted above, the ISO, requests that the FAP Revisions become effective on March 1, 2024.

35.13(b)(3) – Pursuant to Section 17.11(e) of the Participants Agreement, Governance Participants are being served electronically rather than by paper copy. The names and addresses of the Governance Participants are posted on the ISO's website at <https://www.iso-ne.com/participate/participant-asset-listings/directory?id=1&type=committee>. An electronic copy of this transmittal letter and the accompanying materials has also been sent to the governors and electric utility regulatory agencies for the six New England states which comprise the New England Control Area, and to the New England Conference of Public Utility Commissioners, Inc. Their names and addresses are shown in the attached listing. In accordance with Commission rules and practice, there is no need for the Governance Participants or the entities identified in the listing to be included on the Commission's official service list in the captioned proceeding unless such entities become intervenors in this proceeding.

35.13(b)(4) – A description of the materials submitted pursuant to this filing is contained in Section VII of this transmittal letter.

35.13(b)(5) – The reasons for this filing are discussed in Sections III and IV of this transmittal letter and in the Nolan Testimony.

35.13(b)(6) – The ISO's approval of the FAP Revisions is evidenced by this filing. With respect to NEPOOL's support, as noted in Section VII of this transmittal letter, the FAP Revisions reflect the outcome of the Participant Processes required by the Participants Agreement, and is supported by the NEPOOL Participants Committee.

35.13(b)(7) – The Filing Parties have no knowledge of any relevant expenses or costs of service that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

35.13(b)(8) – A form of notice and electronic media are no longer required for filings in light of the Commission’s Combined Notice of Filings notice methodology.

35.13(c)(1) – The FAP Revisions herein do not modify a traditional “rate.” The statement required under this Commission regulation is not applicable to this filing.

35.13(c)(2) – The ISO does not provide services under other rate schedules that are similar to the wholesale, resale and transmission services it provides under the Tariff.

35.13(c)(3) – No specifically assignable facilities have been or will be installed or modified in connection with the revision submitted herein.

VIII. CONCLUSION

For the reasons stated herein, the Filing Parties respectfully request that the Commission accept the FAP Revisions as filed, without condition, suspension, or hearing, to be effective March 1, 2024.

Respectfully submitted,

ISO NEW ENGLAND INC.

NEPOOL PARTICIPANTS COMMITTEE

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EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

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EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

Overview

The procedures and requirements set forth in this ISO New England Financial Assurance Policy shall govern all Applicants, all Market Participants and all Non-Market Participant Transmission Customers. Capitalized terms used in the ISO New England Financial Assurance Policy shall have the meaning specified in Section I.

The purpose of the ISO New England Financial Assurance Policy is (i) to establish minimum criteria for participation in the New England Markets; (ii) to establish a financial assurance policy for Market Participants and Non-Market Participant Transmission Customers that includes commercially reasonable credit review procedures to assess the financial ability of an Applicant, a Market Participant or a Non-Market Participant Transmission Customer to pay for service transactions under the Tariff and to pay its share of the ISO expenses, including amounts under Section IV of the Tariff, and including any applicable Participant Expenses; (iii) to set forth the requirements for alternative forms of security that will be deemed acceptable to the ISO and consistent with commercial practices established by the Uniform Commercial Code that protect the ISO and the Market Participants against the risk of non-payment by other, defaulting Market Participants or by Non-Market Participant Transmission Customers; (iv) to set forth the conditions under which the ISO will conduct business in a nondiscriminatory way so as to avoid the possibility of failure of payment for services rendered under the Tariff; and (v) to collect amounts past due, to collect amounts payable upon billing adjustments, to make up shortfalls in payments, to suspend Market Participants and Non-Market Participant Transmission Customers that fail to comply with the terms of the ISO New England Financial Assurance Policy, to terminate the membership of defaulting Market Participants and to terminate service to defaulting Non-Market Participant Transmission Customers.

I. GROUPS REGARDED AS SINGLE MARKET PARTICIPANTS

In the case of a group of Entities that are treated as a single Market Participant pursuant to Section 4.1 of the Second Restated NEPOOL Agreement (the “RNA”), the group members shall be deemed to have elected to be jointly and severally liable for all debts to Market Participants, PTOs, Non-Market Participant Transmission Customers, NEPOOL and the ISO of any of the group members. For the purposes of the ISO New England Financial Assurance Policy, the term “Market Participant” shall, in the case of a group of members that are treated as a single Market Participant pursuant to Section 4.1 of the RNA, be deemed to refer to the group of members as a whole, and any financial assurance provided

under the ISO New England Financial Assurance Policy will be credited to the account of the group member with the customer identification at the ISO.

II. MARKET PARTICIPANTS' REVIEW AND CREDIT LIMITS

Solely for purposes of the ISO New England Financial Assurance Policy: a "Municipal Market Participant" is any Market Participant that is either (a) a Publicly Owned Entity except for an electric cooperative or an organization including one or more electric cooperatives as used in Section 1 of the RNA or (b) a municipality, an agency thereof, a body politic or a public corporation (i) that is created under the authority of any state or province that is adjacent to one of the New England states, (ii) that is authorized to own, lease and operate electric generation, transmission or distribution facilities and (iii) that has been approved for treatment as a Municipal Market Participant by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee. Market Participants that are not Municipal Market Participants are referred to as "Non-Municipal Market Participants."

A. Minimum Criteria for Market Participation

Any entity participating or seeking to participate in the New England Markets shall comply with the requirements of this Section II.A. For purposes of this Section II.A, the term "customer" shall refer to both Market Participants and Non-Market Participant Transmission Customers and the word "applicant" shall refer to both applicants for Market Participant status and applicants for transmission service from the ISO.

1. Information Disclosure

- (a) Each customer and applicant, on an annual basis (by April 30 each year) shall submit a completed information form in the form of (with only minor, non-material changes) and with the information required by Attachment 6 to the ISO New England Financial Assurance Policy. Customer or applicant shall not be required to disclose information required by Attachment 6 if such disclosure is prohibited by law; provided, however, if the disclosure of any information required by Attachment 6 is prohibited by law, then customer or applicant shall use reasonable efforts to obtain permission to make such disclosure. This information shall be treated as Confidential Information, but its disclosure pursuant to subsection (b) below is expressly permitted in accordance with the terms of the ISO New England Information Policy. Customers and applicants may satisfy the requirements above by providing the ISO with filings made to the Securities

and Exchange Commission or other similar regulatory agencies that include substantially similar information to that required above, provided, however, that the customer or applicant must clearly indicate where the specific information is located in those filings. An applicant that fails to provide this information will be prohibited from participating in the New England Markets until the deficiency is rectified. If a customer fails to provide this information by end of business on April 30, then the ISO shall issue a notice of such failure to the customer on the next Business Day and, if the customer does not provide the information to the ISO within 5 Business Days after issuance of such notice, then the customer will be suspended as described in Section III.B.3 of the ISO New England Financial Assurance Policy until the deficiency is rectified.

- (b) The ISO will review the information provided pursuant to subsection (a) above, and will also review whether the customer or applicant or any of the Principals of the customer or applicant are included on any relevant list maintained by the U.S. Office of Foreign Asset Control. If, after review of the information provided pursuant to subsection (a) above or any other information disclosed pursuant to this Section II, the ISO in its sole discretion requires additional information to make its analysis under this subsection (b), the ISO may require additional information from the customer or applicant. If, based on these reviews, the ISO determines that the commencement or continued participation of such customer or applicant in the New England Markets may present an unreasonable risk to those markets or its Market Participants, the Chief Financial Officer of the ISO shall promptly forward to the Participants Committee or its delegate, for its input, such concerns, together with such background materials deemed by the ISO to be necessary for the Participants Committee or its delegate to develop an informed opinion with respect to the identified concerns, including any measures that the ISO may recommend imposing as a condition to the commencement or continued participation in the markets by such customer or applicant (including suspension) or the ISO's recommendation to prohibit or terminate participation by the customer or applicant in the New England Markets. The ISO shall consider the input of the Participants Committee or its delegate before taking any action to address the identified concerns. If the ISO chooses to impose measures other than prohibition (in the case of an applicant) or termination (in the case of a customer) of participation in the New England Markets, then the ISO shall be required to make an informational filing with the Commission as soon as reasonably practicable after taking such action. If the ISO chooses to prohibit (in the case of an applicant) or

terminate (in the case of a customer) participation in the New England Markets, then the ISO must file for Commission approval of such action, and the prohibition or termination shall become effective only upon final Commission ruling. No action by the ISO pursuant to this subsection (b) shall limit in any way the ISO's rights or authority under any other provisions of the ISO New England Financial Assurance Policy or the ISO New England Billing Policy.

2. Risk Management

- (a) Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has: (i) either established or contracted for risk management procedures that are applicable to participation in the New England Markets; and (ii) has established or contracted for appropriate training of relevant personnel that is applicable to its participation in the New England Markets. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant. An applicant that fails to provide this certificate will be prohibited from participating in the New England Markets until the deficiency is rectified. If a customer fails to provide this certificate by end of business on April 30, then the ISO shall issue a notice of such failure to the customer on the next Business Day and, if the customer does not provide the certificate to the ISO within 5 Business Days after issuance of such notice, then the customer will be suspended as described in Section III.B.3 of the ISO New England Financial Assurance Policy until the deficiency is rectified.
- (b) Each applicant prior to commencing activity in the FTR market shall submit to the ISO or its designee the written risk management policies, procedures, and controls, including, if requested by the ISO in its sole discretion, supporting documentation (which may include an organizational chart (or portion thereof) or equivalent information) that demonstrates the segregation of duties within such risk policies, procedures, and controls of the such customer or applicant, applicable to its participation in the FTR market relied upon by the Senior Officer of the applicant signing the certificate provided pursuant to Section II.A.2
 - (a). On an annual basis (by April 30 each year), each Designated FTR Participant with FTR transactions in any of the previous twelve months or in any currently open month

that exceed 1,000 MW per month (on a net basis, as described in the FTR Financial Assurance Requirements provisions in Section VI) shall submit to the ISO or its designee a certificate in the form of Attachment 5 to the ISO New England Financial Assurance Policy stating that, since the customer's delivery of its risk management policies, procedures, and controls (and any supporting documentation, if applicable) or its last certificate pursuant to this Section II.A.2(b), the customer either: (i) has not made any changes to the previously submitted written risk management policies, procedures, and controls (and any supporting documentation, if applicable); or (ii) that changes have been made to the previously submitted written risk management policies, procedures, and controls (and any supporting documentation, if applicable) and that all such changes are clearly identified and attached to such certificate. If any such applicant fails to submit the relevant written policies, procedures, and controls, then the applicant will be prohibited from participating in the FTR market. If any such customer fails to provide a certificate in the form of Attachment 5 by end of business on April 30, then the ISO shall issue a notice of such failure to the customer, and if the customer does not provide the certificate to the ISO within two Business Days after issuance of such notice, then the customer will be suspended (as described in Section III.B.3.c of the ISO New England Financial Assurance Policy) from entering into any future transactions in the FTR system.

The ISO, at its sole discretion, may also require any applicant or customer to submit to the ISO or its designee the written risk management policies, procedures, and controls, including supporting documentation (which may include an organizational chart (or portion thereof) or equivalent information) that demonstrates the segregation of duties within such risk policies, procedures, and controls of the such customer or applicant, that are applicable to its participation in the New England Markets relied upon by the Senior Officer of the applicant or customer signing the certificate provided pursuant to Section II.A.2(a). The ISO may require such submissions based on identified risk factors that include, but are not limited to, the markets in which the customer is transacting or the applicant seeks to transact, the magnitude of the customer's transactions or the applicant's potential transactions, or the volume of the customer's open positions. Where the ISO notifies an applicant or customer that such a submission is required, the submission shall be due within 5 Business Days of the notice. If an applicant fails to submit the relevant written policies, procedures, and controls as required, then the applicant will be prohibited from participating in the New England Markets. If a

customer fails to submit the relevant written policies, procedures, and controls, then the ISO shall issue a notice of such failure to the customer, and if the customer fails to submit the relevant written policies, procedures, and controls to the ISO or its designee within two Business Days after issuance of such notice, then the customer will be suspended (as described in Section III.B of the ISO New England Financial Assurance Policy).

The applicant's or customer's written policies, procedures, controls, and any supporting documentation, received by the ISO or its designee pursuant to this subsection (b) shall be treated as Confidential Information.

- (c) Where an applicant or customer submits risk management policies, procedures, and controls, or supporting documentation to the ISO or its designee pursuant to any provision of subsection (b) above, the ISO or its designee shall assess that those policies, procedures, and controls conform to prudent risk management practices, which include, but are not limited to: (i) addressing market, credit, and operational risk; (ii) segregating roles, responsibilities, and functions in the organization; (iii) establishing delegations of authority that specify which transactions traders are authorized to enter into; (iv) ensuring that traders have sufficient training in systems and the markets in which they transact; (v) placing risk limits to control exposure; (vi) requiring reports to ensure that risks are adequately communicated throughout the organization; (vii) establishing processes for independent confirmation of executed transactions; and (viii) establishing periodic valuation or mark-to-market of risk positions as appropriate.

Where, as a result of the assessment described above in this subsection (c), the ISO or its designee believes that the applicant's or customer's written policies, procedures, and controls do not conform to prudent risk management practices, then the ISO or its designee shall provide notice to the applicant or customer explaining the deficiencies. The applicant or customer shall revise its policies, procedures, and controls to address the deficiencies within 55 days after issuance of such notice. (If April 30 falls within that 55 day window, the ISO may choose not to require a separate submission on April 30 as described in subsection (b) above.) If an applicant's revised written policies, procedures, and controls do not adequately address the deficiencies identified in the notice, then the applicant will be prohibited from participating in the New England Markets. If a customer's revised written policies, procedures, and controls do not adequately address

the deficiencies identified in the notice, then the customer will be suspended (as described in Section III.B of the ISO New England Financial Assurance Policy).

3. Communications

Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has either established or contracted to establish procedures to effectively communicate with and respond to the ISO with respect to matters relating to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy. Such procedures must ensure, at a minimum, that at least one person with the ability and authority to address matters related to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy on behalf of the customer or applicant, including the ability and authority to respond to requests for information and to arrange for additional financial assurance as necessary, is available from 9:00 a.m. to 5:00 p.m. Eastern Time on Business Days. Such procedures must also ensure that the ISO is kept informed about the current contact information (including phone numbers and e-mail addresses) for the person or people described above. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant. An applicant that fails to provide this certificate will be prohibited from participating in the New England Markets until the deficiency is rectified. If a customer fails to provide this certificate by end of business on April 30, then the ISO shall issue a notice of such failure to the customer on the next Business Day and, if the customer does not provide the certificate to the ISO within 5 Business Days after issuance of such notice, then the customer will be suspended as described in Section III.B.3 of the ISO New England Financial Assurance Policy until the deficiency is rectified.

4. Capitalization

- (a) To be deemed as meeting the capitalization requirements, a customer or applicant shall either:
 - (i) be Rated and have a Governing Rating that is an Investment Grade Rating of BBB-/Baa3 or higher;
 - (ii) maintain a minimum Tangible Net Worth of one million dollars; or

- (iii) maintain a minimum of ten million dollars in total assets, provided that, to meet this requirement, a customer or applicant may supplement total assets of less than ten million dollars with additional financial assurance in an amount equal to the difference between ten million dollars and the customer's or applicant's total assets in one of the forms described in Section X (any additional financial assurance provided pursuant to this Section II.A.4(a) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy).

- (b) Any customer or applicant that fails to meet these capitalization requirements will be suspended (as described in Section III.B.3.c of the ISO New England Financial Assurance Policy) from entering into any future transactions of a duration greater than one month in the FTR system or any future transactions for a duration of one month or less except when FTRs for a month are being auctioned for the final time. Such a customer or applicant may enter into future transaction of a duration of one month or less in the FTR system in the case of FTRs for a month being auctioned for the final time. Any customer or applicant that fails to meet these capitalization requirements shall provide additional financial assurance in one of the forms described in Section X of the ISO New England Financial Assurance Policy equal to 25 percent of the customer's or applicant's FTR Financial Assurance Requirements. Any additional financial assurance provided pursuant to this Section II.A.4(b) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy.

- (c) For markets other than the FTR market:
 - (i) Where a customer or applicant fails to meet the capitalization requirements, the customer or applicant will be required to provide an additional amount of financial assurance in one of the forms described in Section X of the ISO New England Financial Assurance Policy in an amount equal to 25 percent of the customer's or applicant's total financial assurance requirement (excluding FTR Financial Assurance Requirements).
 - (ii) An applicant that fails to provide the full amount of additional financial assurance required as described in subsection (i) above will be prohibited from participating in the New England Markets until the deficiency is rectified. For a

customer, failure to provide the full amount of additional financial assurance required as described in subsection (i) above will have the same effect and will trigger the same consequences as exceeding the “100 Percent Test” as described in Section III.B.2.c of the ISO New England Financial Assurance Policy.

- (iii) Any additional financial assurance provided pursuant to this Section II.A.4(c) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy.

5. Additional Eligibility Requirements

All customers and applicants shall at all times be:

- (a) An “appropriate person,” as defined in sections 4(c)(3)(A) through (J) of the Commodity Exchange Act (7 U.S.C. § 1 *et seq.*);
- (b) An “eligible contract participant,” as defined in section 1a(18)(A) of the Commodity Exchange Act and in 17 CFR § 1.3(m); or
- (c) A “person who actively participates in the generation, transmission, or distribution of electric energy,” as defined in the Final Order of the Commodity Futures Trading Commission published at 78 FR 19880 (April 2, 2013).

Each customer must demonstrate compliance with the requirements of this Section II.A.5 by submitting to the ISO on or before September 15, 2013 a certificate in the form of Attachment 4 to the ISO New England Financial Assurance Policy that (i) certifies that the customer is now and in good faith will seek to remain in compliance with the requirements of this Section II.A.5 and (ii) further certifies that if it no longer satisfies these requirements it shall immediately notify the ISO in writing and shall immediately cease all participation in the New England Markets. If the customer is relying on section 4(c)(3)(F) of the Commodity Exchange Act, it shall accompany the certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the customer’s total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the

total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy. The certificate must be signed on behalf of the customer by a Senior Officer of the customer. A customer that fails to provide this certificate by September 15, 2013 shall be immediately suspended and the ISO shall initiate termination proceedings against the customer.

Each applicant must submit with its membership application a certificate in the form of Attachment 4 to the ISO New England Financial Assurance Policy that (i) certifies that the applicant is now and in good faith will seek to remain in compliance with the requirements of this Section II.A.5 and (ii) further certifies that if it no longer satisfies these requirements it shall immediately notify the ISO in writing and shall immediately cease all participation in the New England Markets. If the applicant is relying on section 4(c)(3)(F) of the Commodity Exchange Act, it shall accompany the certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the applicant's total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy. The certificate must be signed on behalf of the applicant by a Senior Officer of the applicant.

The ISO, at its sole discretion, may require any applicant or customer to submit to the ISO documentation in support of the certification provided pursuant to this Section II.A.5. If at any time the ISO becomes aware that a customer no longer satisfies the requirements of this Section II.A.5, the customer shall be immediately suspended and the ISO shall initiate termination proceedings against the customer.

6. Prior Uncured Defaults

In addition to, and not in limitation of Section IV of the ISO New England Financial Assurance Policy, an applicant who has a previous uncured payment default must cure such payment default by payment to the ISO of all outstanding and unpaid obligations, as well as meet all requirements for participation in the New England Markets contained in

the ISO New England Financial Assurance Policy. For purposes of this Section II.A.6 and the ISO's evaluation of information disclosed pursuant to Section II of the ISO New England Financial Assurance Policy, the ISO will evaluate relevant factors to determine if an entity seeking to participate in the New England Markets under a different name, affiliation, or organization, should be treated as the same customer or applicant that experienced the previous payment default. Such factors may include, but are not limited to, the interconnectedness of the business relationships, overlap in relevant personnel, similarity of business activities, overlap of customer base, and the business engaged in prior to the attempted re-entry. Notwithstanding the foregoing, an applicant shall not be required to cure a payment default that has lawfully been discharged pursuant to the U.S. Bankruptcy Code.

B. Proof of Financial Viability for Applicants

Each Applicant must, with its membership application and at its own expense, submit proof of financial viability, as described below, satisfying the ISO requirements to demonstrate the Applicant's ability to meet its obligations. Each Applicant that intends to establish a Market Credit Limit or a Transmission Credit Limit of greater than \$0 under Section II.D or Section II.E below must submit to the ISO all current rating agency reports from Standard and Poor's ("S&P"), Moody's and/or Fitch (collectively, the "Rating Agencies"). Each Applicant, whether or not it intends to establish a Market Credit Limit or Transmission Credit Limit of greater than \$0, must submit to the ISO audited financial statements for the two most recent years, or the period of its existence, if less than two years, and unaudited financial statements for its last concluded fiscal quarter if they are not included in such audited annual financial statements. These unaudited statements must be certified as to their accuracy by a Senior Officer of such Applicant, which, for purposes of ISO New England Financial Assurance Policy, means an officer of the subject entity with the title of vice president (or similar office) or higher, or another officer designated in writing to the ISO by that officer. These audited and unaudited statements must include in each case, but are not limited to, the following information to the extent available: balance sheets, income statements, statements of cash flows and notes to financial statements, annual and quarterly reports, and 10-K, 10-Q and 8-K Reports. If any of these financial statements are available on the internet, the Applicant may provide instead a letter to the ISO stating where such statement may be located and retrieved. If any of the information or documentation required by this section

is not available, alternate requirements may be specified by the ISO, at the ISO's sole discretion (such alternate requirements may include, but are not limited to: (i) consolidating statements or other financial statements (in the case of a stand-alone subsidiary) that are certified as to their accuracy and basis of accounting (in accordance with international accounting standards or generally accepted accounting principles in the United States) by an officer of the entity with the title of chief financial officer or equivalent position; (ii) reviewed statements; or (iii) compiled statements).

In addition, each Applicant, whether or not it intends to establish a Market Credit Limit or a Transmission Credit Limit, must submit to the ISO: (i) at least one (1) bank reference and three (3) utility company credit references, or in those cases where an Applicant does not have three (3) utility company credit references, three (3) major trade payable vendor references may be substituted; and (ii) relevant information as to any known or anticipated material lawsuits, as well as any prior bankruptcy declarations by the Applicant, or by its predecessor(s), if any; and (iii) a completed ISO credit application. In the case of certain Applicants, some of the information and documentation described in items (i) and (ii) of the immediately preceding sentence may not be applicable or available, and alternate requirements may be specified by the ISO or its designee in its sole discretion.

The ISO will not begin its review of a Market Participant's credit application or the accompanying material described above until full and final payment of that Market Participant's application fee.

The ISO shall prepare a report, or cause a report to be prepared, concerning the financial viability of each Applicant. In its review of each Applicant, the ISO or its designee shall consider all of the information and documentation described in this Section II. All costs incurred by the ISO in its review of the financial viability of an Applicant shall be borne by such Applicant and paid at the time that such Applicant is required to pay its first annual fee under the Participants Agreement. For an Applicant applying for transmission service from the ISO, all costs incurred by the ISO shall be paid prior to the ISO's filing of a Transmission Service Agreement. The report shall be provided to the Participants Committee or its designee and the affected Applicant within three weeks of the ISO's receipt of that Applicant's completed application, application fee, and Initial Market

Participant Financial Assurance Requirement, unless the ISO notifies the Applicant that more time is needed to perform additional due diligence with respect to its application.

C. Ongoing Review and Credit Ratings

1. Rated and Credit Qualifying Market Participants

A Market Participant that (i) has a corporate rating from one or more of the Rating Agencies, or (ii) has senior unsecured debt that is rated by one or more of the Rating Agencies, is referred to herein as “Rated.” A Market Participant that is not Rated is referred to herein as “Unrated.”

For all purposes in the ISO New England Financial Assurance Policy, for a Market Participant that is Rated, the lowest corporate rating from any Rating Agency for that Market Participant, or, if the Market Participant has no corporate rating, then the lowest rating from any Rating Agency for that Market Participant’s senior unsecured debt, shall be the “Governing Rating.”

A Market Participant that is: (i) Rated and whose Governing Rating is an Investment Grade Rating; or (ii) Unrated and that satisfies the Credit Threshold is referred to herein as “Credit Qualifying.” A Market Participant that is not Credit Qualifying is referred to herein as “Non-Qualifying.”

For purposes of the ISO New England Financial Assurance Policy, “Investment Grade Rating” for a Market Participant (other than an FTR-Only Customer) or Non-Market Participant Transmission Customer is either (a) a corporate investment grade rating from one or more of the Rating Agencies, or (b) if the Market Participant or Non-Market Participant Transmission Customer does not have a corporate rating from one of the Rating Agencies, then an investment grade rating for the Market Participant’s or Non-Market Participant Transmission Customer’s senior unsecured debt from one or more of the Rating Agencies.

2. Unrated Market Participants

Any Unrated Market Participant that (i) has not been a Market Participant in the ISO for at least the immediately preceding 365 days; or (ii) has defaulted on any of its obligations

under the Tariff (including without limitation its obligations hereunder and under the ISO New England Billing Policy) during such 365-day period; or (iii) is an FTR-Only Customer; or (iv) does not have a Current Ratio of at least 1.0, a Debt-to-Total Capitalization Ratio of 0.6 or less, and an EBITDA-to-Interest Expense Ratio of at least 2.0 must provide an appropriate form of financial assurance as described in Section X below. An Unrated Market Participant that does not meet any of the conditions in clauses (i), (ii), (iii) and (iv) of this paragraph is referred to herein as satisfying the “Credit Threshold.”

For purposes of the ISO New England Financial Assurance Policy, “Current Ratio” on any date is all of a Market Participant’s or Non-Market Participant Transmission Customer’s current assets divided by all of its current liabilities, in each case as shown on the most recent financial statements provided by such Market Participant or Non-Market Participant Transmission Customer to the ISO; “Debt-to-Total Capitalization Ratio” on any date is a Market Participant’s or Non-Market Participant Transmission Customer’s total debt (including all current borrowings) divided by its total shareholders’ equity plus total debt, in each case as shown on the most recent financial statements provided by such Market Participant or Non-Market Participant Transmission Customer to the ISO; and “EBITDA-to-Interest Expense Ratio” on any date is a Market Participant’s or Non-Market Participant Transmission Customer’s earnings before interest, taxes, depreciation and amortization in the most recent fiscal quarter divided by that Market Participant’s or Non-Market Participant Transmission Customer’s expense for interest in that fiscal quarter, in each case as shown on the most recent financial statements provided by such Market Participant or Non-Market Participant Transmission Customer to the ISO. The “Debt-to-Total Capitalization Ratio” will not be considered for purposes of determining whether a Municipal Market Participant satisfies the Credit Threshold. Each of the ratios described in this paragraph shall be determined in accordance with international accounting standards or generally accepted accounting principles in the United States at the time of determination consistently applied.

3. Information Reporting Requirements for Market Participants

Each Market Participant having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall

submit to the ISO, on a quarterly basis within 10 days of its becoming available and within 65 days after the end of the applicable fiscal quarter of such Market Participant, its balance sheet, which shall show sufficient detail for the ISO to assess the Market Participant's Tangible Net Worth. Unrated Market Participants having a Market Credit Limit or Transmission Credit Limit greater than zero shall also provide additional financial statements, which shall show sufficient detail for the ISO to calculate such Unrated Market Participant's Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each Market Participant having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of their becoming available and within 120 days after the end of the fiscal year of such Market Participant, balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available, then another alternative form of financial statements accepted by the ISO as described below may be submitted). If any of this financial information is available on the internet, the Market Participant may provide instead a letter to the ISO stating where such information may be located and retrieved. If any of the information or documentation required by this section is not available, alternate requirements may be specified by the ISO (such alternate requirements may include, but are not limited to: (i) consolidating statements or other financial statements (in the case of a stand-alone subsidiary) that are certified as to their accuracy and basis of accounting (in accordance with international accounting standards or generally accepted accounting principles in the United States) by an officer of the entity with the title of chief financial officer or equivalent position; (ii) reviewed statements; (iii) compiled statements; (iv) internally prepared statements; or (v) tax returns).

Except in the case of a Market Participant or Unrated Market Participant that submits audited financial statements to the ISO, financial statements submitted to the ISO pursuant to this Section II.C.3 shall be accompanied by a written statement from a Senior Officer of the Market Participant or Unrated Market Participant certifying the accuracy of those financial statements. If an attestation was made by an independent accounting firm,

then the written statement shall indicate the level of attestation made; if no attestation was made by an independent accounting firm, then no such indication is required.

Notwithstanding any other provision in this subsection, the ISO may require any Market Participant to submit the financial statements and other information described in this subsection. The Market Participant shall provide the requested statements and other information within 10 days of such request. If a Market Participant fails to provide financial statements or other information as requested and the ISO determines that the Market Participant poses an unreasonable risk to the New England Markets, then the ISO may request that the Market Participant provide additional financial assurance in an amount no greater than \$10 million, or take other measures to substantiate the Market Participant's ability to safely transact in the New England Markets (any additional financial assurance provided pursuant to this Section II.C.3 shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy). If the Market Participant fails to comply with such a request from the ISO, then the ISO may issue a notice of suspension or termination to the Market Participant. If the Market Participant fails to comply with the ISO's request within 5 Business Days from the date of issuance of the notice of suspension or termination, then the ISO may suspend or terminate the Market Participant.

A Market Participant may choose not to submit financial statements as described in this Section II.C.3, in which case the ISO shall use a value of \$0.00 for the Market Participant's total assets and Tangible Net Worth for purposes of the capitalization assessment described in Section II.A.4(a) and such Market Participant's Market Credit Limit and Transmission Credit Limit shall be \$0.00.

A Market Participant may choose to provide additional financial assurance in an amount equal to \$10 million in lieu of providing financial statements under this Section II.C.3. Such amount shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy but shall be sufficient to meet the capitalization requirements in Section II.A.4(a)(iii).

D. Market Credit Limits

A credit limit for a Market Participant’s Financial Assurance Obligations except FTR Financial Assurance Requirements (a “Market Credit Limit”) shall be established for each Market Participant in accordance with this Section II.D.

1. Market Credit Limit for Non-Municipal Market Participants

A “Market Credit Limit” shall be established for each Rated Non-Municipal Market Participant in accordance with subsection (a) below, and a Market Credit Limit shall be established for each Unrated Non-Municipal Market Participant in accordance with subsection (b) below.

a. Market Credit Limit for Rated Non-Municipal Market Participants

As reflected in the following table, the Market Credit Limit of each Rated Non-Municipal Market Participant (other than an FTR-Only Customer) shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Municipal Market Participant’s Tangible Net Worth as listed in the following table, (ii) \$50 million, or (iii) 20 percent (20%) of the total amount due and owing (not including any amounts due under Section 14.1 of the RNA) at such time to the ISO, NEPOOL, the PTOs, the Market Participants and the Non-Market Participant Transmission Customers, by all PTOs, Market Participants and Non-Market Participant Transmission Customers (“TADO”).

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody’s	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%
A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%
BBB-	Baa3	1.20%

Below BBB-

Below Baa3

0.00%

An entity's "Tangible Net Worth" for purposes of the ISO New England Financial Assurance Policy on any date is the value, determined in accordance with international accounting standards or generally accepted accounting principles in the United States, of all of that entity's assets less the following: (i) assets the ISO reasonably believes to be restricted or potentially unavailable to settle a claim in the event of a default (e.g., regulatory assets, restricted assets, and Affiliate assets), net of any matching liabilities, to the extent that the result of that netting is a positive value; (ii) derivative assets, net of any matching liabilities, to the extent that the result of that netting is a positive value; (iii) the amount at which the liabilities of the entity would be shown on a balance sheet in accordance with international accounting standards or generally accepted accounting principles in the United States; (iv) preferred stock; (v) non-controlling interest; and (vi) all of that entity's intangible assets (e.g., patents, trademarks, franchises, intellectual property, goodwill and any other assets not having a physical existence), in each case as shown on the most recent financial statements provided by such entity to the ISO.

b. Market Credit Limit for Unrated Non-Municipal Market Participants

The Market Credit Limit of each Unrated Non-Municipal Market Participant that satisfies the Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Municipal Market Participant's Tangible Net Worth, (ii) \$25 million or (iii) 20 percent (20%) of TADO. The Market Credit Limit of each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold shall be \$0.

2. Market Credit Limit for Municipal Market Participants

The Market Credit Limit for each Credit Qualifying Municipal Market Participant shall be equal to the lesser of (i) 20 percent (20%) of TADO and (ii) \$25 million. The Market Credit Limit for each Non-Qualifying Municipal Market Participant shall be \$0. The sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million.

E. Transmission Credit Limits

A “Transmission Credit Limit” shall be established for each Market Participant in accordance with this Section II.E, which Transmission Credit Limit shall apply in accordance with this Section II.E. A Transmission Credit Limit may not be used to meet FTR Financial Assurance Requirements.

1. Transmission Credit Limit for Rated Non-Municipal Market Participants

The Transmission Credit Limit of each Rated Non-Municipal Market Participant shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Municipal Market Participant’s Tangible Net Worth as listed in the following table or (ii) \$50 million:

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody’s	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%
A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%
BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

2. Transmission Credit Limit for Unrated Non-Municipal Market Participant

The Transmission Credit Limit of each Unrated Non-Municipal Market Participant that satisfies the Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Municipal Market Participant’s Tangible Net Worth or (ii) \$25 million. The Transmission Credit Limit of each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold shall be \$0.

3. Transmission Credit Limit for Municipal Market Participants

The Transmission Credit Limit for each Credit Qualifying Municipal Market Participant shall be equal to \$25 million. The Transmission Credit Limit for each Non-Qualifying Municipal Market Participant shall be \$0. The sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million.

F. Credit Limits for FTR-Only Customers

The Market Credit Limit and Transmission Credit Limit of each FTR-Only Customer shall be \$0.

G. Total Credit Limit

The sum of a Rated Non-Municipal Market Participant's Market Credit Limit and Transmission Credit Limit shall not exceed \$50 million and the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million. No later than five Business Days prior to the first day of each calendar quarter, and no later than five Business Days after any Affiliate change, each Rated Non-Municipal Market Participant that has a Market Credit Limit and a Transmission Credit Limit shall determine the amounts to be allocated to its Market Credit Limit (up to the limit set forth in Section II.D.1.a above) and its Transmission Credit Limit (up to the limit set forth in Section II.E.1 above) such that the sum of its Market Credit Limit and its Transmission Credit Limit are equal to not more than \$50 million and such that the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates do not exceed \$50 million and shall provide the ISO with that determination in writing. Each Rated Non-Municipal Market Participant may provide such determination for up to four consecutive calendar quarters. If a Rated Non-Municipal Market Participant does not provide such determination, then the ISO shall use the amounts provided for the previous calendar quarter. If no such determination is provided, then the ISO shall apply an allocation of \$25 million each to the Market Credit Limit and Transmission Credit Limit, which values shall also be used in allocating the \$50 million credit limit among Affiliates. If the sum of the amounts for Affiliates is greater than \$50 million, then the ISO shall reduce the amounts (proportionally to the amounts provided by each Affiliate, or to the allocation applied by the ISO in the case of an Affiliate that provided no determination) such that the sum is no greater than \$50 million.

III. MARKET PARTICIPANTS' REQUIREMENTS

Each Market Participant that provides the ISO with financial assurance pursuant to this Section III must provide the ISO with financial assurance in one of the forms described in Section X below and in an amount equal to the amount required in order to avoid suspension under Section III.B below (the “Market Participant Financial Assurance Requirement”). A Market Participant’s Market Participant Financial Assurance Requirement shall remain in effect as provided herein until the later of (a) 150 days after termination of the Market Participant’s membership or (b) the end date of all FTRs awarded to the Market Participant and the final satisfaction of all obligations of the Market Participant providing that financial assurance; provided, however that financial assurances required by the ISO New England Financial Assurance Policy related to potential billing adjustments chargeable to a terminated Market Participant shall remain in effect until such billing adjustment request is finally resolved in accordance with the provisions of the ISO New England Billing Policy. Furthermore and without limiting the generality of the foregoing, (i) any portion of any financial assurance provided under the ISO New England Financial Assurance Policy that relates to a Disputed Amount shall not be terminated or returned prior to the resolution of such dispute, even if the Market Participant providing such financial assurance is terminated or voluntarily terminates its MPSA and otherwise satisfies all of its obligations to the ISO and (ii) the ISO shall not return or permit the termination of any financial assurance provided under the ISO New England Financial Assurance Policy by a Market Participant that has terminated its membership or been terminated to the extent that the ISO determines in its reasonable discretion that that financial assurance will be required under the ISO New England Financial Assurance Policy with respect to an unsettled liability or obligation owing from that Market Participant.

A Market Participant that knows that it is not satisfying its Market Participant Financial Assurance Requirement shall notify the ISO immediately of that fact.

A. Determination of Financial Assurance Obligations

For purposes of the ISO New England Financial Assurance Policy:

- (i) a Market Participant’s “Hourly Requirements” at any time will be the sum of (x) the Hourly Charges (excluding Daily FCM Charges) for such Market Participant that have been invoiced but not paid (which amount shall not be less than \$0), plus (y) the Hourly Charges (excluding Daily FCM Charges) for such Market Participant that have been settled but not invoiced, plus (z) the Hourly Charges (excluding Daily FCM Charges) for such Market Participant that have been cleared but not settled which amount shall be

calculated by the Hourly Charges Estimator. The Hourly Charges Estimator (which amount shall not be less than \$0) shall be determined by the following formula:

$$\text{Hourly Charges Estimator} = \sum_{i=t-n+1}^t \text{HC}_i \times \text{LMP ratio} \times 1.15$$

Where:

t = The last day that such Market Participant's Hourly Charges (excluding Daily FCM Charges) are fully settled;

n = The number of days that such Market Participant's Day-Ahead Energy has been cleared but not settled;

HC = The Hourly Charges (excluding Daily FCM Charges) for such Market Participant for a fully settled day; and

LMP ratio = The average Day-Ahead Prices at the New England Hub over the period of cleared but not settled n days divided by the average Day-Ahead Prices at the New England Hub over the period of most recent fully settled n days. For purposes of this Section III.A.(i), the "New England Hub" shall mean the Hub located in Western and Central Massachusetts referred to as .H.INTERNAL_HUB;

- (ii) A Market Participant's "Daily FCM Requirements" at any time will be the sum of (x) the Daily FCM Charges that have been invoiced but not paid (which amount shall not be less than \$0), plus (y) the Daily FCM Charges that have been settled but not invoiced, plus (z) the Daily FCM Charges for such Market Participant that have been incurred but not settled which amount shall be calculated by the Daily FCM Obligation Estimator. The Daily FCM Obligation Estimator (which amount shall not be less than \$0) shall be determined by the following formula:

$$\text{Daily FCM Obligation Estimator} = \text{MAX}(\text{FCM_Daily_Credit_CM} \times \text{NDAY_CM} + \text{FCM_Daily_Credit_PM} \times \text{NDAY_PM} + \text{FCM_Charge_LD} \times \text{NDAY_P2} \times \text{FCA_Price_Ratio}, 0)$$

Where:

FCM_Daily_Credit_CM is the portion of the Daily FCM Charges that corresponds to Capacity Supply Obligations for the Market Participant in the current month;

FCM_Daily_Credit_PM is the portion of the Daily FCM Charges that corresponds to Capacity Supply Obligations for the Market Participant in the month preceding the current month;

NDAY_CM is the number of days in the current month within the period from the last day the Daily FCM Charges have been settled to the current day (when financial assurance is assessed);

NDAY_PM is the number of days in the month preceding the current month within the period from the last day of the Daily FCM Charges have been settled to the current day (when financial assurance is assessed);

FCM_Charge_LD is the portion of the Daily FCM Charges that corresponds to Capacity Load Obligations for the Market Participant from the last day the Daily FCM Charges have been settled; and

NDAY_P2 is the number of days from the last day the Daily FCM Charges have been settled to the current day (when financial assurance is assessed) plus 2.

The FCA_Price_Ratio shall be calculated as the weighted average of the Capacity Clearing Prices for the Rest-of-Pool Capacity Zone for the relevant Capacity Commitment Periods divided by the Capacity Clearing Price for the Rest-of-Pool Capacity Zone corresponding to the Capacity Commitment Period that contains the last day the Daily FCM Charges have been settled, as determined by the following formula:

$$\text{FCA_Price_Ratio} = \frac{((\text{Clearing Price_CCP}_n \times \text{NDAY_P2_CCP}_n) + (\text{Clearing Price_CCP}_{n+1} \times \text{NDAY_P2_CCP}_{n+1}))}{\text{NDAY_P2}} \div (\text{Clearing Price_CCP}_n)$$

Where:

Clearing Price_CCP_n is the Capacity Clearing Price for the Rest-of-Pool Capacity Zone corresponding to the Capacity Commitment Period that contains the last day that the Daily FCM Charges have been settled;

Clearing Price_CCP_{n+1} is the Capacity Clearing Price for the Rest-of-Pool Capacity Zone for the Capacity Commitment Period following CCP_n;

NDAY_P2_CCP_n is number of days in the CCP_n within NDAY_P2; and

NDAY_P2_CCP_{n+1} is number of days in the CCP_{n+1} within NDAY_P2.

- (iii) a Market Participant's "Non-Hourly Requirements" at any time will be determined by averaging that Market Participant's Non-Hourly Charges but not include: (A) the amount due from or to such Market Participant for FTR transactions, (B) any amounts due from such Market Participant for the Forward Capacity Market, (C) any amounts due under Section 14.1 of the RNA, (D) any amounts due for NEPOOL GIS API Fees, and (E) the amount of any Qualification Process Cost Reimbursement Deposit (including the annual true-up of that amount) due from such Market Participant) over the two most recently invoiced calendar months; provided that such Non-Hourly Requirements shall in no event be less than zero;
- (iv) a Market Participant's "Transmission Requirements" at any time will be determined by averaging that Market Participant's Transmission Charges over the two most recently invoiced calendar months; provided that such Transmission Requirements shall in no event be less than \$0;
- (v) a Market Participant's Virtual Requirements at any time will equal the amount of all unsettled Increment Offers and Decrement Bids submitted by such Market Participant at such time (which amount of unsettled Increment Offers and Decrement Bids will be calculated by the ISO according to a methodology approved from time to time by the NEPOOL Budget and Finance Subcommittee and posted on the ISO's website);
- (vi) a Market Participant's "Financial Assurance Obligations" at any time will be equal to the sum at such time of:
 - a. such Market Participant's Hourly Requirements; plus
 - b. such Market Participant's Daily FCM Requirements; plus
 - c. such Market Participant's Virtual Requirements; plus
 - d. such Market Participant's Non-Hourly Requirements times 2.50 (subject to Section X.D with respect to Provisional Members); plus
 - e. such Market Participant's "FTR Financial Assurance Requirements" under Section VI below; plus
 - f. such Market Participant's "FCM Financial Assurance Requirements" under Section VII below; plus

- g. such Market Participant's "IEP Financial Assurance Requirement" under Section III.D below; plus
 - h. the amount of any Disputed Amounts received by such Market Participant; and
- (vii) a Market Participant's "Transmission Obligations" at any time will be such Market Participant's Transmission Requirements times 2.50.

To the extent that the calculations of the components of a Market Participant's Financial Assurance Obligations (excluding FTR Financial Assurance Requirements) as described above produce positive and negative values, such components may offset each other; provided, however, that a Market Participant's Financial Assurance Obligations shall never be less than zero.

B. Credit Test Calculations and Allocation of Financial Assurance, Notice and Suspension from the New England Markets

1. Credit Test Calculations and Allocation of Financial Assurance

The financial assurance provided by a Market Participant shall be applied as described in this Section.

- (a) "Market Credit Test Percentage" is equal to a Market Participant's Financial Assurance Obligations (excluding FTR Financial Assurance Requirements) divided by the sum of its Market Credit Limit and any financial assurance allocated as described in subsection (d) below.
- (b) "FTR Credit Test Percentage" is equal to a Market Participant's FTR Financial Assurance Requirements divided by any financial assurance allocated as described in subsection (d) below.
- (c) "Transmission Credit Test Percentage" is equal to a Market Participant's Transmission Obligations divided by the sum of its Transmission Credit Limit and any financial assurance allocated as described in subsection (d) below.
- (d) A Market Participant's financial assurance shall be allocated as follows:
 - (i) financial assurance shall be first allocated so as to ensure that the Market Participant's Market Credit Test Percentage is no greater than 100%;
 - (ii) any financial assurance that remains after the allocation described in subsection (d) (i) shall be allocated so as to ensure that the Market Participant's FTR Credit Test Percentage is no greater than 100%;

- (iii) any financial assurance that remains after the allocation described in subsection (d) (ii) shall be allocated so as to ensure that the Market Participant's Transmission Credit Test Percentage is no greater than 100%;
- (iv) if any financial assurance remains after the allocations described in subsection (d) (iii), then that remaining financial assurance shall be allocated by repeating the steps described in subsections (d) (i), (d) (ii), and (d) (iii) to ensure that the respective test percentages are no greater than 89.99%;
- (v) if any financial assurance remains after the allocation described in subsection (d) (iv), then that remaining financial assurance shall be allocated by repeating the steps described in subsections (d) (i), (d) (ii), and (d) (iii) to ensure that the respective test percentages are no greater than 79.99%;
- (vi) any financial assurance that remains after the allocations described in subsection (d) (v) shall be allocated to the Market Credit Test Percentage.

2. Notices

a. 80 Percent Test

When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 80 percent (80%), the ISO shall issue notice thereof to such Market Participant.

b. 90 Percent Test

When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage or Transmission Credit Test Percentage equals or exceeds 90 percent (90%) , then, in addition to the actions to be taken when the Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 80 percent (80%), the ISO shall issue notice thereof to such Market Participant. The ISO shall also issue a 90 percent (90%) notice to a Market Participant and take certain other actions under the circumstances described in Section III.B.2.c below.

c. 100 Percent Test

When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) or when the sum of the financial assurance and credit limits of a Market Participant that has financial assurance requirements equal zero, then, in addition to the actions to be taken when the

Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 80 percent (80%) and 90 percent (90%), (i) the ISO shall issue notice thereof to such Market Participant, (ii) that Market Participant shall be immediately suspended from submitting Increment Offers and Decrement Bids until such time when its Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are less than or equal to 100 percent (100%), and (iii) if sufficient financial assurance to lower the Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to less than or equal to 100 percent (100%) or, in the case of a Market Participant that has received one to five notices that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) in the previous 365 days (not including the instant notice), sufficient financial assurance to lower such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to less than or equal to 90 percent (90%), is not provided by 8:30 a.m. Eastern Time on the next Business Day, (a) the event shall be a Financial Assurance Default; (b) the ISO shall issue notice thereof to such Market Participant, to the NEPOOL Budget and Finance Subcommittee, to all members and alternates of the Participants Committee, to the New England governors and utility regulatory agencies and to the billing and credit contacts for all Market Participants, and (c) such Market Participant shall be suspended from: (1) the New England Markets, as provided below; (2) receiving transmission service under any existing or pending arrangements under the Tariff or scheduling any future transmission service under the Tariff; (3) voting on matters before the Participants Committee and NEPOOL Technical Committees; (4) entering into any future transactions in the FTR system; and (5) submitting an offer of Non-Commercial Capacity in any Forward Capacity Auction or any reconfiguration auction in the Forward Capacity Market, in each case until such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are at 100 percent (100%) or less. In addition to all of the provisions above, any Market Participant that has received six or more notices in the previous 365 days that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage has exceeded 100 percent (100%) shall receive a notice thereof and shall be required to maintain sufficient financial assurance to keep such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage at less than or equal to 90

percent (90%). If such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage or Transmission Credit Test Percentage exceeds 90 percent (90%), the ISO shall issue a notice thereof to such Market Participant. If sufficient financial assurance to lower such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to less than or equal to 90 percent (90%) is not provided by 8:30 a.m. Eastern Time on the next Business Day, then the consequences described in subsections (a), (b) and (c) of Section III.B.2.c (iii) above shall apply until such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are at 90 percent (90%) or less.

However, when a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) or 90 percent (90%), as applicable under this Section III.B.2.c, solely because its Investment Grade Rating is downgraded by one grade and the resulting grade is BBB-/Baa3 or higher, then (x) for five Business Days after such downgrade, such downgrade shall not by itself cause a change to such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage and (y) no notice shall be sent and none of the other actions described in this Section III.B shall occur with respect to such downgrade if such Market Participant cures such default within such five Business Day period. When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent solely because a letter of credit is valued at \$0 prior to the termination of that letter of credit, as described in Section X.B, then the ISO, in its sole discretion, may determine that: (x) for five Business Days after such change in the valuation of the letter of credit, such valuation shall not by itself cause a change to such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage; and/or (y) no notice shall be sent and none of the other actions described in this Section III.B shall occur with respect to such valuation if such Market Participant cures such default within such five Business Day period.

Notwithstanding the foregoing, a Market Participant shall neither (x) receive a notice that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) nor (y) be suspended under this Section

III.B if (i) the amount of financial assurance necessary for that Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to get to 100 percent (100%) or lower is less than \$1,000 or (ii) that Market Participant's status with the ISO has been terminated.

3. Suspension from the New England Markets

a. General

The suspension of a Market Participant, and any resulting annulment, termination or removal of OASIS reservations, removal from the settlement system and the FTR system, suspension of the ability to offer Non-Commercial Capacity or participate in a substitution auction in the Forward Capacity Market, drawing down of financial assurance, rejection of Increment Offers and Decrement Bids, and rejection of bilateral transactions submitted to the ISO, shall not limit, in any way, the ISO's right to invoice or collect payment for any amounts owed (whether such amounts are due or becoming due) by such suspended Market Participant under the Tariff or the ISO's right to administratively submit a bid or offer of a Market Participant's Non-Commercial Capacity in any Forward Capacity Auction or any reconfiguration auction or to make other adjustments under Market Rule 1.

In addition to the notices provided herein, the ISO will provide any additional information required under the ISO New England Information Policy.

Each notice issued by the ISO pursuant to this Section III.B shall indicate whether the subject Market Participant has a registered load asset. If the ISO has issued a notice pursuant to this Section III.B and subsequently the subject Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are equal to or less than 100 percent (100%), such Market Participant may request the ISO to issue a notice stating such fact. However, the ISO shall not be obligated to issue such a notice unless, in its sole discretion, the ISO concludes that such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are equal to or less than 100 percent (100%).

Notwithstanding the foregoing, if a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 90 percent (90%) as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant, or as a result of the submission to the ISO of one or more bilateral transactions to which the Market Participant is a party, and, but for such Increment Offers and/or Decrement Bids or such bilateral transactions, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, a notice will not be issued.

If a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant, or as a result of the submission to the ISO of one or more bilateral transactions to which the Market Participant is a party, and, but for such Increment Offers and/or Decrement Bids or such bilateral transactions, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, a notice will be issued only to such Market Participant, and such Market Participant shall be "suspended" as described below.

Any such suspension as a result of one or more Increment Offers or Decrement Bids submitted by a Market Participant, or as a result of the submission to the ISO of one or more bilateral transactions to which the Market Participant is a party, shall take effect immediately upon submission of such Increment Offers and/or Decrement Bids or such bilateral transactions to remain in effect until such Market Participant is in compliance with the ISO New England Financial Assurance Policy, notwithstanding any provision of this Section III.B to the contrary.

If a Market Participant is suspended from the New England Markets in accordance with the provisions of the ISO New England Financial Assurance Policy or the ISO New England Billing Policy, then the provisions of this Section III.B shall control notwithstanding any other provision of the Tariff to the contrary. A suspended Market Participant shall have no ability so long as it is suspended (i) to be reflected in the ISO's settlement system, including any bilateral transactions, as either a purchaser or a seller of any products or services sold through the New England Markets (other than (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial

Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the Market Participants, (ii) to submit Demand Bids, Decrement Bids or Increment Offers in the New England Markets, (iii) to submit offers for Non-Commercial Capacity in any Forward Capacity Auction or reconfiguration auction or acquire Non-Commercial Capacity through a Capacity Supply Obligation Bilateral, or (iv) to submit supply offers or demand bids in any Forward Capacity Market substitution auction. Any transactions, including bilateral transactions with a suspended Market Participant (other than transactions for (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the other Market Participants and any Demand Bids, Decrement Bids, Increment Offers, and Export Transactions submitted by a suspended Market Participant shall be deemed to be terminated for purposes of the Day-Ahead Energy Market clearing and the ISO's settlement system. If a Market Participant has provided the financial assurance required for a Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, then that Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, respectively, will not be deemed to be terminated when that Market Participant is suspended.

b. Load Assets

Any load asset registered to a suspended Market Participant shall be terminated, and the obligation to serve the load associated with such load asset shall be assigned to the relevant unmetered load asset(s) unless and until the host Market Participant for such load assigns the obligation to serve such load to another asset. If the suspended Market Participant is responsible for serving an unmetered load asset, such suspended Market Participant shall retain the obligation to serve such unmetered load asset. If a suspended Market Participant has an ownership share of a load asset, such ownership share shall revert to the Market Participant that assigned such ownership share to such suspended Market Participant. If a suspended Market Participant has the obligation under the Tariff or otherwise to offer any of its supply or to bid any pumping load to provide products or services sold through the New England Markets, that obligation shall continue, but only in Real-Time, notwithstanding the Market Participant's suspension, and such offer or bid, if cleared under the Tariff, shall be effective.

c. FTRs

If a Market Participant is suspended from entering into future transactions in the FTR system, such Market Participant shall retain all FTRs held by it but shall be prohibited from acquiring any additional FTRs during the course of its suspension. It is intended that any suspension under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy will occur promptly, and the definitive timing of any such suspension shall be determined by the ISO from time to time as reported to the NEPOOL Budget and Finance Subcommittee, and shall be posted on the ISO website.

d. Virtual Transactions

Notwithstanding the foregoing, if a Market Participant is suspended in accordance with the provisions of the ISO New England Financial Assurance Policy as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant and, but for such Increment Offers and/or Decrement Bids, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, then such suspension shall be limited to (i) the immediate “last in, first out” rejection of pending individual uncleared Increment Offers and Decrement Bids submitted by that Market Participant (it being understood that Increment Offers and Decrement Bids are batched by the ISO in accordance with the time, and that Increment Offers and Decrement Bids will be rejected by the batch); and (ii) the suspension of that Market Participant’s ability to submit additional Increment Offers and Decrement Bids unless and until it has complied with the ISO New England Financial Assurance Policy, and the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of that Market Participant after giving effect to the immediate rejection of that Market Participant’s Increment Offers and Decrement Bids described in clause (i).

e. Bilateral Transactions

If the sum of the financial assurance and credit limits of a Market Participant that has financial assurance requirements equals zero and that Market Participant would be in compliance with the ISO New England Financial Assurance Policy but for the submission of bilateral transactions to the ISO to which the Market Participant is a party, or if a Market Participant’s Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent as a result of one or more bilateral transactions submitted to the ISO to which the Market Participant is a party, then the consequences described in subsection (a) above shall be limited to: (i) rejection of any pending bilateral transactions to which a Market Participant is a party that cause the Market Participant to incur a financial obligation in the ISO’s settlement system or any

liability to the ISO, NEPOOL, or the Market Participants, such that the aggregate value of the pending bilateral transactions submitted by all Market Participants is maximized (recognizing the downstream effect that rejection of a bilateral transaction may have on the Market Credit Test Percentages, FTR Credit Test Percentages, or Transmission Credit Test Percentages of other Market Participants), while ensuring that the financial assurance requirements of each Market Participant are satisfied; and (ii) suspension of that Market Participant's ability to submit additional bilateral transactions until it has complied with the ISO New England Financial Assurance Policy (the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of the Market Participant after giving effect to the immediate rejection of the bilateral transactions to which the Market Participant is a party as described in clause (i) above). In the case of a bilateral transaction associated with the Day-Ahead Energy Market, the ISO will provide notice to a Market Participant that would be in default of the ISO New England Financial Assurance Policy as a result of the bilateral transaction, and the consequences described in clauses (i) and (ii) above shall only apply if the Market Participant fails to cure its default by 6:00 p.m. Eastern Time of that same Business Day. In the case of a Capacity Load Obligation Bilateral, the consequences described in clauses (i) and (ii) above shall apply if the Market Participant does not cure its default within one Business Day after notification that a Capacity Load Obligation Bilateral caused the default. Bilateral transactions that transfer Forward Reserve Obligations and Supplemental Availability Bilaterals are not subject to the provisions of this Section III.B.3(e).

4. Serial Notice and Suspension Penalties

If either (x) a Market Participant is suspended from the New England Markets because of a failure to satisfy its Financial Assurance Requirements in accordance with the provisions of the ISO New England Financial Assurance Policy or (y) a Market Participant receives more than five notices that its Market Credit Test Percentage, FTR Credit Test Percentage or Transmission Credit Test Percentage has exceeded 100 percent (100%) in any rolling 365-day period, then such Market Participant shall pay a \$1,000 penalty for such suspension and for each notice after the fifth notice in a rolling 365-day period. If a Market Participant receives a notice that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage has exceeded 100 percent (100%) in the same day, then only one of those notices will count towards the

five notice limit. All penalties paid under this paragraph shall be deposited in the Late Payment Account maintained under the ISO New England Billing Policy.

C. Additional Financial Assurance Requirements for Certain Municipal Market Participants

Notwithstanding the other provisions of the ISO New England Financial Assurance Policy and in addition to the other obligations hereunder, a Credit Qualifying Municipal Market Participant that is not a municipality (which, for purposes of this Section III.C, does not include an agency or subdivision of a municipality) must provide additional financial assurance in one of the forms described in Section X below in an amount equal to its FCM Financial Assurance Requirements at the time of calculation, unless either: (1) that Credit Qualifying Municipal Market Participant has a corporate Investment Grade Rating from one or more of the Rating Agencies; or (2) that Credit Qualifying Municipal Market Participant has an Investment Grade Rating from one or more of the Rating Agencies for all of its rated indebtedness; or (3) that Credit Qualifying Municipal Market Participant provides the ISO with an opinion of counsel that is acceptable to the ISO confirming that amounts due to the ISO under the Tariff have priority over, or have equal priority with, payments due on the debt on which the Credit Qualifying Municipal Market Participant's Investment Grade Rating is based. Each legal opinion provided under clause (3) of this Section III.C will be updated no sooner than 60 days and no later than 30 days before each reconfiguration auction that precedes a Capacity Commitment Period to which such legal opinion relates, and if that update is not provided or that update is not acceptable to the ISO, the applicable Credit Qualifying Municipal Market Participant must either satisfy one of the other clauses of this Section III.C or provide additional financial assurance in one of the forms described in Section X below in an amount equal to its FCM Financial Assurance Requirements at the time of calculation.

D. Inventoried Energy Program Financial Assurance Requirement

Notwithstanding the other provisions of the ISO New England Financial Assurance Policy and in addition to the other obligations hereunder, if any Market Participant has submitted a Forward Energy Inventory Election approved by the ISO under Section III.K.1.1 of the Tariff, such Market Participant shall be subject to the additional financial assurance requirements of this section. Any such Market Participant must provide additional financial assurance in one of the forms described in Section X below in an

amount equal to the Inventoried Energy Program Financial Assurance Requirement on or before December 1 of each program year. The Inventoried Energy Program Financial Assurance Requirement will be calculated on a daily basis for each program year, from December 1, 2023 through February 29, 2024 and separately from December 1, 2024 through February 28, 2025, as follows:

$$\text{IEP Financial Assurance Requirement} = \text{MAX}(0, \text{FE_MWh} - \text{Q_MWh}) * \text{D_95} * \text{MF} * \text{SPR}$$

Where:

FE_MWh = is the amount of Forward Energy Inventory elected by the Market Participant;

Q_MWh = is the maximum observed physical inventory over the prior 15 days;

D_95 = is the 95th percentile of observed Inventoried Energy Days, which for the 2023-2024 and 2024-2025 program years shall be 19;

MF = is the month factor, which shall be 100% for December, 87% for January, and 26% for February; and

SPR = spot payment rate = the \$/MWh rate used in the calculation of Inventoried Energy Spot Payments as described in Section III.K.3.2 of the Tariff.

IV. CERTAIN NEW AND RETURNING MARKET PARTICIPANTS REQUIREMENTS

A new Market Participant or a Market Participant other than an FTR-Only Customer, or a Governance Only Member whose previous membership as a Market Participant was involuntarily terminated due to a Financial Assurance Default or a payment default and, since returning, has been a Market Participant for less than six consecutive months (a “Returning Market Participant”) is required to provide the ISO, for three months in the case of a new Market Participant and six months in the case of a Returning Market Participant, financial assurance in one of the forms described in Section X below equal to any amount of additional financial assurance required to meet the capitalization requirements described in Section II.A.4 plus the greater of (a) its Financial Assurance Requirement or (b) its “Initial Market Participant Financial Assurance Requirement.” A new Market Participant’s or a Returning Market Participant’s Initial Market Participant Financial Assurance Requirement must be provided to the ISO no later than one Business Day before commencing activity in the New England Markets or commencing transmission service under the Tariff, and shall be determined by the following formula:

$$\text{FAR} = \text{G} + \text{T} + \text{L} + \text{E}$$

Where FAR is the Initial Market Participant Financial Assurance Requirement and G, T, L and E are determined by the following formulas:

$$\text{G} = (\text{MW}_g \times \text{Hr}_{\text{DA}} \times \text{D} \times 3.25) + (\text{MW}_g \times \text{Hr}_{\text{MIS}} \times \text{S}_2 \times 3.25);$$

Where:

- $\text{MW}_g =$ Total nameplate capacity of the Market Participant's generation units that have achieved commercial operation;
- $\text{Hr}_{\text{DA}} =$ The number of hours of generation that any such generation unit could be bid in the Day-Ahead Energy Market before it could be removed if such unit tripped, as determined by the ISO in its sole discretion;
- $\text{D} =$ The maximum observed differential between Energy prices in the Day-Ahead and Real-Time Energy Markets during the prior calendar year ("Maximum Energy Price Differential"), as determined by the ISO in its sole discretion;
- $\text{Hr}_{\text{MIS}} =$ The standard number of hours between generation and the issuance of initial Market Information Server ("MIS") settlement reports including projected generation activity for such units, as determined by the ISO in its sole discretion; and
- $\text{S}_2 =$ The per MW amount assessed pursuant to Schedule 2 of Section IV.A of this Tariff, as determined by the ISO.
- $\text{T} =$ $\text{MW}_t \times \text{Hr}_{\text{MIS}} \times (\text{D} + \text{S}_{2-3}) \times 3.25;$

Where: $\text{MW}_t =$ Number of MWs to be traded in the New England Markets as reasonably projected by the new Market Participant or the Returning Market Participant;

Hr_{MIS} = The standard number of hours between generation and the issuance of initial MIS settlement reports including projected generation activity, as determined by the ISO in its sole discretion;

D = Maximum Energy Price Differential; and

S_{2-3} = The per MWh amount assessed pursuant to Schedules 2 and 3 of Section IV.A of the Tariff, as determined annually by the ISO.

$$L = (MW_1 \times LF \times Hr_{MIS} \times (EP + S_{2-3}) \times 3.25) + (MW_1 \times Hr_{MIS} \times TC \times 3.25)$$

Where:

MW_1 = MWs of Real-Time Load Obligation (as defined in Market Rule 1) of the new Market Participant or Returning Market Participant;

LF = Average load factor in New England, as determined annually by the ISO in its sole discretion;

Hr_{MIS} = The standard number of hours between generation and the issuance of initial MIS settlement reports including projected generation activity, as determined by the ISO in its sole discretion;

EP = The average price of Energy in the Day-Ahead Energy Market for the most recent calendar year for which information is available from the Annual Reports published by the ISO, as determined by the ISO in its sole discretion;

S_{2-3} = The per MW amount assessed pursuant to Schedules 2 and 3 of Section IV.A of the Tariff, as determined annually by the ISO; and

TC = The hourly transmission charges per MW_1 assessed under the Tariff (other than Schedules 1, 8 and 9 of Section II of the Tariff), as determined annually by the ISO.

$$E = (SE) \times 3.25$$

Where:

SE = Average monthly share of Participant Expenses for the applicable Sector.

If a new Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV is 80 percent or more of the available amount of the financial assurance provided by that new Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equaled or exceeded 80 percent (80%) under Section III.B above.

If a new Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV is 90 percent or more of the available amount of the financial assurance provided by that new Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equaled or exceeded 90 percent (90%) under Section III.B above.

If a new Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV exceeds 100 percent of the available amount of the financial assurance provided by that new Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeded 100 percent (100%) under Section III.B above.

V. NON-MARKET PARTICIPANT TRANSMISSION CUSTOMERS REQUIREMENTS

A. Ongoing Financial Review and Credit Ratings

1. Rated Non-Market Participant Transmission Customer and Transmission Customers

Each Rated Non-Market Participant Transmission Customer that does not currently have an Investment Grade Rating must provide an appropriate form of financial assurance as described in Section X below.

2. Unrated Non-Market Participant Transmission Customers

Any Unrated Non-Market Participant Transmission Customer that (i) has defaulted on any of its obligations under the Tariff (including without limitation its obligations hereunder and under the ISO New England Billing Policy) during the immediately preceding 365-day period; or (ii) does not have a Current Ratio of at least 1.0, a Debt-to-Total Capitalization Ratio of 0.6 or less, and an EBITDA-to-Interest Expense Ratio of at least 2.0 must provide an appropriate form of financial assurance as described in Section X below. An Unrated Non-Market Participant Transmission Customer that does not meet either of the conditions described in clauses (i) and (ii) of this paragraph is referred to herein as satisfying the “NMPTC Credit Threshold.”

B. NMPTC Credit Limits

1. NMPTC Market Credit Limit

A Market Credit Limit shall be established for each Non-Market Participant Transmission Customer as set forth in this Section V.B.1.

The Market Credit Limit of each Rated Non-Market Participant Transmission Customer shall at any time be equal to the least of: (i) the applicable percentage of such Rated Non-Market Participant Transmission Customer’s Tangible Net Worth (as reflected in the following table); (ii) \$50 million; or (iii) 20 percent (20%) of TADO:

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody’s	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%

A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%
BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

The Market Credit Limit of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold shall at any time be equal to the least of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Market Participant Transmission Customer’s Tangible Net Worth, (ii) \$25 million or (iii) 20 percent (20%) of TADO. The Market Credit Limit of each Unrated Non-Market Participant Transmission Customer that does not satisfy the NMPTC Credit Threshold shall be \$0.

2. NMPTC Transmission Credit Limit

A Transmission Credit Limit shall be established for each Non-Market Participant Transmission Customer in accordance with this Section V.B.2.

The Transmission Credit Limit of each Rated Non-Market Participant Transmission Customer shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Market Participant Transmission Customer’s Tangible Net Worth as listed in the following table or (ii) \$50 million:

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody’s	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%
A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%

BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

The Transmission Credit Limit of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Market Participant Transmission Customer's Tangible Net Worth or (ii) \$25 million. The Transmission Credit Limit of each Unrated Non-Market Participant Transmission Customer that does not satisfy the NMPTC Credit Threshold shall be \$0.

3. NMPTC Total Credit Limit

The sum of a Non-Market Participant Transmission Customer's Market Credit Limit and Transmission Credit Limit shall not exceed \$50 million and the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million. No later than five Business Days prior to the first day of each calendar quarter, and no later than five Business Days after any Affiliate change, each Rated Non-Market Participant Transmission Customer that has a Market Credit Limit and a Transmission Credit Limit shall determine the amounts to be allocated to its Market Credit Limit (up to the amount set forth in Section V.B.1 above) and its Transmission Credit Limit (up to the amount set forth in Section V.B.2 above) such that the sum of its Market Credit Limit and its Transmission Credit Limit are equal to not more than \$50 million and such that the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates do not exceed \$50 million and shall provide the ISO with that determination in writing. Each Rated Non-Market Participant Transmission Customer may provide such determination for up to four consecutive calendar quarters. If a Rated Non-Market Participant Transmission Customer does not provide such determination, then the ISO shall use the amounts provided for the previous calendar quarter. If no such determination is provided, then the ISO shall apply an allocation of \$25 million each to the Market Credit Limit and Transmission Credit Limit, which values shall also be used in allocating the \$50 million credit limit among Affiliates. If the sum of the amounts for Affiliates is greater than \$50 million, then the ISO shall reduce the amounts (proportionally to the amounts provided by each Affiliate, or to the allocation applied by the ISO in the case of an Affiliate that provided no determination) such that the sum is no greater than \$50 million.

C. Information Reporting Requirements for Non-Market Participant Transmission Customers

Each Rated Non-Market Participant Transmission Customer having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 65 days after the end of the applicable fiscal quarter of such Rated Non-Market Participant Transmission Customer, its balance sheet, which shall show sufficient detail for the ISO to assess the Rated Non-Market Participant Transmission Customer's Tangible Net Worth. In addition, each Rated Non-Market Participant Transmission Customer that has an Investment Grade Rating having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of their becoming available and within 120 days after the end of the fiscal year of such Rated Non-Market Participant Transmission Customer, balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available, then another alternative form of financial statements accepted by the ISO as described below may be submitted). If any of this financial information is available on the internet, the Rated Non-Market Participant Transmission Customer may provide instead a letter to the ISO stating where such information may be located and retrieved.

Each Unrated Non-Market Participant Transmission Customer having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 65 days after the end of the applicable fiscal quarter of such Unrated Non-Market Participant Transmission Customer, its balance sheet, which shall show sufficient detail for the ISO to assess the Unrated Non-Market Participant Transmission Customer's Tangible Net Worth. Unrated Non-Market Participant Transmission Customers having a Market Credit Limit or Transmission Credit Limit greater than \$0 shall also provide additional financial statements, which shall show

sufficient detail for the ISO to calculate such Unrated Non-Market Participant Transmission Customer's Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each such Unrated Non-Market Participant Transmission Customer that satisfies the Credit Threshold and has a Market Credit Limit or Transmission Credit Limit of greater than \$0 or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of becoming available and within 120 days after the end of the fiscal year of such Unrated Non-Market Participant Transmission Customer balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available, then another alternative form of financial statements accepted by the ISO as described below may be submitted). Where any of the above financial information is available on the internet, the Unrated Non-Market Participant Transmission Customer may provide the ISO with a letter stating where such information may be located and retrieved.

If any of the information or documentation required by this section is not available, alternate requirements may be specified by the ISO (such alternate requirements may include, but are not limited to: (i) consolidating statements or other financial statements (in the case of a stand-alone subsidiary) that are certified as to their accuracy and basis of accounting (in accordance with international accounting standards or generally accepted accounting principles in the United States) by an officer of the entity with the title of chief financial officer or equivalent position; (ii) reviewed statements; (iii) compiled statements; (iv) internally prepared statements; or (v) tax returns).

Except in the case of a Non-Market Participant Transmission Customer that submits audited financial statements to the ISO, financial statements submitted to the ISO pursuant to this Section V.C shall be accompanied by a written statement from a Senior Officer of the Non-Market Participant Transmission Customer certifying the accuracy of those financial statements. If an attestation was made by an independent accounting firm, then the written statement shall indicate the level of attestation made; if no attestation was made by an independent accounting firm, then no such indication is required.

Notwithstanding any other provision in this subsection, the ISO may require any Non-Market Participant Transmission Customer to submit the financial statements and other information described in this subsection. The Non-Market Participant Transmission Customer shall provide the requested statements and other information within 10 days of such request. If a Non-Market Participant Transmission Customer fails to provide financial statements or other information as requested and the ISO determines that the Non-Market Participant Transmission Customer poses an unreasonable risk to the New England Markets, then the ISO may request that the Non-Market Participant Transmission Customer provide additional financial assurance in an amount no greater than \$10 million, or take other measures to substantiate the Non-Market Participant Transmission Customer's ability to safely transact in the New England Markets (any additional financial assurance provided pursuant to this Section V.C shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy). If the Non-Market Participant Transmission Customer fails to comply with such a request from the ISO, then the ISO may issue a notice of suspension or termination to the Non-Market Participant Transmission Customer. If the Non-Market Participant Transmission Customer fails to comply with the ISO's request within 5 Business Days from the date of issuance of the notice of suspension or termination, then the ISO may suspend or terminate the Non-Market Participant Transmission Customer.

A Non-Market Participant Transmission Customer may choose not to submit financial statements as described in this Section V.C, in which case the ISO shall use a value of \$0.00 for the Non-Market Participant Transmission Customer's total assets and Tangible Net Worth for purposes of the capitalization assessment described in Section II.A.4(a) and such Non-Market Participant Transmission Customer's Market Credit Limit and Transmission Credit Limit shall be \$0.00.

A Non-Market Participant Transmission Customer may choose to provide additional financial assurance in an amount equal to \$10 million in lieu of providing financial statements under this Section V.C. Such amount shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy but shall be sufficient to meet the capitalization requirements in Section II.A.4(a)(iii).

D. Financial Assurance Requirement for Non-Market Participant Transmission Customers

Each Non-Market Participant Transmission Customer that provides additional financial assurance pursuant to the ISO New England Financial Assurance Policy must provide the ISO with financial assurance in one of the forms described in Section X below and in the amount described in this Section V.D (the “NMPTC Financial Assurance Requirement”).

1. Financial Assurance for ISO Charges

Each Non-Market Participant Transmission Customer must provide the ISO with additional financial assurance such that the sum of its Market Credit Limit and that additional financial assurance shall at all times be at least equal to the sum of:

- (i) two and one-half (2.5) times the average monthly Non-Hourly Charges for such Non-Market Participant Transmission Customer over the two most recently invoiced calendar months (which amount shall not in any event be less than \$0); plus
- (ii) amount of any unresolved Disputed Amounts received by such Non-Market Participant Transmission Customer.

2. Financial Assurance for Transmission Charges

Each Non-Market Participant Transmission Customer must provide the ISO with additional financial assurance hereunder such that the sum of (x) its Transmission Credit Limit and (y) the excess of (A) the available amount of the additional financial assurance provided by that Non-Market Participant Transmission Customer over (B) the amount of that additional financial assurance needed to satisfy the requirements of Section V.D.1 above is equal to two and one-half (2.5) times the average monthly Transmission Charges for such Non-Market Participant Transmission Customer over the two most recently invoiced calendar months (which amount shall not in any event be less than \$0)

3. Notice of Failure to Satisfy NMPTC Financial Assurance Requirement

A Non-Market Participant Transmission Customer that knows or can reasonably be expected to know that it is not satisfying its NMPTC Financial Assurance Requirement shall notify the ISO immediately of that fact. Without limiting the availability of any other remedy or right hereunder, failure by any Non-Market Participant Transmission

Customer to comply with the provisions of the ISO New England Financial Assurance Policy (including failure to satisfy its NMPTC Financial Assurance Requirement) may result in the commencement of termination of service proceedings against that non-complying Non-Market Participant Transmission Customer.

VI. ADDITIONAL PROVISIONS FOR FTR TRANSACTIONS

Market Participants must complete an ISO-prescribed training course prior to participating in the FTR Auction. All Market Participants transacting in the FTR Auction that are otherwise required to provide additional financial assurance under the ISO New England Financial Assurance Policy, including all FTR-Only Customers (“Designated FTR Participants”) are required to provide financial assurance in an amount equal to the sum of the FTR Settlement Risk Financial Assurance, the Unsettled FTR Financial Assurance, and the Settlement Financial Assurance, each as described in this Section VI (such sum being referred to in the ISO New England Financial Assurance Policy as the “FTR Financial Assurance Requirements”).

A. FTR Settlement Risk Financial Assurance

A Designated FTR Participant is required to provide “FTR Settlement Risk Financial Assurance” for each bid it submits into an FTR Auction and for each FTR that is awarded to it in an FTR Auction, as described below.

After bids are finalized for an FTR Auction, but before the auction results are final, a Designated FTR Participant must provide FTR Settlement Risk Financial Assurance based on its bids for each FTR path. The ISO will calculate an FTR Settlement Risk Financial Assurance amount for each direction (prevailing flow and counter flow) of each FTR path on which the Designated FTR Participant has bid, equal to the total number of MW bid for that direction of the FTR path multiplied by the applicable proxy value for the FTR path (as described below) multiplied by the number of hours associated with the bid. For that FTR path, the Designated FTR Participant must provide FTR Settlement Risk Financial Assurance equal to the higher of the amounts calculated for each direction.

Once an FTR Auction’s results are final, a Designated FTR Participant must provide FTR Settlement Risk Financial Assurance based on awarded FTRs, equal to the MW value of each awarded FTR multiplied by the applicable proxy value for the FTR path (as described below) multiplied by the number of hours associated with the FTR. For

purposes of this calculation, the ISO will net the MW values of a Designated FTR Participant's awarded FTRs having the same or opposite path, same contract month, and same type (on-peak or off-peak). For purposes of this netting, annual FTRs may be converted into monthly positions.

The proxy value for each FTR path, which shall be calculated separately for on-peak and off-peak FTRs, will be based on the standard deviation observed in the difference between the average congestion components of the Locational Marginal Price in the Day-Ahead Energy Market at the path's sink and source for the previous 36 months, with differing multipliers for annual and monthly FTRs and for prevailing flow and counter flow paths. These multipliers will be reviewed and approved by the NEPOOL Budget and Finance Subcommittee and shall be posted on the ISO's website. Where there is insufficient data to perform these calculations for a node, zonal data will be used instead.

FTR Settlement Risk Financial Assurance will be adjusted as the awarded FTRs are settled. In no event will the FTR Settlement Risk Financial Assurance be less than \$0.

B. Unsettled FTR Financial Assurance

A Designated FTR Participant is required to maintain, at all times, "Unsettled FTR Financial Assurance" for all FTRs awarded to it in any FTR Auctions. Immediately after FTRs are awarded in an FTR Auction, the Unsettled FTR Financial Assurance for those FTRs shall be zero. After subsequent FTR Auctions, the Unsettled FTR Financial Assurance for each FTR awarded in a previous FTR Auction shall be adjusted to reflect any change in the clearing price for that FTR based on non-zero volume. The adjustment will be equal to the change in the clearing price multiplied by the number of MW of the previously awarded FTR, with increases in the clearing price reducing the Unsettled FTR Financial Assurance amount and decreases in the clearing price increasing the Unsettled FTR Financial Assurance amount. For purposes of these calculations, the ISO will consider FTRs having the same or opposite path, same contract month, and same type (on-peak or off-peak) together. A Designated FTR Participant's Unsettled FTR Financial Assurance may be a charge or a credit, and in the case of a credit, may offset the Designated FTR Participant's other FTR Financial Assurance Requirements (but not to less than zero). A Designated FTR Participant's Unsettled FTR Financial Assurance will be adjusted as the awarded FTRs are settled.

C. Settlement Financial Assurance

A Designated FTR Participant that has been awarded a bid in an FTR Auction is required to provide “Settlement Financial Assurance.” The amount of a Designated FTR Participant’s Settlement Financial Assurance shall be equal to the amount of any settled but uninvoiced Charges incurred by such Designated FTR Participant for FTR transactions less the settled but uninvoiced amounts due to such Market Participant for FTR transactions. These amounts shall include the costs of acquiring FTRs as well as payments and charges associated with FTR settlement.

D. Consequences of Failure to Satisfy FTR Financial Assurance Requirements

If a Designated FTR Participant does not have additional financial assurance equal to its FTR Financial Assurance Requirements (in addition to its other financial assurance obligations hereunder) in place at the time an FTR Auction into which it has bid closes, then, in addition to the other consequences described in the ISO New England Financial Assurance Policy, all bids submitted by that Designated FTR Participant for that FTR Auction will be rejected. The Designated FTR Participant will be allowed to participate in the next FTR Auction held provided it meets all requirements for such participation, including without limitation those set forth herein. Each Designated FTR Participant must maintain the requisite additional financial assurance equal to its FTR Financial Assurance Requirements for the duration of the FTRs awarded to it. The amount of any additional financial assurance provided by a Designated FTR Participant in connection with an unsuccessful bid in an FTR Auction which, as a result of such bid being unsuccessful, is in excess of its FTR Financial Assurance Requirements will be held by the ISO and will be applied against future FTR bids by and awards to that Designated FTR Participant unless that Designated FTR Participant requests in writing to have such excess financial assurance returned to it. Prior to returning any financial assurance to a Designated FTR Participant, the ISO shall use such financial assurance to satisfy any overdue obligations of that Designated FTR Participant. The ISO shall only return to that Designated FTR Participant the balance of such financial assurance after all such overdue obligations have been satisfied.

VII. ADDITIONAL PROVISIONS FOR FORWARD CAPACITY MARKETS

Any Lead Market Participant, including any Provisional Member that is a Lead Market Participant, transacting in the Forward Capacity Market that is otherwise required to provide additional financial assurance under the ISO New England Financial Assurance Policy (each a “Designated FCM Participant”), is required to provide additional financial assurance meeting the requirements of Section X below in the amounts described in this Section VII (such amounts being referred to in the ISO New England Financial Assurance Policy as the “FCM Financial Assurance Requirements”). If the Lead Market Participant for a Resource changes, then the new Lead Market Participant for the Resource shall become the Designated FCM Participant.

A. FCM Delivery Financial Assurance

A Designated FCM Participant must include, for the Capacity Supply Obligation of each resource in its portfolio other than the Capacity Supply Obligation associated with any Energy Efficiency measures, FCM Delivery Financial Assurance in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy. If a Designated FCM Participant’s FCM Delivery Financial Assurance is negative, it will be used to reduce the Designated FCM Participant’s Financial Assurance Obligations (excluding FTR Financial Assurance Requirements), but not to less than zero. FCM Delivery Financial Assurance is calculated according to the following formula:

$$\text{FCM Delivery Financial Assurance} = [\text{DFAMW} \times \text{PE} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \times \text{SF} \times \text{DF}] - \text{IMC} - \text{MCC}$$

Where:

MCC (monthly capacity charge) equals monthly capacity payments incurred in previous months, but not yet billed. The MCC is estimated from the first day of the current delivery month until it is replaced by the actual settled MCC value when settlement is complete.

IMC (intra-month collateral) equals estimated monthly capacity payments incurred during the current delivery month and, for each Designated FCM Participant, shall be updated three (3) days after publication of the most recent FCM Preliminary Capacity Performance Score report (or equivalent report) on the Market Information Server and

shall be limited by the monthly stop loss as described in Section III.13.7.3.1 of Market Rule 1.

DFAMW (delivery financial assurance MW) equals the sum of the Capacity Supply Obligations of each resource in the Designated FCM Participant's portfolio for the month, excluding the Capacity Supply Obligation of any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1. If the calculated DFAMW is less than zero, then the DFAMW will be set equal to zero.

PE (potential exposure) is a monthly value calculated for the Designated FCM Participant's portfolio as the difference between the Capacity Supply Obligation weighted average Forward Capacity Auction Starting Price and the Capacity Supply Obligation weighted average capacity price for the portfolio, excluding the Capacity Supply Obligation of any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1. The Forward Capacity Auction Starting Price shall correspond to that used in the Forward Capacity Auction corresponding to the ~~instant~~ current Capacity Commitment Period and the capacity prices shall correspond to those used in the calculation of the Capacity Base Payment for each Capacity Supply Obligation in the delivery month.

In the case of a resource subject to a multi-year Capacity Commitment Period election made in a Forward Capacity Auction prior to the ninth Forward Capacity Auction as described in Sections III.13.1.1.2.2.4 and III.13.1.4.1.1.2.7 of Market Rule 1, the Forward Capacity Auction Starting Price shall be replaced with the applicable Capacity Clearing Price (indexed for inflation) in the above calculation until the multi-year election period expires.

ABR (average balancing ratio) is the duration-weighted average of all of the system-wide Capacity Balancing Ratios calculated for each system-wide Capacity Scarcity Condition occurring in the relevant group of months in the three Capacity Commitment Periods immediately preceding the ~~instant-current~~ Capacity Commitment Period and those occurring in the months within the relevant group that are prior to the current month of the current Capacity Commitment Period. Three separate groups of months shall be used for this purpose: June through September, December through February, and all other

months. Until data exists to calculate this number, the temporary ABR for June through September shall equal 0.90; the temporary ABR for December through February shall equal 0.70; and the temporary ABR for all other months shall equal 0.60. As actual data becomes available for each relevant group of months, calculated values for the relevant group of months will replace the temporary ABR values after the end of each group of months each year until all ~~three years~~ ABR values reflect actual data.

CWAP (capacity weighted average performance) is the capacity weighted average performance of the Designated FCM Participant's portfolio. For each resource in the Designated FCM Participant's portfolio, excluding any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1, and excluding from the remaining resources the resource having the largest Capacity Supply Obligation in the month, the resource's Capacity Supply Obligation shall be multiplied by the average performance of the resource. The CWAP shall be the sum of all such values, divided by the Designated FCM Participant's DFAMW. If the DFAMW is zero, then the CWAP is set equal to one.

The average performance of a resource is the Actual Capacity Provided during Capacity Scarcity Conditions divided by the product of the resource's Capacity Supply Obligation and the equivalent hours of Capacity Scarcity Conditions in the relevant group of months in the three Capacity Commitment Periods immediately preceding the ~~instant current~~ Capacity Commitment Period and those occurring in the months within the relevant group that are prior to the current month of the current Capacity Commitment Period.

Three separate groups of months shall be used for this purpose: June through September, December through February, and all other months. Until data exists to calculate this number, the temporary average performance for gas-fired steam generating resources, combined-cycle combustion turbines and simple-cycle combustion turbines shall equal 0.90; the temporary average performance for coal-fired steam generating resources shall equal 0.85; the temporary average performance for oil-fired steam generating resources shall equal 0.65; the temporary average performance for all other resources shall equal 1.00. As actual data for each resource becomes available for each relevant group of months, calculated values for the relevant group of months will replace the temporary average performance values after the end of each group of months each year until all ~~three years~~ average performance values reflect actual data. The applicable temporary

average performance value will be used for new and existing resources until actual performance data is available.

SF (scaling factor) is a month-specific multiplier, as follows:

June ~~and December~~ _____ 2.000;

~~December and~~ July ~~and January~~ 1.732;

~~January and~~ August ~~and February~~ 1.414;

All other months 1.000.

~~DF (discount factor) is a multiplier that for the three Capacity Commitment Periods beginning June 1, 2018 and ending May 31, 2021, DF shall equal 0.75; and thereafter, DF shall equal 1.00.~~

B. Non-Commercial Capacity

Notwithstanding any provision of this Section VII to the contrary, a Designated FCM Participant offering Non-Commercial Capacity for a Resource that elected existing Resource treatment for the Capacity Commitment Period beginning June 1, 2010 will not be subject to the provisions of this Section VII.B with respect to that Resource (other than financial assurance obligations relating to transfers of Capacity Supply Obligations).

1. FCM Deposit

A Designated FCM Participant offering Non-Commercial Capacity into any upcoming Forward Capacity Auction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) on the fifth (5th) Business Day after its qualification for such auction under Market Rule 1, an amount equal to \$2/kW times the Non-Commercial Capacity qualified for such Forward Capacity Auction by such Designated FCM Participant (the “FCM Deposit”).

2. Non-Commercial Capacity in Forward Capacity Auctions

a. Non-Commercial Capacity Participating in a Forward Capacity Auction Up To and Including the Eighth Forward Capacity Auction

For Non-Commercial Capacity participating in a Forward Capacity Auction up to and including the eighth Forward Capacity Auction, a Designated FCM Participant that had its supply offer of Non-Commercial Capacity accepted in a Forward Capacity Auction must include in the calculation of its Financial Assurance Requirement under the ISO New England Financial Assurance Policy the following amounts at the following times:

- (i) beginning at 8 a.m. (Eastern Time) on the fifth (5th) Business Day following announcement of the awarded supply offers in that Forward Capacity Auction, an amount equal to \$5.737 (on a \$/kW-month basis) multiplied by the number of kW of capacity awarded to that Designated FCM Participant in that Forward Capacity Auction (such amount being referred to herein as the “Non-Commercial Capacity FA Amount”);
- (ii) beginning at 8 a.m. (Eastern Time) on the tenth (10th) Business Day prior to the next annual Forward Capacity Auction after the Forward Capacity Auction in which such supply offer was awarded, an additional amount required to make the total amount included in the calculation of the Financial Assurance Requirement with respect to that Non-Commercial Capacity equal to two (2) times the Non-Commercial Capacity FA Amount; and
- (iii) beginning at 8 a.m. (Eastern Time) on the tenth (10th) Business Day prior to the second annual Forward Capacity Auction after the Forward Capacity Auction in which such supply offer was accepted, an additional amount required to make the total amount included in the calculation of the Financial Assurance Requirement with respect to that Non-Commercial Capacity equal to three (3) times the Non-Commercial Capacity FA Amount.

b. Non-Commercial Capacity Participating in the Ninth Forward Capacity Auction and All Forward Capacity Auctions Thereafter

A Designated FCM Participant offering Non-Commercial Capacity into the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction an amount equal to the difference between the Net CONE associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded (adjusted as described in Section III.13.2.4)

times the Non-Commercial Capacity qualified for such Forward Capacity Auction and the FCM Deposit.

Upon completion of the Forward Capacity Auction, the Non-Commercial Capacity Financial Assurance Amount shall be recalculated according to the following formula:

$$\text{Non-Commercial Capacity Financial Assurance Amount} = (\text{NCC} \times \text{NCCFCA\$} \times \text{Multiplier}) + \text{NCC Trading FA}$$

Where:

NCC = the Capacity Supply Obligation awarded in the Forward Capacity Auction minus any Commercial Capacity

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the thirteenth Forward Capacity Auction, NCCFCA\$ = the Capacity Clearing Price from the first run of the auction-clearing process of the Forward Capacity Auction in which the Capacity Supply Obligation was awarded. For Capacity Supply Obligations acquired in the fourteenth Forward Capacity Auction and all Forward Capacity Auctions thereafter, NCCFCA\$ = the Net CONE associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded (adjusted as described in Section III.13.2.4).

Multiplier = one at the completion of the Forward Capacity Auction in which the Capacity Supply Obligation was awarded; two beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the next Forward Capacity Auction after the Forward Capacity Auction in which the Capacity Supply Obligation was awarded; and three beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the second Forward Capacity Auction after the Forward Capacity Auction in which the Capacity Supply Obligation was awarded.

In the case of Non-Commercial Capacity that fails to become commercial by the commencement of the Capacity Commitment Period associated with the Forward Capacity Auction in which it was awarded a Capacity Supply Obligation, the Non-

Commercial Capacity Financial Assurance Amount shall be recalculated as follows: beginning at 8 a.m. (Eastern Time) on the first Business Day of the second month of the Capacity Commitment Period associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded, the Multiplier in the recalculation of the Non-Commercial Capacity Financial Assurance Amount shall be four. The Multiplier in the recalculation of the Non-Commercial Capacity Financial Assurance Amount shall increase by one every six months thereafter until the Non-Commercial Capacity becomes commercial or the Capacity Supply Obligation is terminated.

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the twelfth Forward Capacity Auction, NCC Trading FA = zero. For Capacity Supply Obligations acquired in the thirteenth Forward Capacity Auction and all Forward Capacity Auctions thereafter, NCC Trading FA shall be zero until the start of the applicable Capacity Commitment Period, at which time NCC Trading FA shall be calculated as described below, except that in no case shall NCC Trading FA be less than zero:

- (a) the total amount of NCC that has been shed (whether before or after the start of the Capacity Commitment Period) in any reconfiguration auctions or Capacity Supply Obligation Bilaterals or that is subject to a failure to cover charge pursuant to Section III.13.3.4(b) (but this total amount shall not be greater than NCC); multiplied by
- (b) the difference between: (x) the weighted average price at which the Capacity Supply Obligation was acquired in the Forward Capacity Auction (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs); and (y) the weighted average price or failure to cover charge rate at which the Capacity Supply Obligation was shed or assessed, as applicable, except that for monthly Capacity Supply Obligation Bilaterals, one of the following prices will be used:
 - (i) If the Designated FCM Participant does not certify to the ISO that it has not entered into any contract or other transaction with another party regarding the pricing of such Capacity Supply Obligation Bilateral (other than those to be settled by the ISO) that has the effect of deflating its NCC Trading FA, then the lower of: (1) the

applicable monthly reconfiguration auction price, and (2) the Capacity Supply Obligation Bilateral price shall be used;

- (ii) If the Designated FCM Participant provides the certification described in subsection (i) above, is the Capacity Transferring Resource, and is an Affiliate of the Capacity Acquiring Resource, then the lower of: (1) the Capacity Supply Obligation Bilateral price, and (2) the applicable Capacity Clearing Price (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs) shall be used; or
- (iii) If neither subsection (i) nor (ii) applies, then the Capacity Supply Obligation Bilateral price shall be used.

plus

- (c) the quantity of any Annual Reconfiguration Transactions associated with NCC for the relevant Capacity Commitment Period in which the Designated FCM Participant is the Capacity Transferring Resource (but this amount shall not be greater than NCC) multiplied by the difference between: (x) the applicable annual reconfiguration auction clearing price, and (y) the transaction price, which shall equal one of the following:
 - (i) If the Designated FCM Participant does not certify to the ISO that it has not entered into any contract or other transaction with another party regarding the pricing of such Annual Reconfiguration Transaction (other than those to be settled by the ISO) that has the effect of deflating its NCC Trading FA, the transaction price shall be equal to the lower of: (1) the applicable annual reconfiguration auction clearing price, and (2) the applicable Annual Reconfiguration Transaction price;
 - (ii) If the Designated FCM Participant provides the certification described in subsection (i) above, is the Capacity Transferring Resource, and is an Affiliate of the Capacity Acquiring Resource, then the transaction price shall be equal to the lower of: (1) the applicable Annual Reconfiguration Transaction price, and (2) the applicable Capacity Clearing Price (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs); or

(iii) If neither subsection (i) nor (ii) applies, then the applicable Annual Reconfiguration Transaction price shall be used.

c. Non-Commercial Capacity Deferral

Where the Commission approves a request to defer a Capacity Supply Obligation filed pursuant to Section III.13.3.7 of Market Rule 1, the Designated FCM Participant must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) 30 days after Commission approval of the request to defer, an amount equal to the amount that would apply to a resource that has not achieved commercial operation one year after the start of a Capacity Commitment Period in which it has a Capacity Supply Obligation, as calculated pursuant to Section VII.B.2.a or Section VII.B.2.b, as applicable.

3. Return of Non-Commercial Capacity Financial Assurance

Non-Commercial Capacity cleared in a Forward Capacity Auction up to and including the eighth Forward Capacity Auction that is declared commercial and has had its capacity rating verified by the ISO or otherwise becomes a Resource meeting the definition of Commercial Capacity, or that is declared commercial and had a part of its capacity rating verified by the ISO and the applicable Designated FCM Participant indicates no additional portions of that Resource will become commercial, that portion of the Resource shall no longer be considered Non-Commercial Capacity under the ISO New England Financial Assurance Policy and will instead become subject to the provisions of the ISO New England Financial Assurance Policy relating to Commercial Capacity; provided that in either such case, the Designated FCM Participant will need to include in the calculation of its Financial Assurance Requirement an amount attributable to any remaining Non-Commercial Capacity.

Once Non-Commercial Capacity associated with a Capacity Supply Obligation awarded in the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter becomes commercial, the Non-Commercial Capacity Financial Assurance Amount for any remaining Non-Commercial Capacity shall be recalculated according to the process outlined above for Non-Commercial Capacity participating in the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter.

4. Credit Test Percentage Consequences for Provisional Members

If a Provisional Member is required to provide additional financial assurance under the ISO New England Financial Assurance Policy solely in connection with (A) a supply offer of Non-Commercial Capacity into any Forward Capacity Auction and (B) its obligation to pay Participant Expenses as a Provisional Member, and that Provisional Member is maintaining the amount of additional financial assurance required under the ISO New England Financial Assurance Policy, then the provisions of Section III.B of the ISO New England Financial Assurance Policy relating to the consequences of that Market Participant's Market Credit Test Percentage equaling 80 percent (80%) or 90 percent (90%) shall not apply to that Provisional Member.

C. [Reserved for Future Use]

D. Loss of Capacity and Forfeiture of Non-Commercial Capacity Financial Assurance

If a Designated FCM Participant that has acquired Capacity Supply Obligations associated with Non-Commercial Capacity is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy and does not cure such default within the appropriate cure period, or if a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy during the period between the day that is three Business Days before the FCM Deposit is required and the first day of the Forward Capacity Auction and does not cure such default within the appropriate cure period, then: (i) beginning with the first Business Day following the end of such cure period that Designated FCM Participant will be assessed a default charge of one percent (1%) of its total Non-Commercial Capacity Financial Assurance Amount at that time for each Business Day that elapses until it cures its default; and (ii) if such default is not cured by 5:00 p.m. (Eastern Time) on the sooner of (x) the fifth Business Day following the end of such cure period or (y) the second Business Day prior to the start of the next scheduled Forward Capacity Auction or annual reconfiguration auction or annual Capacity Supply Obligation Bilateral submission (such period being referred to herein as the "Non-Commercial Capacity Cure Period"), then, in addition to the other actions described in this Section VII, (A) all Capacity Supply Obligations associated with Non-Commercial Capacity that were awarded to the defaulting Designated FCM Participant in previous Forward Capacity Auctions and

reconfiguration auctions and that the defaulting Designated FCM Participant acquired by entering into Capacity Supply Obligation Bilaterals shall be terminated; (B) the defaulting Designated FCM Participant shall be precluded from acquiring any Capacity Supply Obligation that would be associated with Non-Commercial Capacity for which the defaulting Designated FCM Participant has submitted an FCM Deposit; (C) the ISO will (1) draw down the entire amount of the FCM Deposit and the Non-Commercial Capacity Financial Assurance Amount associated with the terminated Capacity Supply Obligations and (2) issue an Invoice to the Designated FCM Participant if there is a shortfall resulting from that Designated FCM Participant's failure to maintain adequate financial assurance hereunder or if the Designated FCM Participant used a Market Credit Limit to meet its FCM Financial Assurance Requirements; and (D) the default charges described in clause (i) above shall not be assessed to that Designated FCM Participant. All default charges collected under clause (i) above will be deposited in the Late Payment Account in accordance with the ISO New England Billing Policy.

If a Designated FCM Participant's Capacity Supply Obligation is terminated under Market Rule 1, the ISO will draw down the entire Non-Commercial Capacity Financial Assurance Amount provided by such Designated FCM Participant with respect to such terminated Capacity Supply Obligation. If the Designated FCM Participant has not provided enough financial assurance to cover the amount due (or that would have been due but for the Designated FCM Participant's positive Market Credit Limit) with respect to such Non-Commercial Capacity Financial Assurance Amount, then the ISO will issue an Invoice to the Designated FCM Participant for the amount due.

E. Composite FCM Transactions

For separate resources that seek to participate as a single composite resource in a Forward Capacity Auction in which multiple Designated FCM Participants provide that capacity (collectively, a "Composite FCM Transaction"), each Designated FCM Participant participating in that Composite FCM Transaction will be responsible for providing the financial assurance required as follows:

1. the FCM Financial Assurance Requirements for each Designated FCM Participant shall be determined solely with respect to the capacity being provided, or sought to be provided, by that Designated FCM Participant;

2. [reserved];
3. if the Composite FCM Transaction involves one or more Resources seeking to provide or providing Non-Commercial Capacity, the Non-Commercial Capacity Financial Assurance Amount under Section VII.B for each Designated FCM Participant with respect to that Composite FCM Transaction will be calculated based on the commercial status of the Non-Commercial Capacity cleared through the Forward Capacity Auction;
4. any Non-Commercial Capacity Financial Assurance Amount provided under Section VII.B by each Designated FCM Participant with respect to each Resource providing Non-Commercial Capacity in the Composite FCM Transaction will be recalculated according to Section VII.B.3 as the corresponding Resource becomes commercial; and
5. in the event that the Capacity Supply Obligation is terminated, Section VII.D shall apply only to the Non-Commercial Capacity of the Designated FCM Participant participating in the Composite FCM Transaction that has failed to satisfy its obligations, and any Invoice issued thereunder will be issued only to that Designated FCM Participant.
6. the FCM Delivery Financial Assurance calculated under Section VII.A for each Designated FCM Participant contributing resources to a Composite FCM Transaction shall be based on the Capacity Supply Obligation that is provided by that Designated FCM Participant in the current month of the Capacity Commitment Period, provided that the FCM charges incurred in previous months, but not yet paid, shall increase the FCM Financial Assurance Requirements only of the Designated FCM Participant that incurred the charges.

F. Transfer of Capacity Supply Obligations

1. Transfer of Capacity Supply Obligations in Reconfiguration Auctions

A Designated FCM Participant that seeks to transfer its Capacity Supply Obligation in a reconfiguration auction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, prior to the close

of bidding in that reconfiguration auction, the amounts described in subsections (a) and (b) below.

- (a) For the 12 month period beginning with the current month, the sum of that Designated FCM Participant's net monthly FCM charges for each month in which the net FCM revenue results in a charge. For purposes of this subsection (a), months in this period in which that Designated FCM Participant's net FCM revenue results in a credit are disregarded (i.e., the net credits from such months are not used to reduce the amount described in this subsection (a)) and the current month FCM charges are prorated to the proportion of remaining days in the month. The amount described in this subsection (a), if any, will increase the Designated FCM Participant's FCM Financial Assurance Requirements.
- (b) For the period including each month that is after the period described in subsection (a) above and that is included in a Capacity Commitment Period for which a Forward Capacity Auction has been conducted, the sum of that Designated FCM Participant's net monthly FCM charges for each month in which the net FCM revenue results in a charge. For this period, the sum of such charges may be offset by net credits from months in which the net FCM revenue results in a credit, but in no case will the amount described in this subsection (b) be less than zero. The amount described in this subsection (b), if any, will increase the Designated FCM Participant's FCM Financial Assurance Requirements.

For purposes of these calculations, the net FCM revenue for a month shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations, demand bids and Annual Reconfiguration Transactions in the Forward Capacity Market, exclusive of any accrued Capacity Performance Payments on positions currently or previously held. Upon the completion of each reconfiguration auction, the amount to be included in the calculation of any FCM Financial Assurance Requirements of that Designated FCM Participant shall be adjusted to reflect the cleared quantities at the zonal clearing price for all activity in that reconfiguration auction and accepted Annual Reconfiguration Transactions.

- 2. Transfer of Capacity Supply Obligations in Capacity Supply Obligation Bilaterals**
A Designated FCM Participant that seeks to transfer its Capacity Supply Obligation in a Capacity Supply Obligation Bilateral must include in the calculation of its FCM Financial

Assurance Requirements under the ISO New England Financial Assurance Policy, prior to the close of the period for submission of that Capacity Supply Obligation Bilateral, amounts calculated as described in Section VII.F.1 above, as applicable. If a Designated FCM Participant fails to provide the required additional financial assurance for its Capacity Supply Obligation Bilaterals, all of those transactions will be rejected. If the Designated FCM Participant's request to transfer a Capacity Supply Obligation in a Capacity Supply Obligation Bilateral is not accepted, it will no longer include amounts related to that Capacity Supply Obligation in the calculation of its FCM Financial Assurance Requirements.

3. Financial Assurance for Annual Reconfiguration Transactions

A Designated FCM Participant that submits an Annual Reconfiguration Transaction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, prior to the close of the period for submission of that Annual Reconfiguration Transaction, amounts calculated as described in Section VII.F.1 above, as applicable. If a Designated FCM Participant fails to provide the required additional financial assurance for its Annual Reconfiguration Transactions, all of those transactions will be rejected. If a transaction is rejected, the Designated FCM Participant is no longer required to include amounts related to that transaction in the calculation of its FCM Financial Assurance Requirements.

4. Substitution Auctions

A Designated FCM Participant that participates in a substitution auction must include the following charges and credits in its FCM Financial Assurance Requirements.

- a. For any supply offer with at least one price-quantity pair priced less than zero must include in the calculation of its FCM Financial Assurance Requirements, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction, amounts calculated as described in Section VII.F.1 above. For purposes of these calculations, the maximum charge that would result from clearing any price-quantity pairs priced less than zero for each month of the Capacity Commitment Period associated with the Forward Capacity Auction shall be included in the amount calculated as described in Section VII.F.1(b) above, the net FCM revenue for all other months in the defined periods shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations in the Forward Capacity Market,

and any accrued Capacity Performance Payments on positions currently or previously held are excluded.

- b. A Designated FCM Participant (i) that submits a demand bid into a substitution auction for a resource that is subject to a multi-year rate pursuant to Section III.13.1.3.5.4 or Section III.13.1.1.2.2.4, (ii) for which the maximum charge that would result from clearing the capacity subject to the multi-year rate election would exceed the revenue the Designated FCM Participant will receive for the relevant Capacity Commitment Period under its multi-year rate election for the resource, (iii) must include in the calculation of its FCM Financial Assurance Requirements, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction, amounts calculated as described in Section VII.F.1 above. For purposes of these calculations, the maximum charge that would result from clearing the capacity subject to the multi-year rate election shall be included in the amount calculated as described in Section VII.F.1(b) above, the net FCM revenue for all other months in the defined periods shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations in the Forward Capacity Market, and any accrued Capacity Performance Payments on positions currently or previously held are excluded.

- c. If a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction and does not cure such default by the earlier of (i) the end of the appropriate cure period and (ii) 5 p.m. (Eastern Time) on the second Business Day prior to the start of the Forward Capacity Auction, then the defaulting Designated FCM Participant shall be precluded from submitting a supply offer or demand bid that is subject to this Section VII.F.4.

- d. Upon the completion of the substitution auction, the amount to be included in the calculation of the FCM Financial Assurance Requirements for a Designated FCM Participant as described in Section VII.F.1 above shall be adjusted to reflect all charges and credits related to the purchase or sale of Capacity Supply Obligations in the substitution auction.

VIII. [Reserved]

IX. THIRD-PARTY CREDIT PROTECTION

The ISO shall obtain third-party credit protection, in the form of credit insurance coverage (“Credit Coverage”), on terms acceptable to the ISO in its reasonable discretion at least in an amount covering collectively the Credit Qualifying Rated Market Participants based on the formula below.

Notwithstanding the foregoing, if the entity providing such Credit Coverage cannot provide the amount required by this Section IX, the ISO will reduce the required coverage for all Credit Qualifying Rated Market Participants on a pro rata basis. The total amount of the Credit Coverage shall be at least the aggregate of the following formula; provided, however, if the entity providing the Credit Coverage denies coverage (in whole or in part) for any Credit Qualifying Rated Market Participant based on its rights under the insurance policy, the ISO will use reasonable efforts to obtain documentation regarding the denial and will make reasonable efforts to appeal such denial. For each Credit Qualifying Rated Market Participant, the portion of the Credit Coverage shall be the lesser of: (A) the sum of (x) 2.5 times the average Hourly Charges for such Credit Qualifying Rated Market Participant within the previous fifty-two calendar weeks plus (y) 2.5 times the sum of the average Non-Hourly Charges (excluding charges or credits related to FTR transactions) and the average Transmission Charges for such Credit Qualifying Rated Market Participant within the previous twelve calendar months; or (B) \$50 million. For any Credit Qualifying Rated Market Participant, the applicable amount of the Credit Coverage shall be adjusted monthly if the above formula produces a change that is either (A) 10% or greater, or (B) greater than \$100,000. The Credit Coverage shall be provided by an insurance company rated “A-” or better by A.M. Best & Co. or “A” or better by S&P. The cost of the Credit Coverage obtained for each calendar year shall be allocated to all Credit Qualifying Rated Market Participants pro rata based, for each Credit Qualifying Rated Market Participant, on the average amount of the Invoices issued to that Credit Qualifying Rated Market Participant under the ISO New England Billing Policy in the preceding calendar year. Each Credit Qualifying Rated Market Participant shall provide the ISO with such information as may be reasonably necessary for the ISO to obtain the Credit Coverage at the lowest possible cost.

X. ACCEPTABLE FORMS OF FINANCIAL ASSURANCE

Provided that the requirements set forth herein are satisfied, acceptable forms of financial assurance include shares of registered or private mutual funds held in a shareholder account or a letter of credit, each in accordance with the provisions of this Section X. All costs associated with obtaining financial security and meeting the provisions of the ISO New England Financial Assurance Policy are the responsibility of the Market Participant or Non-Market Participant Transmission Customer providing that security (each a “Posting Entity”). Any Posting Entity requesting a change to one of the model forms attached to the ISO New England Financial Assurance Policy which would be specific to such Posting

Entity (as opposed to a generic improvement to such form) shall, at the time of making that request, pay a \$1,000 change fee, which fee shall be deposited into the Late Payment Account maintained under the ISO New England Billing Policy.

A. Shares of Registered or Private Mutual Funds in a Shareholder Account

Shares of registered or private mutual funds in a shareholder account are an acceptable form of financial assurance provided that the Posting Entity providing such collateral (i) completes all required documentation to open an account with the financial institution selected by the ISO, after consultation with the NEPOOL Budget and Finance Subcommittee, (ii) completes and executes a security agreement (“Security Agreement”) in the form of Attachment 1 to the ISO New England Financial Assurance Policy and is in compliance with the Security Agreement, and (iii) completes and executes a Control Agreement in the form posted on the ISO website and is in compliance with the Control Agreement. Any material variation from the form of Security Agreement included in Attachment 1 to the ISO New England Financial Assurance Policy or the form of Control Agreement posted on the ISO website must be approved by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee and, in the case of the Security Agreement, filed with the Commission. To the extent any amount of shares contained in the shareholder account is no longer required hereunder, the ISO shall return such collateral to the Posting Entity providing it within four (4) Business Days of a request to do so.

If the amount of collateral maintained in the shareholder account is below the required level (including by reason of losses on investments), the Posting Entity shall immediately replenish or increase the amount to the required level. The collateral will be held in an account maintained in the name of the Posting Entity and invested in the investment selected by that Posting Entity from a menu of investment options listed at the time on the ISO’s website, which menu will be approved by the NEPOOL Budget and Finance Subcommittee, with discounts applied to the investments in certain of such options if and as determined by the NEPOOL Budget and Finance Subcommittee. If a Posting Entity does not select an investment for its collateral, that collateral will be invested in the “default” investment option selected by the ISO and approved by the NEPOOL Budget and Finance Subcommittee from time to time. Any dividends and distribution on such investment will accrue to the benefit of the Posting Entity. The ISO may sell or

otherwise liquidate such investments at its discretion to meet the Posting Entity's obligations to the ISO. In no event will the ISO or NEPOOL or any NEPOOL Participant have any liability with respect to the investment of collateral under this Section X.A.

Notwithstanding the foregoing, an investment in shares of a registered fund in a shareholder account shall not be an acceptable form of financial assurance for a Posting Entity that is not a U.S. Person, as defined in Regulation S under the Securities Act of 1933, as amended, unless the financial institution selected by the ISO allows such Posting Entity to invest in the investment options listed at the time on the ISO's website or the Posting Entity is invested in the investment options listed on the ISO's website as of March 19, 2015.

B. Letter of Credit

An irrevocable standby letter of credit provides an acceptable form of financial assurance to the ISO. For purposes of the ISO New England Financial Assurance Policy, the letter of credit shall be valued at \$0 at the end of the Business Day that is 30 days prior to the termination of such letter of credit. If the letter of credit amount is below the required level, the Posting Entity shall immediately replenish or increase the letter of credit amount or obtain a substitute letter of credit. The account party on a letter of credit must be either the Posting Entity whose obligations are secured by that letter of credit or an Affiliate of that Posting Entity.

1. Requirements for Banks

Each bank issuing a letter of credit that serves as financial assurance must meet the requirements of this Section X.B.1. Each such bank must be on the ISO's "List of Eligible Letter of Credit Issuers" which shall be established pursuant to this Section X.B.1. The ISO will post the current List of Eligible Letter of Credit Issuers on its website, and update that List and posting no less frequently than quarterly; provided that if a bank is removed from the List of Eligible Credit Issuers, the ISO shall update the List and provide notice to the NEPOOL Budget & Finance Subcommittee. To be included on the List of Eligible Letter of Credit Issuers, the bank must be organized under the laws of the United States or any state thereof, or be the United States branch of a foreign bank and either: (i) be recognized by the Chicago Mercantile Exchange ("CME") as an

approved letter of credit bank; or (ii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of “A-” by S&P, or “A3” by Moody’s or “A-” by Fitch so long as its letter of credit is confirmed by a bank that is recognized by CME as an approved letter of credit issuer as described in clause (i) above; or (iii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of “A-” by S&P, or “A3” by Moody’s, or “A-” by Fitch and be approved by the ISO in its sole discretion (the ISO will promptly advise the NEPOOL Budget and Finance Subcommittee of any additional bank approved by it under this provision). Because the ratings described in clauses (ii) and (iii) are minimum ratings, a bank will not be considered to have satisfied the requirement of those clauses if any applicable rating from the Rating Agencies falls below the levels listed in those clauses. In addition, no Posting Entity may provide a letter of credit that has been issued or confirmed by a bank that is an Affiliate of that Market Participant. If a bank that is included on the List of Eligible Letter of Credit Issuers fails to satisfy any of the criteria set forth above or if the ISO determines in its sole discretion that despite satisfying any of the criteria set forth above, accepting a letter of credit from a bank on the List of Eligible Letter of Credit Issuers presents an unreasonable risk that a bank may fail to honor the terms of such letter of credit, the applicable Posting Entity will have five (5) Business Days from the date on which the ISO provides notice of such failure or removal to replace the letter of credit with a letter of credit from a bank satisfying those criteria or provide other financial assurance satisfying the requirements of the ISO New England Financial Assurance Policy. The ISO may extend that cure period to twenty (20) Business Days in its sole discretion. The ISO must promptly advise the NEPOOL Budget and Finance Subcommittee of any extension of a cure period beyond five (5) Business Days under this provision. No letter of credit bank may issue or confirm letters of credit under the ISO New England Financial Assurance Policy in an amount exceeding either: (i) \$100 million in the aggregate for any single Posting Entity; or (ii) \$150 million in aggregate for a group of Posting Entities that are Affiliates. If a bank is removed from the List of Eligible Letter of Credit Issuers based on the ISO’s determination that there is an unreasonable risk that a bank may fail to honor the terms of such letter of credit, the ISO in its sole discretion may reinstate eligibility, provided that the bank otherwise meets the conditions of this Section X.B.1.

The following provisions shall apply when a bank fails to honor the terms of one or more letters of credit issued or confirmed by the bank in favor of the ISO: (i) if the bank fails to honor the terms of one letter of credit in a rolling seven hundred and thirty day period, then the ISO will issue a notice of such failure to the NEPOOL Budget and Finance Subcommittee, to all members and alternates of the Participants Committee, to the New England governors and utility regulatory agencies and to the billing and credit contracts for all Market Participants; (ii) if the bank fails to honor either the terms of one letter of credit twice or the terms of two letters of credit in a rolling seven hundred and thirty day period, then (A) the ISO shall issue a notice described in subsection (i) above, (B) the bank will no longer be eligible to issue or confirm letters of credit in favor of the ISO, (C) any letters of credit issued or confirmed by such bank in favor of the ISO will not be renewed, and (D) any letters of credit issued or confirmed by such bank in favor of the ISO must be replaced with another acceptable form of financial assurance within five (5) Business Days from the date on which the ISO provides notice of such failure (the ISO may extend that cure period to twenty (20) Business Days in its sole discretion). Notwithstanding the foregoing, the ISO in its sole discretion may reinstate eligibility after not less than two years from the loss of eligibility, provided that the bank otherwise meets the conditions of this Section X.B.1.

Any letter of credit provided for a new Posting Entity for the purpose of covering the Initial Market Participant Financial Assurance Requirement must have a minimum term of 120 days.

2. Form of Letter of Credit

Attachment 2 provides a generally acceptable sample “clean” letter of credit, and all letters of credit provided by Posting Entities shall be in this form (with only minor, non-material changes), unless a variation therefrom is approved by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee and filed with the Commission. Notwithstanding the foregoing, Posting Entities that have provided a letter of credit in a form that was previously acceptable (e.g., under a prior version of Attachment 2) shall not be required to resubmit such letter of credit until the earlier of (a) the amendment or expiration of such letter of credit, in which case Posting Entity shall be required to provide a Letter of Credit in the Form of Attachment 2, or (b) December 31, 2021. Any letter of credit provided for a new Posting Entity must have a minimum term of 120 days.

All costs incurred by the ISO in collecting on a letter of credit provided under the ISO New England Financial Assurance Policy shall be paid, or reimbursed to the ISO, by the Posting Entity providing that letter of credit.

C. Special Provisions for Provisional Members

Notwithstanding any other provision of the ISO New England Financial Assurance Policy to the contrary, due to the temporary nature of a Market Participant's status as a Provisional Member and the relatively small amounts due from Provisional Members, any Provisional Member required to provide additional financial assurance under the ISO New England Financial Assurance Policy may only satisfy the portion of that requirement attributable to Participant Expenses under the RNA by providing a cash deposit in accordance with Section X.A. Provisional Members will not have any other Non-Hourly Requirements under the ISO New England Financial Assurance Policy. If a Provisional Member uses a standing instruction to pay its Invoices pursuant to the ISO New England Billing Policy, in order to avoid a default and/or a Late Payment Charge, the total amount of the cash deposited by that Provisional Member should be equal to the sum of (x) the Provisional Member's Financial Assurance Requirement under the ISO New England Financial Assurance Policy that is attributable to Participant Expenses under the RNA and (y) the amount due from that Provisional Member on its next Invoice under that ISO New England Billing Policy (not including the amount of any Qualification Process Cost Reimbursement Deposit (including the annual true-up of that amount) due from such Provisional Member). Provisional Members are also required to satisfy all other provisions of the ISO New England Financial Assurance Policy, and any additional financial assurance required to be provided by a Provisional Member that is not attributable to Participant Expenses may be satisfied by providing a cash deposit or letter of credit in accordance with this Section X but shall not be satisfied through the provision of the cash deposit described in this Section X.C. Without limiting or reducing in any way the requirements of the ISO New England Financial Assurance Policy that apply to a Provisional Member, the amount of the cash deposit initially provided by a Provisional Member that is attributable to Participant Expenses (including any amounts provided in connection with the standing instruction under the ISO New England Billing Policy described above) shall be at least \$2,500, and each Provisional Member will replenish that cash deposit to at least that \$2,500 level on December 31 of each year.

XI. MISCELLANEOUS PROVISIONS

A. Obligation to Report Material Adverse Changes

Each Market Participant and each Non-Market Participant Transmission Customer is responsible for informing the ISO in writing within five (5) Business Days of any Material Adverse Change in its financial status. A “Material Adverse Change” in financial status includes, but is not limited to, the following: a downgrade to below an Investment Grade Rating by any Rating Agency; being placed on credit watch with negative implication by any Rating Agency if the Market Participant or Non-Market Participant Transmission Customer does not have an Investment Grade Rating; a bankruptcy filing or other insolvency; a report of a significant quarterly loss or decline of earnings; the resignation of key officer(s); the sanctioning of the Market Participant or Non-Market Participant Transmission Customer or any of its Principals imposed by the Federal Energy Regulatory Commission, the Securities and Exchange Commission, the Commodity Futures Trading Commission, any exchange monitored by the National Futures Association, or any state entity responsible for regulating activity in energy markets; the filing of a material lawsuit that could materially adversely impact current or future financial results; or a significant change in the Market Participant’s or Non-Market Participant Transmission Customer’s market capitalization. A Market Participant’s or Non-Market Participant Transmission Customer’s failure to timely disclose a Material Adverse Change in its financial status may result in termination proceedings by the ISO. If the ISO determines that there is a Material Adverse Change in the financial condition of a Market Participant- or Non-Market Participant Transmission Customer, then the ISO shall provide to that Market Participant or Non-Market Participant Transmission Customer a signed written notice two Business Days before taking any of the actions described below. The notice shall explain the reasons for the ISO’s determination of the Material Adverse Change. After providing notice, the ISO may take one or more of the following actions: (i) require that, within two Business Days of receipt of the notice of Material Adverse Change, the Market Participant or Non-Market Participant Transmission Customer provide one of the forms of financial assurance described in Section X of the ISO New England Financial Assurance Policy and/or an additional amount of financial assurance in one of the forms of financial assurance described in Section X of the ISO New England Financial Assurance Policy; (ii) require that the Market Participant or Non-Market Participant Transmission Customer cease one or more

transactions in the New England Markets; or (iii) require that the Market Participant or Non-Market Participant Transmission Customer take other measures to restore the ISO's confidence in its ability to safely transact in the New England Markets. Any additional amount of financial assurance required as a result of a Material Adverse Change shall be sufficient, as reasonably determined by the ISO, to cover the Market Participant's or Non-Market Participant Transmission Customer's potential settled and unsettled liability or obligation, provided, however, that if the additional amount of financial assurance required as a result of a Material Adverse Change is equal to or greater than \$25 million, then the Chief Financial Officer shall first consult, to the extent practicable, with the ISO's Chief Executive Officer, Chief Operating Officer, and General Counsel. If the Market Participant or Non-Market Participant Transmission Customer fails to comply with any of the requirements imposed as a result of a Material Adverse Change, then the ISO may initiate termination proceedings against the Market Participant or Non-Market Participant Transmission Customer.

B. Weekly Payments

A Market Participant or Non-Market Participant Transmission Customer may request that, in lieu of providing the entire amount of one of the financial assurances set forth above to satisfy its Financial Assurance Requirement, a weekly billing schedule be implemented for its Non-Hourly Charges and its Transmission Charges. The ISO may, in its discretion, agree to such a request; provided, however, that any weekly billing arrangement for Non-Hourly Charges and Transmission Charges will terminate no more than six (6) months after the date on which such arrangement begins unless the Market Participant or Non-Market Participant Transmission Customer requests an extension of such arrangement and demonstrates to the ISO's satisfaction in its sole discretion that the termination of such arrangement and compliance with the other provisions of the ISO New England Financial Assurance Policy (including providing the full amount of its Financial Assurance Requirement) will impose a substantial hardship on the Market Participant or Non-Market Participant Transmission Customer. Such demonstration of a substantial hardship shall be made every six (6) months after the initial demonstration, and a Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement for Non-Hourly Charges and Transmission Charges will be terminated if it fails to demonstrate to the ISO's satisfaction in its sole discretion at any such six (6) month interval that compliance with the other provisions of the ISO New

England Financial Assurance Policy will impose a substantial hardship on it. If the ISO agrees to implement a weekly billing schedule for Non-Hourly Charges and Transmission Charges for a Market Participant or Non-Market Participant Transmission Customer, the Market Participant or Non-Market Participant Transmission Customer shall be billed weekly for such Non-Hourly Charges and Transmission Charges in accordance with the ISO New England Billing Policy. The Market Participant or Non-Market Participant Transmission Customer shall pay with respect to each weekly Invoice for Non-Hourly Charges and Transmission Charges an administrative fee, determined by the ISO, to reimburse the ISO for the costs it incurs as a result of that Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement.

If a weekly billing schedule is implemented for a Market Participant's or Non-Market Participant Transmission Customer's Non-Hourly Charges and Transmission Charges under this Section XI.B, the Market Participant or Non-Market Participant Transmission Customer may be required to provide the full amount of its Financial Assurance Requirement at any time if the Market Participant or Non-Market Participant Transmission Customer fails to pay when due any weekly Invoice. In addition, upon the termination of a Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement for Non-Hourly Charges and Transmission Charges, the Market Participant or Non-Market Participant Transmission Customer shall either satisfy the applicable rating requirements set forth herein, satisfy the Credit Threshold, or provide the full amount of one of the other forms of financial assurance set forth herein.

C. Use of Transaction Setoffs

In the event that a Market Participant or Non-Market Participant Transmission Customer has failed to satisfy its Financial Assurance Requirement hereunder, the ISO may retain payments due to such Market Participant or Non-Market Participant Transmission Customer, up to the amount of such Market Participant's or Non-Market Participant Transmission Customer's unsatisfied Financial Assurance Requirement, as a cash deposit securing such Market Participant's or Non-Market Participant Transmission Customer's obligations to the ISO, NEPOOL, the Market Participants, the PTOs and the Non-Market Participant Transmission Customers, provided, however, that a Market Participant or Non-Market Participant Transmission Customer will not be deemed to have satisfied its

Financial Assurance Requirement under the ISO New England Financial Assurance Policy because the ISO is retaining amounts due to it hereunder unless such Market Participant or Non-Market Participant Transmission Customer has satisfied all of the requirements of Section X with respect to such amounts.

D. Reimbursement of Costs

Each Market Participant or Non-Market Participant Transmission Customer that fails to perform any of its obligations under the Tariff, including without limitation those arising under the ISO New England Financial Assurance Policy and the ISO New England Billing Policy, shall reimburse the ISO, NEPOOL and each Market Participant, PTO and Non-Market Participant Transmission Customer for all of the fees, costs and expenses that they incur as a result of such failure.

E. Notification of Default

In the event that a Market Participant or Non-Market Participant Transmission Customer fails to comply with the ISO New England Financial Assurance Policy (a “Financial Assurance Default”), such failure continues for at least two days and notice of that failure has not previously been given, the ISO may (but shall not be required to) notify such Market Participant or Non-Market Participant Transmission Customer in writing, electronically and by first class mail sent in each case to such Market Participant’s or Non-Market Participant Transmission Customer’s billing and credit contacts or such Market Participant’s member or alternate member on the Participants Committee (it being understood that the ISO will use reasonable efforts to contact all three where applicable), of such Financial Assurance Default. Either simultaneously with the giving of the notice described in the preceding sentence or within two days thereafter (unless the Financial Assurance Default is cured during such period), the ISO shall notify each other member and alternate on the Participants Committee and each Market Participant’s and Non-Market Participant Transmission Customer’s billing and credit contacts of the identity of the Market Participant or Non-Market Participant Transmission Customer receiving such notice, whether such notice relates to a Financial Assurance Default, and the actions the ISO plans to take and/or has taken in response to such Financial Assurance Default. In addition to the notices provided for herein, the ISO will provide any additional information required under the ISO New England Information Policy.

F. Remedies Not Exclusive

No remedy for a Financial Assurance Default is or shall be deemed to be exclusive of any other available remedy or remedies. Each such remedy shall be distinct, separate and cumulative, shall not be deemed inconsistent with or in exclusion of any other available remedy, and shall be in addition to and separate and distinct from every other remedy. A Financial Assurance Default may result in suspension of the Market Participant or Non-Market Participant Transmission Customer or the commencement of termination proceedings by the ISO.

G. Inquiries and Contests

A Market Participant or Non-Market Participant Transmission Customer may request a written explanation of the ISO's determination of its Market Credit Limit, Transmission Credit Limit, Financial Assurance Requirement or Transmission Obligations, including any change thereto, by submitting that request in writing to the ISO's Credit Department, either by email at CreditDepartment@iso-ne.com or by facsimile at (413) 540-4569.

That request must include the Market Participant's customer identification number, the name of the Market Participant or Non-Market Participant Transmission Customer and the specific information for which the Market Participant or Non-Market Participant Transmission Customer would like an explanation and must be submitted by the designated credit contact for that Market Participant or Non-Market Participant Transmission Customer as on file with the ISO. In addition, since Financial Assurance Requirements are updated at least daily, any request for an explanation relating to the calculation of, or a change in, a Financial Assurance Requirement must be submitted on the same day as that calculation or change. The ISO's response to any request under this Section XI.G shall include an explanation of how the applicable calculation or determination was performed using the formulas and criteria in the ISO New England Financial Assurance Policy. A Market Participant or Non-Market Participant Transmission Customer may contest any calculation or determination by the ISO under the ISO New England Financial Assurance Policy using the dispute resolution provisions of Section I.6 of the Tariff.

H. Forward Contract/Swap Agreement

All FTR transactions constitute "forward contracts" and/or "swap agreements" within the meaning of the United States Bankruptcy Code (the "Bankruptcy Code"), and the ISO

shall be deemed to be a “forward contract merchant” and/or “swap participant” within the meaning of the Bankruptcy Code for purposes of those FTR transactions. Pursuant to the ISO New England Financial Assurance Policy, the ISO Tariff and the Market Participant Service Agreement with each Market Participant, the ISO already has, and shall continue to have, the following rights (among other rights) in respect of a Market Participant default under those documents (including the ISO New England Financial Assurance Policy and the ISO New England Billing Policy): A) the right to terminate and/or liquidate any FTR transaction held by that Market Participant; B) the right to immediately proceed against any additional financial assurance provided by that Market Participant; C) the right to set off any obligations due and owing to that Market Participant pursuant to any forward contract, swap agreement or similar agreement against any amounts due and owing by that Market Participant pursuant to any forward contract, swap agreement or similar agreement, such arrangement to constitute a “master netting agreement” within the meaning of the Bankruptcy Code; and D) the right to suspend that Market Participant from entering into future transactions in the FTR system. For the avoidance of doubt, upon the commencement of a voluntary or involuntary proceeding for a Market Participant under the Bankruptcy Code, and without limiting any other rights of the ISO or obligations of any Market Participant under the Tariff (including the ISO New England Financial Assurance Policy and the ISO New England Billing Policy) or any Market Participant Service Agreement, the ISO may exercise any of its rights against such Market Participant, including, without limitation 1) the right to terminate and/or liquidate any FTR transaction held by that Market Participant, 2) the right to immediately proceed against any additional financial assurance provided by that Market Participant, 3) the right to set off any obligations due and owing to that Market Participant pursuant to any forward contract, swap agreement and/or master netting agreement against any amounts due and owing by that Market Participant with respect to an FTR transaction including as a result of the actions taken by the ISO pursuant to 1) above, and 4) the right to suspend that Market Participant from entering into future transactions in the FTR system.

ATTACHMENT 1
SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the “Security Agreement”) is effective as of this [__] day of [____], 20[], by and between [INSERT NAME], a [____], having its principal office and place of business at [____] (the “Debtor”), and ISO New England Inc., a Delaware nonprofit corporation (the “Secured Party” and collectively with the Debtor, the “Parties”).

WITNESSETH:

In consideration of the mutual promises and covenants herein contained, the Parties agree as follows:

1. Definitions.

a. In this Security Agreement:

- i. “Code” shall mean the Uniform Commercial Code, as enacted in the State of Connecticut and as amended from time to time.
- ii. “Collateral” shall mean (a) all cash provided, submitted, wired or otherwise transferred or deposited by the Debtor to or with the Secured Party or a financial institution, investment firm, or other designee selected by the Secured Party or acting on the Secured Party’s behalf, to hold or invest such cash deposit, from time to time in satisfaction of, pursuant to, or in compliance with, the ISO Financial Assurance Policy; (b) all securities or other investment property (as defined in the Code) of the Debtor, whether or not purchased with such cash deposit, submitted, wired or otherwise transferred, deposited or maintained by the Debtor to or with the Secured Party or its designee, in each case in satisfaction of, pursuant to, or in compliance with, the ISO Financial Assurance Policy; (c) all other property of Debtor submitted, pledged, assigned or otherwise transferred by the Debtor to the Secured Party or its designee, in each case, in satisfaction of, pursuant to, or in compliance with, the ISO Financial Assurance Policy; and (d) the products and proceeds of each of the foregoing.
- iii. “ISO Financial Assurance Policy” shall mean the Financial Assurance Policy in the Tariff, as amended, supplemented or restated from time to time, including but not limited to the Financial Assurance Policy in Exhibit 1A to Section I of the Tariff.

- iv. “Tariff” shall mean the ISO New England Inc. Transmission, Markets and Services Tariff, as filed with the Federal Energy Regulatory Commission, as amended, supplemented and/or restated from time to time.
 - v. “Obligations” shall mean any and all amounts due from Debtor from time to time under the Tariff.
 - vi. “Market Participants” shall have the meaning set forth in the Tariff.
 - b. Any capitalized term not defined herein that is defined in the Code shall have the meaning as defined in the Code.
- 2. Security Interest. To secure the payment of all Obligations of the Debtor, Debtor hereby grants and conveys to the Secured Party a security interest in the Collateral. The Debtor hereby irrevocably authorizes the Secured Party at any time and from time to time to file in any applicable filing office any initial financing statements and amendments thereto that provide any information required by part 5 of Article 9 of the Code for the sufficiency or filing office acceptance of any financing statement or amendment.
- 3. Debtor’s Covenants. The Debtor warrants, covenants and agrees with the Secured Party as follows:
 - a. The Debtor shall perform all of the Debtor’s obligations under this Security Agreement according to its terms.
 - b. The Debtor shall defend the title to the Collateral against any and all persons and against all claims.
 - c. The Debtor shall at any time and from time to time take such steps as the Secured Party may reasonably request to ensure the continued perfection and priority of the Secured Party’s security interest in the Collateral and the preservation of its rights therein.
 - d. The Debtor acknowledges and agrees that this Security Agreement grants, and is intended to grant, a security interest in the Collateral. If the Debtor is a corporation, limited liability company, limited partnership or other Registered Organization (as that term is defined in Article 9 of the Uniform Commercial Code as in effect in Connecticut) the Debtor shall, at its expense, furnish to Secured Party a certified copy of Debtor’s organization documents verifying its correct legal name or, at Secured Party’s election, shall permit the Secured Party to obtain such certified copy at Debtor’s expense. From

time to time at Secured Party's election, the Secured Party may obtain a certified copy of Debtor's organization documents and a search of such Uniform Commercial Code filing offices, as it shall deem appropriate, at Debtor's expense, to verify Debtor's compliance with the terms of this Security Agreement.

- e. The Debtor authorizes the Secured Party, if the Debtor fails to do so, to do all things required of the Debtor herein and charge all expenses incurred by the Secured Party to the Debtor together with interest thereon, which expenses and interest will be added to the Obligations.
4. Debtor's Representations and Warranties. The Debtor represents and warrants to the Secured Party as follows:
 - a. The exact legal name of the Debtor is as first stated above.
 - b. Except for the security interest of the Secured Party, Debtor is the owner of the Collateral free and clear of any encumbrance of any nature.
5. Non-Waiver. Waiver of or acquiescence in any default by the Debtor or failure of the Secured Party to insist upon strict performance by the Debtor of any warranties, covenants, or agreements in this Security Agreement shall not constitute a waiver of any subsequent or other default or failure. No failure to exercise or delay in exercising any right, power or remedy of the Secured Party under this Security Agreement shall operate as a waiver thereof, nor shall any partial exercise of any right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The failure of the Secured Party to insist upon the strict observance or performance of any provision of this Security Agreement shall not be construed as a waiver or relinquishment of such provision. The rights and remedies provided herein are cumulative and not exclusive of any other rights or remedies provided at law or in equity.
6. Events of Default. Any one of the following shall constitute an "Event of Default" hereunder by the Debtor:
 - a. Failure by the Debtor to comply with or perform any provision of this Security Agreement or to pay any Obligation; or

- b. Any representation or warranty made or given by the Debtor in connection with this Security Agreement proves to be false or misleading in any material respect; or
 - c. Any part of the Collateral is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors.

- 7. Remedy upon the Occurrence of an Event of Default. Upon the occurrence of any Event of Default the Secured Party shall, immediately and without notice, be entitled to use, sell, or otherwise liquidate the Collateral to pay all Obligations owed by the Debtor.

- 8. Attorneys' Fees, etc. Upon the occurrence of any Event of Default, the Secured Party's reasonable attorneys' fees and the legal and other expenses for pursuing, receiving, taking, keeping, selling, and liquidating the Collateral and enforcing the Security Agreement shall be chargeable to the Debtor.

- 9. Other Rights.
 - a. In addition to all rights and remedies herein and otherwise available at law or in equity, upon the occurrence of an Event of Default, the Secured Party shall have such other rights and remedies as are set forth in the Tariff and ISO Financial Assurance Policy.
 - b. Notwithstanding the provisions of the ISO New England Information Policy, as amended, supplemented or restated from time to time (the "ISO New England Information Policy"), Debtor hereby (i) authorizes the Secured Party to disclose any information concerning Debtor to any court, agency or entity which is necessary or desirable, in the sole discretion of the Secured Party, to establish, maintain, perfect or secure the Secured Party's rights and interest in the Collateral (the "Debtor Information"); and (ii) waives any rights it may have under the ISO New England Information Policy to prevent, impair or limit the Secured Party from disclosing such information concerning the Debtor.

- 10. PRE-JUDGMENT REMEDY. DEBTOR ACKNOWLEDGES THAT THIS SECURITY AGREEMENT AND THE UNDERLYING TRANSACTIONS GIVING RISE HERETO CONSTITUTE COMMERCIAL BUSINESS TRANSACTIONS WITHIN THE STATE OF CONNECTICUT. IN THE EVENT OF ANY LEGAL ACTION BETWEEN DEBTOR AND

THE SECURED PARTY HEREUNDER, DEBTOR HEREBY EXPRESSLY WAIVES ANY RIGHTS WITH REGARD TO NOTICE, PRIOR HEARING AND ANY OTHER RIGHTS IT MAY HAVE UNDER THE CONNECTICUT GENERAL STATUTES, CHAPTER 903a, AS NOW CONSTITUTED OR HEREAFTER AMENDED, OR OTHER STATUTE OR STATUTES, STATE OR FEDERAL, AFFECTING PREJUDGMENT REMEDIES, AND THE SECURED PARTY MAY INVOKE ANY PREJUDGMENT REMEDY AVAILABLE TO IT, INCLUDING, BUT NOT LIMITED TO, GARNISHMENT, ATTACHMENT, FOREIGN ATTACHMENT AND REPLEVIN, WITH RESPECT TO ANY TANGIBLE OR INTANGIBLE PROPERTY (WHETHER REAL OR PERSONAL) OF DEBTOR TO ENFORCE THE PROVISIONS OF THIS SECURITY AGREEMENT, WITHOUT GIVING DEBTOR ANY NOTICE OR OPPORTUNITY FOR A HEARING.

11. WAIVER OF JURY TRIAL. THE DEBTOR AND THE SECURED PARTY HEREBY EACH KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION, DEFENSE, COUNTERCLAIM, CROSSCLAIM AND/OR ANY FORM OF PROCEEDING BROUGHT IN CONNECTION WITH THIS SECURITY AGREEMENT OR RELATING TO ANY OBLIGATIONS SECURED HEREBY.
12. Additional Waivers. Demand, presentment, protest and notice of nonpayment are hereby waived by Debtor. Debtor also waives the benefit of all valuation, appraisal and exemption laws.
13. Binding Effect. The terms, warranties and agreements herein contained shall bind and inure to the benefit of the respective Parties hereto, and their respective legal representatives, successors and assigns.
14. Assignment. The Secured Party may, upon notice to the Debtor, assign without limitation its security interest in the Collateral.
15. Amendment. This Security Agreement may not be altered or amended except by an agreement in writing signed by the Parties.
16. Term.

- a. This Security Agreement shall continue in full force and effect until all Obligations owed by the Debtor have been paid in full.
 - b. No termination of this Security Agreement shall in any way affect or impair the rights and liabilities of the Parties hereto relating to any transaction or events prior to such termination date, or to the Collateral in which the Secured Party has a security interest, and all agreements, warranties and representations of the Debtor shall survive such termination.
17. Choice of Law. The laws of the State of Connecticut shall govern the rights and duties of the Parties herein contained without giving effect to any conflict-of-law principles.

IN WITNESS WHEREOF, the Parties have signed and sealed this Security Agreement as of the day and year first above written.

[INSERT NAME]

By: _____

Name:

Title:

ISO NEW ENGLAND INC.

By: _____

Name:

Title:

ATTACHMENT 2
SAMPLE STANDBY LETTER OF CREDIT

[DATE PROVIDED]

IRREVOCABLE STANDBY LETTER OF CREDIT NO.

[EXPIRATION DATE]

WE DO HEREBY ISSUE THIS IRREVOCABLE NON-TRANSFERABLE STANDBY LETTER OF CREDIT BY ORDER OF AND FOR THE ACCOUNT OF [POSTING ENTITY OR AFFILIATE OF POSTING ENTITY ON BEHALF OF POSTING ENTITY] (“ACCOUNT PARTY”) IN FAVOR OF ISO NEW ENGLAND INC. (“ISO” OR “BENEFICIARY”) (“STANDBY LETTER OF CREDIT”).

THIS STANDBY LETTER OF CREDIT IS IRREVOCABLE AND IS ISSUED, PRESENTABLE AND PAYABLE AND WE GUARANTY TO THE DRAWERS, ENDORSERS AND BONA FIDE HOLDERS OF THIS STANDBY LETTER OF CREDIT THAT DRAFTS UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS STANDBY LETTER OF CREDIT WILL BE HONORED ON PRESENTATION OF THIS STANDBY LETTER OF CREDIT.

THIS STANDBY LETTER OF CREDIT IS AVAILABLE IN ONE OR MORE DRAFTS AND MAY BE DRAWN HEREUNDER FOR THE ACCOUNT OF THE ACCOUNT PARTY UP TO AN AMOUNT NOT EXCEEDING US\$ _____.00 (UNITED STATES DOLLARS _____ AND 00/100) .

THIS STANDBY LETTER OF CREDIT IS DRAWN AGAINST BY PRESENTATION TO US AT OUR OFFICE LOCATED AT THE FOLLOWING ADDRESS:

A DRAWING CERTIFICATE SIGNED BY A PURPORTED OFFICER OR AUTHORIZED AGENT OF THE ISO AND DATED THE DATE OF PRESENTATION CONTAINING THE FOLLOWING STATEMENT:

“THE UNDERSIGNED HEREBY CERTIFIES TO [BANK] (“ISSUER”), WITH REFERENCE TO IRREVOCABLE NON-TRANSFERABLE STANDBY LETTER OF CREDIT NO. [-----] ISSUED BY ISSUER IN FAVOR OF ISO NEW ENGLAND INC. (“ISO”), THAT [POSTING ENTITY] HAS FAILED TO PAY THE ISO, IN ACCORDANCE WITH THE TERMS AND PROVISIONS OF THE TARIFF FILED BY THE ISO, AND THUS THE ISO IS DRAWING UPON THE STANDBY LETTER OF CREDIT IN AN AMOUNT EQUAL TO \$ _____.”

IF PRESENTATION OF ANY DRAWING CERTIFICATE IS MADE ON A BUSINESS DAY AND SUCH PRESENTATION IS MADE AT OUR COUNTERS ON OR BEFORE 10:00 A.M. _____ TIME, WE SHALL SATISFY SUCH DRAWING REQUEST ON THE SAME BUSINESS DAY. IF THE DRAWING CERTIFICATE IS RECEIVED AT OUR COUNTERS AFTER 10:00 A.M. _____ TIME, WE WILL SATISFY SUCH DRAWING REQUEST ON THE NEXT BUSINESS DAY. FOR THE PURPOSES OF THIS SECTION, A BUSINESS DAY MEANS A DAY, OTHER THAN A SATURDAY OR SUNDAY, ON WHICH THE FEDERAL RESERVE BANK OF NEW YORK IS NOT AUTHORIZED OR REQUIRED TO BE CLOSED. DISBURSEMENTS SHALL BE IN ACCORDANCE WITH THE INSTRUCTIONS OF THE ISO.

THE FOLLOWING TERMS AND CONDITIONS APPLY:

THIS STANDBY LETTER OF CREDIT SHALL EXPIRE AT THE CLOSE OF BUSINESS [DATE] [AT LEAST 120 DAYS AFTER ISSUANCE FOR NEW POSTING ENTITIES].

THE AMOUNT WHICH MAY BE DRAWN BY YOU UNDER THIS STANDBY LETTER OF CREDIT SHALL BE AUTOMATICALLY REDUCED BY THE AMOUNT OF ANY DRAWINGS HEREUNDER AT OUR COUNTERS. ANY NUMBER OF PARTIAL DRAWINGS ARE PERMITTED FROM TIME TO TIME HEREUNDER.

ALL COMMISSIONS AND CHARGES WILL BE BORNE BY THE ACCOUNT PARTY.

THIS STANDBY LETTER OF CREDIT IS NOT TRANSFERABLE OR ASSIGNABLE. THIS STANDBY LETTER OF CREDIT DOES NOT INCORPORATE AND SHALL NOT BE DEEMED MODIFIED, AMENDED OR AMPLIFIED BY REFERENCE TO ANY

DOCUMENT, INSTRUMENT OR AGREEMENT (A) THAT IS REFERRED TO HEREIN (EXCEPT FOR THE ISP, AS DEFINED BELOW) OR (B) IN WHICH THIS STANDBY LETTER OF CREDIT IS REFERRED TO OR TO WHICH THIS STANDBY LETTER OF CREDIT RELATES.

THIS STANDBY LETTER OF CREDIT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNATIONAL STANDBY PRACTICES (“ISP98”) OF THE INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 590, INCLUDING ANY AMENDMENTS, MODIFICATIONS, OR REVISIONS THEREOF (THE “ISP”), EXCEPT TO THE EXTENT THAT THE TERMS HEREOF ARE INCONSISTENT WITH THE PROVISIONS OF THE ISP, IN WHICH CASE THE TERMS OF THIS STANDBY LETTER OF CREDIT SHALL GOVERN. THIS STANDBY LETTER OF CREDIT SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE COMMONWEALTH OF MASSACHUSETTS TO THE EXTENT THAT THE TERMS ARE NOT GOVERNED BY THE ISP.

THIS STANDBY LETTER OF CREDIT MAY NOT BE AMENDED, CHANGED OR MODIFIED WITHOUT THE EXPRESS WRITTEN CONSENT OF THE ISO AND ISSUER.

WE HEREBY ENGAGE WITH YOU THAT DOCUMENTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS STANDBY LETTER OF CREDIT SHALL BE DULY HONORED UPON PRESENTATION AS SPECIFIED AND WE REPRESENT THAT THE ACCOUNT PARTY IS NOT AN AFFILIATE OF THE ISSUER.

PRESENTATION OF ANY DRAWING CERTIFICATE UNDER THIS STANDBY LETTER OF CREDIT MAY BE SENT TO US BY COURIER, CERTIFIED MAIL, REGISTERED MAIL, OR FACSIMILE (WITH A CONFIRMING COPY OF SUCH FACSIMILE SENT AFTER THE DRAWING BY CERTIFIED MAIL TO THE ADDRESS SET FORTH BELOW; PROVIDED HOWEVER, THAT THE CONFIRMING COPY SHALL NOT BE A PREREQUISITE FOR US TO HONOR ANY PRESENTATION OTHERWISE MADE IN ACCORDANCE WITH THE TERMS OF THIS STANDBY LETTER OF CREDIT), OR SUCH OTHER ADDRESS AS MAY HEREAFTER BE FURNISHED BY US. OTHER NOTICES CONCERNING THIS STANDBY LETTER OF CREDIT MAY BE SENT BY SIMILAR COMMUNICATIONS FACILITY TO THE RESPECTIVE

ADDRESSES SET FORTH BELOW. ALL SUCH NOTICES AND COMMUNICATIONS SHALL BE EFFECTIVE WHEN ACTUALLY RECEIVED BY THE INTENDED RECIPIENT PARTY.

IF TO THE BENEFICIARY OF THIS STANDBY LETTER OF CREDIT:

ISO NEW ENGLAND INC.
ATTENTION: CREDIT DEPARTMENT
1 SULLIVAN RD. HOLYOKE, MA 01040
FAX: 413-540-4569
EMAIL: CREDITDEPARTMENT@ISO-NE.COM

IF TO THE ACCOUNT PARTY:

[NAME]
[ADDRESS]
[FAX]
[PHONE]

IF TO ISSUER:

[NAME]
[ADDRESS]
[FAX]
[PHONE]

[signature]

[signature]

ATTACHMENT 3

**ISO NEW ENGLAND MINIMUM CRITERIA FOR MARKET PARTICIPATION OFFICER
CERTIFICATION FORM**

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the minimum criteria for market participation requirements set forth in Sections II.A.2 and II.A.3 of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Transmission, Markets and Services Tariff) (the “Policy”), hereby certify that I have full authority to bind Certifying Entity and further certify as follows:

1. Certifying Entity has established or contracted for written policies, procedures, and controls applicable to participation in the New England Markets, approved by Certifying Entity’s independent risk management function¹, which provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which Certifying Entity is exposed, including, but not limited to, credit risk, liquidity risk, concentration risk, default risk, operation risk, and market risk.
2. Certifying Entity has established or contracted for appropriate training of relevant personnel that is applicable to its participation in the New England Markets.
3. Certifying Entity has appropriate operating procedures and technical abilities to promptly and effectively respond to all ISO New England communications and directions.

I acknowledge that I have read and understand the provisions of the Policy, including those provisions describing ISO New England’s minimum criteria for market participation requirements and the remedies available to ISO New England in the event of a customer or applicant not satisfying those requirements. I acknowledge that the information provided herein true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission.

(Signature)

Print Name: _____

Title: _____

Date: _____

¹ As used in this certification, a Certifying Entity’s “independent risk management function” can include appropriate corporate persons or bodies that are independent of the Certifying Entity’s trading functions, such as a risk management committee, a risk officer, a Certifying Entity’s board or board committee, or a board or committee of the Certifying Entity’s parent company.

ATTACHMENT 4
ISO NEW ENGLAND ADDITIONAL ELIGIBILITY REQUIREMENTS
CERTIFICATION FORM

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the additional eligibility requirements set forth in Section II.A.5 of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Inc. Transmission, Markets and Services Tariff) (the “Policy”), hereby certify that I have full authority to bind Certifying Entity and further certify as follows:

1. Certifying Entity is now and in good faith will seek to remain (check applicable box(es)):
 - an “appropriate person,” as defined in section(s) [_____] of the Commodity Exchange Act (7 U.S.C. § 1 *et seq.*) (specify which section(s) of Commodity Exchange Act sections 4(c)(3)(A) through (J) apply) (if Certifying Entity is relying on section 4(c)(3)(F), it shall accompany this certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the Certifying Entity’s total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy);
 - an “eligible contract participant,” as defined in section 1a(18)(A) of the Commodity Exchange Act and in 17 CFR § 1.3(m); or
 - a “person who actively participates in the generation, transmission, or distribution of electric energy,” as defined in the Final Order of the Commodity Futures Trading Commission published at 78 FR 19880 (April 2, 2013).
2. If at any time Certifying Entity no longer satisfies the criteria in paragraph 1 above, Certifying Entity will immediately notify ISO New England in writing and will immediately cease all participation in the New England Markets.

I acknowledge that I have read and understand the provisions of the Policy, including those provisions describing ISO New England’s additional eligibility requirements and the remedies available to ISO New England in the event of a customer or applicant not satisfying those requirements. I acknowledge that the information provided herein true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission.

(Signature)

Print Name: _____

Title: _____

Date: _____

ATTACHMENT 5

ISO NEW ENGLAND CERTIFICATE REGARDING CHANGES TO SUBMITTED RISK MANAGEMENT POLICIES FOR FTR PARTICIPATION

Certifying Entity: []

I, _____, a duly authorized Senior Officer of _____ ("Certifying Entity"), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the annual certification requirement for FTR market participation regarding its risk management policies, procedures, and controls set forth in Section II.A.2(b) of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Inc. Transmission, Markets and Services Tariff) (the "Policy"), hereby certify that I have full authority to bind Certifying Entity and further certify as follows (check applicable box):

- 1. [] There have been no changes to the previously submitted written risk management policies, procedures, and controls (and any supporting documentation, if applicable) applicable to the Certifying Entity's participation in the FTR market.

OR

- 2. [] There have been changes to the previously submitted written risk management policies, procedures, and controls (and any supporting documentation, if applicable) applicable to the Certifying Entity's participation in the FTR market and such changes are clearly identified and attached hereto.*

I acknowledge that I have read and understand the provisions of the Policy, including those provisions describing ISO New England's risk management policy requirements for FTR market participants and the remedies available to ISO New England in the event of a customer or applicant not satisfying those requirements. I acknowledge that the information provided herein true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission.

(Signature)

Print Name: _____

Title: _____

Date: _____

* As used in this certificate, "clearly identified" changes may include a redline comparing the current written risk management policies, procedures, and controls and the previously submitted written risk management policies, procedures, and controls; or resubmission of the written risk management policies, procedures, and controls with a bulleted list of all changes, including section and/or page numbers.

ATTACHMENT 6
MINIMUM CRITERIA FOR MARKET PARTICIPATION
INFORMATION DISCLOSURE FORM

Date: _____

Prepared by: _____

Customer/Applicant:¹ _____

I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. (“ISO”) is relying on this certification provided pursuant to Financial Assurance Policy Section II.A.1(a), hereby certify that I have full authority to bind Certifying Entity and further certify on behalf of Certifying Entity that the information contained herein is true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission:

1. List of all Principals.² Please discuss each Principal’s relationship with the Certifying Entity and describe each Principal’s previous experience related to participation in North American wholesale or retail energy markets or trading exchanges:

2. List all material litigation (criminal or civil) against Certifying Entity or any of the Certifying Entity’s Principals, Personnel,³ or Predecessors,⁴ arising out of participation in any wholesale or retail energy market (domestic or international) or trading exchanges in the past ten (10) years:

¹ Customer and Applicant are each defined in Section II.A of the ISO New England Financial Assurance Policy, Exhibit 1A to Section 1 of the ISO Transmission, Markets, and Services Tariff (“Tariff”). Capitalized terms used but not otherwise defined herein shall have the meaning given to them in the Tariff.

² Principal is (i) the sole proprietor of a sole proprietorship; (ii) a general partner of a partnership; (iii) a president, chief executive officer, chief operating officer or chief financial officer (or equivalent position) of an organization; (iv) a manager, managing member or a member vested with the management authority for a limited liability company or limited liability partnership; (v) any person or entity that has the power to exercise a controlling influence over an organization’s activities that are subject to regulation by the Federal Energy Regulatory Commission (“FERC”), the Securities and Exchange Commission (“SEC”), the Commodity Futures Trading Commission (“CFTC”), any exchange monitored by the National Futures Association (“NFA”), or any state entity responsible for regulating activity in energy markets; or (vi) any person or entity that: (a) is the direct owner of 10% or more of any class of an organization’s equity securities; or (b) has directly contributed 10% or more of an organization’s capital.

³ Personnel means any person, current or former, responsible for decision making regarding Certifying Entity’s transaction of business in the New England Markets, including, without limitation, decisions regarding risk management and trading, or any person, current or former, with access to enter transactions into ISO systems. Disclosures regarding former Personnel shall only be required for when such Personnel was employed by Certifying Entity.

⁴ Predecessor shall mean any person or entity whose liabilities, including liabilities arising under the Tariff, have or may have been retained or assumed by Certifying Entity, either contractually, by operation of law or considering all relevant factors, including the interconnectedness of the business relationships, overlap in relevant personnel, similarity of business activities, overlap of customer base.

- (Enter N/A if not applicable)*
3. List all sanctions issued against or imposed upon Certifying Entity, Certifying Entity's Principals, Personnel, or Predecessors, by the FERC, the SEC, the CFTC, any exchange monitored by the NFA, or any entity responsible for regulating activity in any wholesale or retail energy market (domestic or international) or trading exchanges where such sanctions were either imposed in the past ten (10) years or, if imposed prior to that, are still in effect. List all known material ongoing investigations regarding Certifying Entity, Certifying Entity's Principals, Personnel, or Predecessors, imposed by the FERC, the SEC, the CFTC, any exchange monitored by the NFA, or any entity responsible for regulating activity in any wholesale or retail energy market (domestic or international) or trading exchanges:
(Enter N/A if not applicable)

 4. Provide a summary of any bankruptcy, dissolution, merger, or acquisition of Certifying Entity in the past ten (10) years (include date, jurisdiction, and other relevant details):
(Enter N/A if not applicable)

 5. List all wholesale or retail energy market-related operations in North America where Certifying Entity is currently participating, or, in the past five (5) years, has previously participated other than in the New England Markets (e.g., PJM - FTRs):
(Enter N/A if not applicable)

 6. Describe if Certifying Entity or any of Certifying Entity's Principals, Personnel, or any Predecessor of the foregoing ever had its participation or membership in any independent system operator or regional transmission organization (domestic or international) terminated, its registration/membership application denied, or is subject to an existing uncured suspension from participating in the markets of any independent system operator or regional transmission organization (domestic or international), each in the past five (5) years.
(Enter N/A if not applicable)

If you are currently an active participant and this is your annual submission you do not have to complete Question 7 and can skip to the signature block below. If you are in the process of applying for membership with the ISO you are required to answer the additional questions listed below.

7. Describe how Certifying Entity plans to fund its operations, including persons or entities providing financing and such person(s)' or entity(ies)' relationship to the Certifying Entity. Include any relationships that may impact Certifying Entity's ability to (a) comply with the time frames to post financial assurance and/or pay invoices or other amounts owed to the ISO, each as required by the Tariff; or (b) provide a first priority perfected security interest in required financial assurance to the ISO:

Certifying Entity: _____

By: _____
(Signature)

Print Name: _____

Title: _____

Date: _____

** To satisfy the disclosure requirements above, a Certifying Entity may attach additional materials and may provide the ISO with filings made to the SEC or other similar regulatory agencies that include substantially similar information to that required above, provided that Certifying Entity clearly indicates where the specific information is located in those filings.

EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

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EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

Overview

The procedures and requirements set forth in this ISO New England Financial Assurance Policy shall govern all Applicants, all Market Participants and all Non-Market Participant Transmission Customers. Capitalized terms used in the ISO New England Financial Assurance Policy shall have the meaning specified in Section I.

The purpose of the ISO New England Financial Assurance Policy is (i) to establish minimum criteria for participation in the New England Markets; (ii) to establish a financial assurance policy for Market Participants and Non-Market Participant Transmission Customers that includes commercially reasonable credit review procedures to assess the financial ability of an Applicant, a Market Participant or a Non-Market Participant Transmission Customer to pay for service transactions under the Tariff and to pay its share of the ISO expenses, including amounts under Section IV of the Tariff, and including any applicable Participant Expenses; (iii) to set forth the requirements for alternative forms of security that will be deemed acceptable to the ISO and consistent with commercial practices established by the Uniform Commercial Code that protect the ISO and the Market Participants against the risk of non-payment by other, defaulting Market Participants or by Non-Market Participant Transmission Customers; (iv) to set forth the conditions under which the ISO will conduct business in a nondiscriminatory way so as to avoid the possibility of failure of payment for services rendered under the Tariff; and (v) to collect amounts past due, to collect amounts payable upon billing adjustments, to make up shortfalls in payments, to suspend Market Participants and Non-Market Participant Transmission Customers that fail to comply with the terms of the ISO New England Financial Assurance Policy, to terminate the membership of defaulting Market Participants and to terminate service to defaulting Non-Market Participant Transmission Customers.

I. GROUPS REGARDED AS SINGLE MARKET PARTICIPANTS

In the case of a group of Entities that are treated as a single Market Participant pursuant to Section 4.1 of the Second Restated NEPOOL Agreement (the "RNA"), the group members shall be deemed to have elected to be jointly and severally liable for all debts to Market Participants, PTOs, Non-Market Participant Transmission Customers, NEPOOL and the ISO of any of the group members. For the purposes of the ISO New England Financial Assurance Policy, the term "Market Participant" shall, in the case of a group of members that are treated as a single Market Participant pursuant to Section 4.1 of the RNA, be deemed to refer to the group of members as a whole, and any financial assurance provided

under the ISO New England Financial Assurance Policy will be credited to the account of the group member with the customer identification at the ISO.

II. MARKET PARTICIPANTS' REVIEW AND CREDIT LIMITS

Solely for purposes of the ISO New England Financial Assurance Policy: a "Municipal Market Participant" is any Market Participant that is either (a) a Publicly Owned Entity except for an electric cooperative or an organization including one or more electric cooperatives as used in Section 1 of the RNA or (b) a municipality, an agency thereof, a body politic or a public corporation (i) that is created under the authority of any state or province that is adjacent to one of the New England states, (ii) that is authorized to own, lease and operate electric generation, transmission or distribution facilities and (iii) that has been approved for treatment as a Municipal Market Participant by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee. Market Participants that are not Municipal Market Participants are referred to as "Non-Municipal Market Participants."

A. Minimum Criteria for Market Participation

Any entity participating or seeking to participate in the New England Markets shall comply with the requirements of this Section II.A. For purposes of this Section II.A, the term "customer" shall refer to both Market Participants and Non-Market Participant Transmission Customers and the word "applicant" shall refer to both applicants for Market Participant status and applicants for transmission service from the ISO.

1. Information Disclosure

- (a) Each customer and applicant, on an annual basis (by April 30 each year) shall submit a completed information form in the form of (with only minor, non-material changes) and with the information required by Attachment 6 to the ISO New England Financial Assurance Policy. Customer or applicant shall not be required to disclose information required by Attachment 6 if such disclosure is prohibited by law; provided, however, if the disclosure of any information required by Attachment 6 is prohibited by law, then customer or applicant shall use reasonable efforts to obtain permission to make such disclosure. This information shall be treated as Confidential Information, but its disclosure pursuant to subsection (b) below is expressly permitted in accordance with the terms of the ISO New England Information Policy. Customers and applicants may satisfy the requirements above by providing the ISO with filings made to the Securities

and Exchange Commission or other similar regulatory agencies that include substantially similar information to that required above, provided, however, that the customer or applicant must clearly indicate where the specific information is located in those filings. An applicant that fails to provide this information will be prohibited from participating in the New England Markets until the deficiency is rectified. If a customer fails to provide this information by end of business on April 30, then the ISO shall issue a notice of such failure to the customer on the next Business Day and, if the customer does not provide the information to the ISO within 5 Business Days after issuance of such notice, then the customer will be suspended as described in Section III.B.3 of the ISO New England Financial Assurance Policy until the deficiency is rectified.

- (b) The ISO will review the information provided pursuant to subsection (a) above, and will also review whether the customer or applicant or any of the Principals of the customer or applicant are included on any relevant list maintained by the U.S. Office of Foreign Asset Control. If, after review of the information provided pursuant to subsection (a) above or any other information disclosed pursuant to this Section II, the ISO in its sole discretion requires additional information to make its analysis under this subsection (b), the ISO may require additional information from the customer or applicant. If, based on these reviews, the ISO determines that the commencement or continued participation of such customer or applicant in the New England Markets may present an unreasonable risk to those markets or its Market Participants, the Chief Financial Officer of the ISO shall promptly forward to the Participants Committee or its delegate, for its input, such concerns, together with such background materials deemed by the ISO to be necessary for the Participants Committee or its delegate to develop an informed opinion with respect to the identified concerns, including any measures that the ISO may recommend imposing as a condition to the commencement or continued participation in the markets by such customer or applicant (including suspension) or the ISO's recommendation to prohibit or terminate participation by the customer or applicant in the New England Markets. The ISO shall consider the input of the Participants Committee or its delegate before taking any action to address the identified concerns. If the ISO chooses to impose measures other than prohibition (in the case of an applicant) or termination (in the case of a customer) of participation in the New England Markets, then the ISO shall be required to make an informational filing with the Commission as soon as reasonably practicable after taking such action. If the ISO chooses to prohibit (in the case of an applicant) or

terminate (in the case of a customer) participation in the New England Markets, then the ISO must file for Commission approval of such action, and the prohibition or termination shall become effective only upon final Commission ruling. No action by the ISO pursuant to this subsection (b) shall limit in any way the ISO's rights or authority under any other provisions of the ISO New England Financial Assurance Policy or the ISO New England Billing Policy.

2. Risk Management

- (a) Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has: (i) either established or contracted for risk management procedures that are applicable to participation in the New England Markets; and (ii) has established or contracted for appropriate training of relevant personnel that is applicable to its participation in the New England Markets. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant. An applicant that fails to provide this certificate will be prohibited from participating in the New England Markets until the deficiency is rectified. If a customer fails to provide this certificate by end of business on April 30, then the ISO shall issue a notice of such failure to the customer on the next Business Day and, if the customer does not provide the certificate to the ISO within 5 Business Days after issuance of such notice, then the customer will be suspended as described in Section III.B.3 of the ISO New England Financial Assurance Policy until the deficiency is rectified.
- (b) Each applicant prior to commencing activity in the FTR market shall submit to the ISO or its designee the written risk management policies, procedures, and controls, including, if requested by the ISO in its sole discretion, supporting documentation (which may include an organizational chart (or portion thereof) or equivalent information) that demonstrates the segregation of duties within such risk policies, procedures, and controls of the such customer or applicant, applicable to its participation in the FTR market relied upon by the Senior Officer of the applicant signing the certificate provided pursuant to Section II.A.2
 - (a). On an annual basis (by April 30 each year), each Designated FTR Participant with FTR transactions in any of the previous twelve months or in any currently open month

that exceed 1,000 MW per month (on a net basis, as described in the FTR Financial Assurance Requirements provisions in Section VI) shall submit to the ISO or its designee a certificate in the form of Attachment 5 to the ISO New England Financial Assurance Policy stating that, since the customer's delivery of its risk management policies, procedures, and controls (and any supporting documentation, if applicable) or its last certificate pursuant to this Section II.A.2(b), the customer either: (i) has not made any changes to the previously submitted written risk management policies, procedures, and controls (and any supporting documentation, if applicable); or (ii) that changes have been made to the previously submitted written risk management policies, procedures, and controls (and any supporting documentation, if applicable) and that all such changes are clearly identified and attached to such certificate. If any such applicant fails to submit the relevant written policies, procedures, and controls, then the applicant will be prohibited from participating in the FTR market. If any such customer fails to provide a certificate in the form of Attachment 5 by end of business on April 30, then the ISO shall issue a notice of such failure to the customer, and if the customer does not provide the certificate to the ISO within two Business Days after issuance of such notice, then the customer will be suspended (as described in Section III.B.3.c of the ISO New England Financial Assurance Policy) from entering into any future transactions in the FTR system.

The ISO, at its sole discretion, may also require any applicant or customer to submit to the ISO or its designee the written risk management policies, procedures, and controls, including supporting documentation (which may include an organizational chart (or portion thereof) or equivalent information) that demonstrates the segregation of duties within such risk policies, procedures, and controls of the such customer or applicant, that are applicable to its participation in the New England Markets relied upon by the Senior Officer of the applicant or customer signing the certificate provided pursuant to Section II.A.2(a). The ISO may require such submissions based on identified risk factors that include, but are not limited to, the markets in which the customer is transacting or the applicant seeks to transact, the magnitude of the customer's transactions or the applicant's potential transactions, or the volume of the customer's open positions. Where the ISO notifies an applicant or customer that such a submission is required, the submission shall be due within 5 Business Days of the notice. If an applicant fails to submit the relevant written policies, procedures, and controls as required, then the applicant will be prohibited from participating in the New England Markets. If a

customer fails to submit the relevant written policies, procedures, and controls, then the ISO shall issue a notice of such failure to the customer, and if the customer fails to submit the relevant written policies, procedures, and controls to the ISO or its designee within two Business Days after issuance of such notice, then the customer will be suspended (as described in Section III.B of the ISO New England Financial Assurance Policy).

The applicant's or customer's written policies, procedures, controls, and any supporting documentation, received by the ISO or its designee pursuant to this subsection (b) shall be treated as Confidential Information.

- (c) Where an applicant or customer submits risk management policies, procedures, and controls, or supporting documentation to the ISO or its designee pursuant to any provision of subsection (b) above, the ISO or its designee shall assess that those policies, procedures, and controls conform to prudent risk management practices, which include, but are not limited to: (i) addressing market, credit, and operational risk; (ii) segregating roles, responsibilities, and functions in the organization; (iii) establishing delegations of authority that specify which transactions traders are authorized to enter into; (iv) ensuring that traders have sufficient training in systems and the markets in which they transact; (v) placing risk limits to control exposure; (vi) requiring reports to ensure that risks are adequately communicated throughout the organization; (vii) establishing processes for independent confirmation of executed transactions; and (viii) establishing periodic valuation or mark-to-market of risk positions as appropriate.

Where, as a result of the assessment described above in this subsection (c), the ISO or its designee believes that the applicant's or customer's written policies, procedures, and controls do not conform to prudent risk management practices, then the ISO or its designee shall provide notice to the applicant or customer explaining the deficiencies. The applicant or customer shall revise its policies, procedures, and controls to address the deficiencies within 55 days after issuance of such notice. (If April 30 falls within that 55 day window, the ISO may choose not to require a separate submission on April 30 as described in subsection (b) above.) If an applicant's revised written policies, procedures, and controls do not adequately address the deficiencies identified in the notice, then the applicant will be prohibited from participating in the New England Markets. If a customer's revised written policies, procedures, and controls do not adequately address

the deficiencies identified in the notice, then the customer will be suspended (as described in Section III.B of the ISO New England Financial Assurance Policy).

3. Communications

Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has either established or contracted to establish procedures to effectively communicate with and respond to the ISO with respect to matters relating to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy. Such procedures must ensure, at a minimum, that at least one person with the ability and authority to address matters related to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy on behalf of the customer or applicant, including the ability and authority to respond to requests for information and to arrange for additional financial assurance as necessary, is available from 9:00 a.m. to 5:00 p.m. Eastern Time on Business Days. Such procedures must also ensure that the ISO is kept informed about the current contact information (including phone numbers and e-mail addresses) for the person or people described above. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant. An applicant that fails to provide this certificate will be prohibited from participating in the New England Markets until the deficiency is rectified. If a customer fails to provide this certificate by end of business on April 30, then the ISO shall issue a notice of such failure to the customer on the next Business Day and, if the customer does not provide the certificate to the ISO within 5 Business Days after issuance of such notice, then the customer will be suspended as described in Section III.B.3 of the ISO New England Financial Assurance Policy until the deficiency is rectified.

4. Capitalization

- (a) To be deemed as meeting the capitalization requirements, a customer or applicant shall either:
- (i) be Rated and have a Governing Rating that is an Investment Grade Rating of BBB-/Baa3 or higher;
 - (ii) maintain a minimum Tangible Net Worth of one million dollars; or

- (iii) maintain a minimum of ten million dollars in total assets, provided that, to meet this requirement, a customer or applicant may supplement total assets of less than ten million dollars with additional financial assurance in an amount equal to the difference between ten million dollars and the customer's or applicant's total assets in one of the forms described in Section X (any additional financial assurance provided pursuant to this Section II.A.4(a) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy).

- (b) Any customer or applicant that fails to meet these capitalization requirements will be suspended (as described in Section III.B.3.c of the ISO New England Financial Assurance Policy) from entering into any future transactions of a duration greater than one month in the FTR system or any future transactions for a duration of one month or less except when FTRs for a month are being auctioned for the final time. Such a customer or applicant may enter into future transaction of a duration of one month or less in the FTR system in the case of FTRs for a month being auctioned for the final time. Any customer or applicant that fails to meet these capitalization requirements shall provide additional financial assurance in one of the forms described in Section X of the ISO New England Financial Assurance Policy equal to 25 percent of the customer's or applicant's FTR Financial Assurance Requirements. Any additional financial assurance provided pursuant to this Section II.A.4(b) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy.

- (c) For markets other than the FTR market:
 - (i) Where a customer or applicant fails to meet the capitalization requirements, the customer or applicant will be required to provide an additional amount of financial assurance in one of the forms described in Section X of the ISO New England Financial Assurance Policy in an amount equal to 25 percent of the customer's or applicant's total financial assurance requirement (excluding FTR Financial Assurance Requirements).
 - (ii) An applicant that fails to provide the full amount of additional financial assurance required as described in subsection (i) above will be prohibited from participating in the New England Markets until the deficiency is rectified. For a

customer, failure to provide the full amount of additional financial assurance required as described in subsection (i) above will have the same effect and will trigger the same consequences as exceeding the “100 Percent Test” as described in Section III.B.2.c of the ISO New England Financial Assurance Policy.

- (iii) Any additional financial assurance provided pursuant to this Section II.A.4(c) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy.

5. Additional Eligibility Requirements

All customers and applicants shall at all times be:

- (a) An “appropriate person,” as defined in sections 4(c)(3)(A) through (J) of the Commodity Exchange Act (7 U.S.C. § 1 *et seq.*);
- (b) An “eligible contract participant,” as defined in section 1a(18)(A) of the Commodity Exchange Act and in 17 CFR § 1.3(m); or
- (c) A “person who actively participates in the generation, transmission, or distribution of electric energy,” as defined in the Final Order of the Commodity Futures Trading Commission published at 78 FR 19880 (April 2, 2013).

Each customer must demonstrate compliance with the requirements of this Section II.A.5 by submitting to the ISO on or before September 15, 2013 a certificate in the form of Attachment 4 to the ISO New England Financial Assurance Policy that (i) certifies that the customer is now and in good faith will seek to remain in compliance with the requirements of this Section II.A.5 and (ii) further certifies that if it no longer satisfies these requirements it shall immediately notify the ISO in writing and shall immediately cease all participation in the New England Markets. If the customer is relying on section 4(c)(3)(F) of the Commodity Exchange Act, it shall accompany the certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the customer’s total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the

total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy. The certificate must be signed on behalf of the customer by a Senior Officer of the customer. A customer that fails to provide this certificate by September 15, 2013 shall be immediately suspended and the ISO shall initiate termination proceedings against the customer.

Each applicant must submit with its membership application a certificate in the form of Attachment 4 to the ISO New England Financial Assurance Policy that (i) certifies that the applicant is now and in good faith will seek to remain in compliance with the requirements of this Section II.A.5 and (ii) further certifies that if it no longer satisfies these requirements it shall immediately notify the ISO in writing and shall immediately cease all participation in the New England Markets. If the applicant is relying on section 4(c)(3)(F) of the Commodity Exchange Act, it shall accompany the certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the applicant's total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy. The certificate must be signed on behalf of the applicant by a Senior Officer of the applicant.

The ISO, at its sole discretion, may require any applicant or customer to submit to the ISO documentation in support of the certification provided pursuant to this Section II.A.5. If at any time the ISO becomes aware that a customer no longer satisfies the requirements of this Section II.A.5, the customer shall be immediately suspended and the ISO shall initiate termination proceedings against the customer.

6. Prior Uncured Defaults

In addition to, and not in limitation of Section IV of the ISO New England Financial Assurance Policy, an applicant who has a previous uncured payment default must cure such payment default by payment to the ISO of all outstanding and unpaid obligations, as well as meet all requirements for participation in the New England Markets contained in

the ISO New England Financial Assurance Policy. For purposes of this Section II.A.6 and the ISO's evaluation of information disclosed pursuant to Section II of the ISO New England Financial Assurance Policy, the ISO will evaluate relevant factors to determine if an entity seeking to participate in the New England Markets under a different name, affiliation, or organization, should be treated as the same customer or applicant that experienced the previous payment default. Such factors may include, but are not limited to, the interconnectedness of the business relationships, overlap in relevant personnel, similarity of business activities, overlap of customer base, and the business engaged in prior to the attempted re-entry. Notwithstanding the foregoing, an applicant shall not be required to cure a payment default that has lawfully been discharged pursuant to the U.S. Bankruptcy Code.

B. Proof of Financial Viability for Applicants

Each Applicant must, with its membership application and at its own expense, submit proof of financial viability, as described below, satisfying the ISO requirements to demonstrate the Applicant's ability to meet its obligations. Each Applicant that intends to establish a Market Credit Limit or a Transmission Credit Limit of greater than \$0 under Section II.D or Section II.E below must submit to the ISO all current rating agency reports from Standard and Poor's ("S&P"), Moody's and/or Fitch (collectively, the "Rating Agencies"). Each Applicant, whether or not it intends to establish a Market Credit Limit or Transmission Credit Limit of greater than \$0, must submit to the ISO audited financial statements for the two most recent years, or the period of its existence, if less than two years, and unaudited financial statements for its last concluded fiscal quarter if they are not included in such audited annual financial statements. These unaudited statements must be certified as to their accuracy by a Senior Officer of such Applicant, which, for purposes of ISO New England Financial Assurance Policy, means an officer of the subject entity with the title of vice president (or similar office) or higher, or another officer designated in writing to the ISO by that officer. These audited and unaudited statements must include in each case, but are not limited to, the following information to the extent available: balance sheets, income statements, statements of cash flows and notes to financial statements, annual and quarterly reports, and 10-K, 10-Q and 8-K Reports. If any of these financial statements are available on the internet, the Applicant may provide instead a letter to the ISO stating where such statement may be located and retrieved. If any of the information or documentation required by this section

is not available, alternate requirements may be specified by the ISO, at the ISO's sole discretion (such alternate requirements may include, but are not limited to: (i) consolidating statements or other financial statements (in the case of a stand-alone subsidiary) that are certified as to their accuracy and basis of accounting (in accordance with international accounting standards or generally accepted accounting principles in the United States) by an officer of the entity with the title of chief financial officer or equivalent position; (ii) reviewed statements; or (iii) compiled statements).

In addition, each Applicant, whether or not it intends to establish a Market Credit Limit or a Transmission Credit Limit, must submit to the ISO: (i) at least one (1) bank reference and three (3) utility company credit references, or in those cases where an Applicant does not have three (3) utility company credit references, three (3) major trade payable vendor references may be substituted; and (ii) relevant information as to any known or anticipated material lawsuits, as well as any prior bankruptcy declarations by the Applicant, or by its predecessor(s), if any; and (iii) a completed ISO credit application. In the case of certain Applicants, some of the information and documentation described in items (i) and (ii) of the immediately preceding sentence may not be applicable or available, and alternate requirements may be specified by the ISO or its designee in its sole discretion.

The ISO will not begin its review of a Market Participant's credit application or the accompanying material described above until full and final payment of that Market Participant's application fee.

The ISO shall prepare a report, or cause a report to be prepared, concerning the financial viability of each Applicant. In its review of each Applicant, the ISO or its designee shall consider all of the information and documentation described in this Section II. All costs incurred by the ISO in its review of the financial viability of an Applicant shall be borne by such Applicant and paid at the time that such Applicant is required to pay its first annual fee under the Participants Agreement. For an Applicant applying for transmission service from the ISO, all costs incurred by the ISO shall be paid prior to the ISO's filing of a Transmission Service Agreement. The report shall be provided to the Participants Committee or its designee and the affected Applicant within three weeks of the ISO's receipt of that Applicant's completed application, application fee, and Initial Market

Participant Financial Assurance Requirement, unless the ISO notifies the Applicant that more time is needed to perform additional due diligence with respect to its application.

C. Ongoing Review and Credit Ratings

1. Rated and Credit Qualifying Market Participants

A Market Participant that (i) has a corporate rating from one or more of the Rating Agencies, or (ii) has senior unsecured debt that is rated by one or more of the Rating Agencies, is referred to herein as “Rated.” A Market Participant that is not Rated is referred to herein as “Unrated.”

For all purposes in the ISO New England Financial Assurance Policy, for a Market Participant that is Rated, the lowest corporate rating from any Rating Agency for that Market Participant, or, if the Market Participant has no corporate rating, then the lowest rating from any Rating Agency for that Market Participant’s senior unsecured debt, shall be the “Governing Rating.”

A Market Participant that is: (i) Rated and whose Governing Rating is an Investment Grade Rating; or (ii) Unrated and that satisfies the Credit Threshold is referred to herein as “Credit Qualifying.” A Market Participant that is not Credit Qualifying is referred to herein as “Non-Qualifying.”

For purposes of the ISO New England Financial Assurance Policy, “Investment Grade Rating” for a Market Participant (other than an FTR-Only Customer) or Non-Market Participant Transmission Customer is either (a) a corporate investment grade rating from one or more of the Rating Agencies, or (b) if the Market Participant or Non-Market Participant Transmission Customer does not have a corporate rating from one of the Rating Agencies, then an investment grade rating for the Market Participant’s or Non-Market Participant Transmission Customer’s senior unsecured debt from one or more of the Rating Agencies.

2. Unrated Market Participants

Any Unrated Market Participant that (i) has not been a Market Participant in the ISO for at least the immediately preceding 365 days; or (ii) has defaulted on any of its obligations

under the Tariff (including without limitation its obligations hereunder and under the ISO New England Billing Policy) during such 365-day period; or (iii) is an FTR-Only Customer; or (iv) does not have a Current Ratio of at least 1.0, a Debt-to-Total Capitalization Ratio of 0.6 or less, and an EBITDA-to-Interest Expense Ratio of at least 2.0 must provide an appropriate form of financial assurance as described in Section X below. An Unrated Market Participant that does not meet any of the conditions in clauses (i), (ii), (iii) and (iv) of this paragraph is referred to herein as satisfying the “Credit Threshold.”

For purposes of the ISO New England Financial Assurance Policy, “Current Ratio” on any date is all of a Market Participant’s or Non-Market Participant Transmission Customer’s current assets divided by all of its current liabilities, in each case as shown on the most recent financial statements provided by such Market Participant or Non-Market Participant Transmission Customer to the ISO; “Debt-to-Total Capitalization Ratio” on any date is a Market Participant’s or Non-Market Participant Transmission Customer’s total debt (including all current borrowings) divided by its total shareholders’ equity plus total debt, in each case as shown on the most recent financial statements provided by such Market Participant or Non-Market Participant Transmission Customer to the ISO; and “EBITDA-to-Interest Expense Ratio” on any date is a Market Participant’s or Non-Market Participant Transmission Customer’s earnings before interest, taxes, depreciation and amortization in the most recent fiscal quarter divided by that Market Participant’s or Non-Market Participant Transmission Customer’s expense for interest in that fiscal quarter, in each case as shown on the most recent financial statements provided by such Market Participant or Non-Market Participant Transmission Customer to the ISO. The “Debt-to-Total Capitalization Ratio” will not be considered for purposes of determining whether a Municipal Market Participant satisfies the Credit Threshold. Each of the ratios described in this paragraph shall be determined in accordance with international accounting standards or generally accepted accounting principles in the United States at the time of determination consistently applied.

3. Information Reporting Requirements for Market Participants

Each Market Participant having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall

submit to the ISO, on a quarterly basis within 10 days of its becoming available and within 65 days after the end of the applicable fiscal quarter of such Market Participant, its balance sheet, which shall show sufficient detail for the ISO to assess the Market Participant's Tangible Net Worth. Unrated Market Participants having a Market Credit Limit or Transmission Credit Limit greater than zero shall also provide additional financial statements, which shall show sufficient detail for the ISO to calculate such Unrated Market Participant's Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each Market Participant having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of their becoming available and within 120 days after the end of the fiscal year of such Market Participant, balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available, then another alternative form of financial statements accepted by the ISO as described below may be submitted). If any of this financial information is available on the internet, the Market Participant may provide instead a letter to the ISO stating where such information may be located and retrieved. If any of the information or documentation required by this section is not available, alternate requirements may be specified by the ISO (such alternate requirements may include, but are not limited to: (i) consolidating statements or other financial statements (in the case of a stand-alone subsidiary) that are certified as to their accuracy and basis of accounting (in accordance with international accounting standards or generally accepted accounting principles in the United States) by an officer of the entity with the title of chief financial officer or equivalent position; (ii) reviewed statements; (iii) compiled statements; (iv) internally prepared statements; or (v) tax returns).

Except in the case of a Market Participant or Unrated Market Participant that submits audited financial statements to the ISO, financial statements submitted to the ISO pursuant to this Section II.C.3 shall be accompanied by a written statement from a Senior Officer of the Market Participant or Unrated Market Participant certifying the accuracy of those financial statements. If an attestation was made by an independent accounting firm,

then the written statement shall indicate the level of attestation made; if no attestation was made by an independent accounting firm, then no such indication is required.

Notwithstanding any other provision in this subsection, the ISO may require any Market Participant to submit the financial statements and other information described in this subsection. The Market Participant shall provide the requested statements and other information within 10 days of such request. If a Market Participant fails to provide financial statements or other information as requested and the ISO determines that the Market Participant poses an unreasonable risk to the New England Markets, then the ISO may request that the Market Participant provide additional financial assurance in an amount no greater than \$10 million, or take other measures to substantiate the Market Participant's ability to safely transact in the New England Markets (any additional financial assurance provided pursuant to this Section II.C.3 shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy). If the Market Participant fails to comply with such a request from the ISO, then the ISO may issue a notice of suspension or termination to the Market Participant. If the Market Participant fails to comply with the ISO's request within 5 Business Days from the date of issuance of the notice of suspension or termination, then the ISO may suspend or terminate the Market Participant.

A Market Participant may choose not to submit financial statements as described in this Section II.C.3, in which case the ISO shall use a value of \$0.00 for the Market Participant's total assets and Tangible Net Worth for purposes of the capitalization assessment described in Section II.A.4(a) and such Market Participant's Market Credit Limit and Transmission Credit Limit shall be \$0.00.

A Market Participant may choose to provide additional financial assurance in an amount equal to \$10 million in lieu of providing financial statements under this Section II.C.3. Such amount shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy but shall be sufficient to meet the capitalization requirements in Section II.A.4(a)(iii).

D. Market Credit Limits

A credit limit for a Market Participant’s Financial Assurance Obligations except FTR Financial Assurance Requirements (a “Market Credit Limit”) shall be established for each Market Participant in accordance with this Section II.D.

1. Market Credit Limit for Non-Municipal Market Participants

A “Market Credit Limit” shall be established for each Rated Non-Municipal Market Participant in accordance with subsection (a) below, and a Market Credit Limit shall be established for each Unrated Non-Municipal Market Participant in accordance with subsection (b) below.

a. Market Credit Limit for Rated Non-Municipal Market Participants

As reflected in the following table, the Market Credit Limit of each Rated Non-Municipal Market Participant (other than an FTR-Only Customer) shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Municipal Market Participant’s Tangible Net Worth as listed in the following table, (ii) \$50 million, or (iii) 20 percent (20%) of the total amount due and owing (not including any amounts due under Section 14.1 of the RNA) at such time to the ISO, NEPOOL, the PTOs, the Market Participants and the Non-Market Participant Transmission Customers, by all PTOs, Market Participants and Non-Market Participant Transmission Customers (“TADO”).

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody’s	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%
A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%
BBB-	Baa3	1.20%

Below BBB-

Below Baa3

0.00%

An entity's "Tangible Net Worth" for purposes of the ISO New England Financial Assurance Policy on any date is the value, determined in accordance with international accounting standards or generally accepted accounting principles in the United States, of all of that entity's assets less the following: (i) assets the ISO reasonably believes to be restricted or potentially unavailable to settle a claim in the event of a default (e.g., regulatory assets, restricted assets, and Affiliate assets), net of any matching liabilities, to the extent that the result of that netting is a positive value; (ii) derivative assets, net of any matching liabilities, to the extent that the result of that netting is a positive value; (iii) the amount at which the liabilities of the entity would be shown on a balance sheet in accordance with international accounting standards or generally accepted accounting principles in the United States; (iv) preferred stock; (v) non-controlling interest; and (vi) all of that entity's intangible assets (e.g., patents, trademarks, franchises, intellectual property, goodwill and any other assets not having a physical existence), in each case as shown on the most recent financial statements provided by such entity to the ISO.

b. Market Credit Limit for Unrated Non-Municipal Market Participants

The Market Credit Limit of each Unrated Non-Municipal Market Participant that satisfies the Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Municipal Market Participant's Tangible Net Worth, (ii) \$25 million or (iii) 20 percent (20%) of TADO. The Market Credit Limit of each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold shall be \$0.

2. Market Credit Limit for Municipal Market Participants

The Market Credit Limit for each Credit Qualifying Municipal Market Participant shall be equal to the lesser of (i) 20 percent (20%) of TADO and (ii) \$25 million. The Market Credit Limit for each Non-Qualifying Municipal Market Participant shall be \$0. The sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million.

E. Transmission Credit Limits

A “Transmission Credit Limit” shall be established for each Market Participant in accordance with this Section II.E, which Transmission Credit Limit shall apply in accordance with this Section II.E. A Transmission Credit Limit may not be used to meet FTR Financial Assurance Requirements.

1. Transmission Credit Limit for Rated Non-Municipal Market Participants

The Transmission Credit Limit of each Rated Non-Municipal Market Participant shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Municipal Market Participant’s Tangible Net Worth as listed in the following table or (ii) \$50 million:

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody’s	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%
A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%
BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

2. Transmission Credit Limit for Unrated Non-Municipal Market Participant

The Transmission Credit Limit of each Unrated Non-Municipal Market Participant that satisfies the Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Municipal Market Participant’s Tangible Net Worth or (ii) \$25 million. The Transmission Credit Limit of each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold shall be \$0.

3. Transmission Credit Limit for Municipal Market Participants

The Transmission Credit Limit for each Credit Qualifying Municipal Market Participant shall be equal to \$25 million. The Transmission Credit Limit for each Non-Qualifying Municipal Market Participant shall be \$0. The sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million.

F. Credit Limits for FTR-Only Customers

The Market Credit Limit and Transmission Credit Limit of each FTR-Only Customer shall be \$0.

G. Total Credit Limit

The sum of a Rated Non-Municipal Market Participant's Market Credit Limit and Transmission Credit Limit shall not exceed \$50 million and the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million. No later than five Business Days prior to the first day of each calendar quarter, and no later than five Business Days after any Affiliate change, each Rated Non-Municipal Market Participant that has a Market Credit Limit and a Transmission Credit Limit shall determine the amounts to be allocated to its Market Credit Limit (up to the limit set forth in Section II.D.1.a above) and its Transmission Credit Limit (up to the limit set forth in Section II.E.1 above) such that the sum of its Market Credit Limit and its Transmission Credit Limit are equal to not more than \$50 million and such that the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates do not exceed \$50 million and shall provide the ISO with that determination in writing. Each Rated Non-Municipal Market Participant may provide such determination for up to four consecutive calendar quarters. If a Rated Non-Municipal Market Participant does not provide such determination, then the ISO shall use the amounts provided for the previous calendar quarter. If no such determination is provided, then the ISO shall apply an allocation of \$25 million each to the Market Credit Limit and Transmission Credit Limit, which values shall also be used in allocating the \$50 million credit limit among Affiliates. If the sum of the amounts for Affiliates is greater than \$50 million, then the ISO shall reduce the amounts (proportionally to the amounts provided by each Affiliate, or to the allocation applied by the ISO in the case of an Affiliate that provided no determination) such that the sum is no greater than \$50 million.

III. MARKET PARTICIPANTS' REQUIREMENTS

Each Market Participant that provides the ISO with financial assurance pursuant to this Section III must provide the ISO with financial assurance in one of the forms described in Section X below and in an amount equal to the amount required in order to avoid suspension under Section III.B below (the “Market Participant Financial Assurance Requirement”). A Market Participant’s Market Participant Financial Assurance Requirement shall remain in effect as provided herein until the later of (a) 150 days after termination of the Market Participant’s membership or (b) the end date of all FTRs awarded to the Market Participant and the final satisfaction of all obligations of the Market Participant providing that financial assurance; provided, however that financial assurances required by the ISO New England Financial Assurance Policy related to potential billing adjustments chargeable to a terminated Market Participant shall remain in effect until such billing adjustment request is finally resolved in accordance with the provisions of the ISO New England Billing Policy. Furthermore and without limiting the generality of the foregoing, (i) any portion of any financial assurance provided under the ISO New England Financial Assurance Policy that relates to a Disputed Amount shall not be terminated or returned prior to the resolution of such dispute, even if the Market Participant providing such financial assurance is terminated or voluntarily terminates its MPSA and otherwise satisfies all of its obligations to the ISO and (ii) the ISO shall not return or permit the termination of any financial assurance provided under the ISO New England Financial Assurance Policy by a Market Participant that has terminated its membership or been terminated to the extent that the ISO determines in its reasonable discretion that that financial assurance will be required under the ISO New England Financial Assurance Policy with respect to an unsettled liability or obligation owing from that Market Participant.

A Market Participant that knows that it is not satisfying its Market Participant Financial Assurance Requirement shall notify the ISO immediately of that fact.

A. Determination of Financial Assurance Obligations

For purposes of the ISO New England Financial Assurance Policy:

- (i) a Market Participant’s “Hourly Requirements” at any time will be the sum of (x) the Hourly Charges (excluding Daily FCM Charges) for such Market Participant that have been invoiced but not paid (which amount shall not be less than \$0), plus (y) the Hourly Charges (excluding Daily FCM Charges) for such Market Participant that have been settled but not invoiced, plus (z) the Hourly Charges (excluding Daily FCM Charges) for such Market Participant that have been cleared but not settled which amount shall be

calculated by the Hourly Charges Estimator. The Hourly Charges Estimator (which amount shall not be less than \$0) shall be determined by the following formula:

$$\text{Hourly Charges Estimator} = \sum_{i=t-n+1}^t \text{HC}_i \times \text{LMP ratio} \times 1.15$$

Where:

t = The last day that such Market Participant's Hourly Charges (excluding Daily FCM Charges) are fully settled;

n = The number of days that such Market Participant's Day-Ahead Energy has been cleared but not settled;

HC = The Hourly Charges (excluding Daily FCM Charges) for such Market Participant for a fully settled day; and

LMP ratio = The average Day-Ahead Prices at the New England Hub over the period of cleared but not settled n days divided by the average Day-Ahead Prices at the New England Hub over the period of most recent fully settled n days. For purposes of this Section III.A.(i), the "New England Hub" shall mean the Hub located in Western and Central Massachusetts referred to as .H.INTERNAL_HUB;

- (ii) A Market Participant's "Daily FCM Requirements" at any time will be the sum of (x) the Daily FCM Charges that have been invoiced but not paid (which amount shall not be less than \$0), plus (y) the Daily FCM Charges that have been settled but not invoiced, plus (z) the Daily FCM Charges for such Market Participant that have been incurred but not settled which amount shall be calculated by the Daily FCM Obligation Estimator. The Daily FCM Obligation Estimator (which amount shall not be less than \$0) shall be determined by the following formula:

$$\text{Daily FCM Obligation Estimator} = \text{MAX}(\text{FCM_Daily_Credit_CM} \times \text{NDAY_CM} + \text{FCM_Daily_Credit_PM} \times \text{NDAY_PM} + \text{FCM_Charge_LD} \times \text{NDAY_P2} \times \text{FCA_Price_Ratio}, 0)$$

Where:

FCM_Daily_Credit_CM is the portion of the Daily FCM Charges that corresponds to Capacity Supply Obligations for the Market Participant in the current month;

FCM_Daily_Credit_PM is the portion of the Daily FCM Charges that corresponds to Capacity Supply Obligations for the Market Participant in the month preceding the current month;

NDAY_CM is the number of days in the current month within the period from the last day the Daily FCM Charges have been settled to the current day (when financial assurance is assessed);

NDAY_PM is the number of days in the month preceding the current month within the period from the last day of the Daily FCM Charges have been settled to the current day (when financial assurance is assessed);

FCM_Charge_LD is the portion of the Daily FCM Charges that corresponds to Capacity Load Obligations for the Market Participant from the last day the Daily FCM Charges have been settled; and

NDAY_P2 is the number of days from the last day the Daily FCM Charges have been settled to the current day (when financial assurance is assessed) plus 2.

The FCA_Price_Ratio shall be calculated as the weighted average of the Capacity Clearing Prices for the Rest-of-Pool Capacity Zone for the relevant Capacity Commitment Periods divided by the Capacity Clearing Price for the Rest-of-Pool Capacity Zone corresponding to the Capacity Commitment Period that contains the last day the Daily FCM Charges have been settled, as determined by the following formula:

$$\text{FCA_Price_Ratio} = \frac{((\text{Clearing Price_CCP}_n \times \text{NDAY_P2_CCP}_n) + (\text{Clearing Price_CCP}_{n+1} \times \text{NDAY_P2_CCP}_{n+1}))}{\text{NDAY_P2}} \div (\text{Clearing Price_CCP}_n)$$

Where:

Clearing Price_CCP_n is the Capacity Clearing Price for the Rest-of-Pool Capacity Zone corresponding to the Capacity Commitment Period that contains the last day that the Daily FCM Charges have been settled;

Clearing Price_CCP_{n+1} is the Capacity Clearing Price for the Rest-of-Pool Capacity Zone for the Capacity Commitment Period following CCP_n;

NDAY_P2_CCP_n is number of days in the CCP_n within NDAY_P2; and

NDAY_P2_CCP_{n+1} is number of days in the CCP_{n+1} within NDAY_P2.

- (iii) a Market Participant's "Non-Hourly Requirements" at any time will be determined by averaging that Market Participant's Non-Hourly Charges but not include: (A) the amount due from or to such Market Participant for FTR transactions, (B) any amounts due from such Market Participant for the Forward Capacity Market, (C) any amounts due under Section 14.1 of the RNA, (D) any amounts due for NEPOOL GIS API Fees, and (E) the amount of any Qualification Process Cost Reimbursement Deposit (including the annual true-up of that amount) due from such Market Participant) over the two most recently invoiced calendar months; provided that such Non-Hourly Requirements shall in no event be less than zero;
- (iv) a Market Participant's "Transmission Requirements" at any time will be determined by averaging that Market Participant's Transmission Charges over the two most recently invoiced calendar months; provided that such Transmission Requirements shall in no event be less than \$0;
- (v) a Market Participant's Virtual Requirements at any time will equal the amount of all unsettled Increment Offers and Decrement Bids submitted by such Market Participant at such time (which amount of unsettled Increment Offers and Decrement Bids will be calculated by the ISO according to a methodology approved from time to time by the NEPOOL Budget and Finance Subcommittee and posted on the ISO's website);
- (vi) a Market Participant's "Financial Assurance Obligations" at any time will be equal to the sum at such time of:
 - a. such Market Participant's Hourly Requirements; plus
 - b. such Market Participant's Daily FCM Requirements; plus
 - c. such Market Participant's Virtual Requirements; plus
 - d. such Market Participant's Non-Hourly Requirements times 2.50 (subject to Section X.D with respect to Provisional Members); plus
 - e. such Market Participant's "FTR Financial Assurance Requirements" under Section VI below; plus
 - f. such Market Participant's "FCM Financial Assurance Requirements" under Section VII below; plus

- g. such Market Participant's "IEP Financial Assurance Requirement" under Section III.D below; plus
 - h. the amount of any Disputed Amounts received by such Market Participant; and
- (vii) a Market Participant's "Transmission Obligations" at any time will be such Market Participant's Transmission Requirements times 2.50.

To the extent that the calculations of the components of a Market Participant's Financial Assurance Obligations (excluding FTR Financial Assurance Requirements) as described above produce positive and negative values, such components may offset each other; provided, however, that a Market Participant's Financial Assurance Obligations shall never be less than zero.

B. Credit Test Calculations and Allocation of Financial Assurance, Notice and Suspension from the New England Markets

1. Credit Test Calculations and Allocation of Financial Assurance

The financial assurance provided by a Market Participant shall be applied as described in this Section.

- (a) "Market Credit Test Percentage" is equal to a Market Participant's Financial Assurance Obligations (excluding FTR Financial Assurance Requirements) divided by the sum of its Market Credit Limit and any financial assurance allocated as described in subsection (d) below.
- (b) "FTR Credit Test Percentage" is equal to a Market Participant's FTR Financial Assurance Requirements divided by any financial assurance allocated as described in subsection (d) below.
- (c) "Transmission Credit Test Percentage" is equal to a Market Participant's Transmission Obligations divided by the sum of its Transmission Credit Limit and any financial assurance allocated as described in subsection (d) below.
- (d) A Market Participant's financial assurance shall be allocated as follows:
 - (i) financial assurance shall be first allocated so as to ensure that the Market Participant's Market Credit Test Percentage is no greater than 100%;
 - (ii) any financial assurance that remains after the allocation described in subsection (d) (i) shall be allocated so as to ensure that the Market Participant's FTR Credit Test Percentage is no greater than 100%;

- (iii) any financial assurance that remains after the allocation described in subsection (d) (ii) shall be allocated so as to ensure that the Market Participant's Transmission Credit Test Percentage is no greater than 100%;
- (iv) if any financial assurance remains after the allocations described in subsection (d) (iii), then that remaining financial assurance shall be allocated by repeating the steps described in subsections (d) (i), (d) (ii), and (d) (iii) to ensure that the respective test percentages are no greater than 89.99%;
- (v) if any financial assurance remains after the allocation described in subsection (d) (iv), then that remaining financial assurance shall be allocated by repeating the steps described in subsections (d) (i), (d) (ii), and (d) (iii) to ensure that the respective test percentages are no greater than 79.99%;
- (vi) any financial assurance that remains after the allocations described in subsection (d) (v) shall be allocated to the Market Credit Test Percentage.

2. Notices

a. 80 Percent Test

When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 80 percent (80%), the ISO shall issue notice thereof to such Market Participant.

b. 90 Percent Test

When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage or Transmission Credit Test Percentage equals or exceeds 90 percent (90%) , then, in addition to the actions to be taken when the Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 80 percent (80%), the ISO shall issue notice thereof to such Market Participant. The ISO shall also issue a 90 percent (90%) notice to a Market Participant and take certain other actions under the circumstances described in Section III.B.2.c below.

c. 100 Percent Test

When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) or when the sum of the financial assurance and credit limits of a Market Participant that has financial assurance requirements equal zero, then, in addition to the actions to be taken when the

Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 80 percent (80%) and 90 percent (90%), (i) the ISO shall issue notice thereof to such Market Participant, (ii) that Market Participant shall be immediately suspended from submitting Increment Offers and Decrement Bids until such time when its Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are less than or equal to 100 percent (100%), and (iii) if sufficient financial assurance to lower the Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to less than or equal to 100 percent (100%) or, in the case of a Market Participant that has received one to five notices that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) in the previous 365 days (not including the instant notice), sufficient financial assurance to lower such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to less than or equal to 90 percent (90%), is not provided by 8:30 a.m. Eastern Time on the next Business Day, (a) the event shall be a Financial Assurance Default; (b) the ISO shall issue notice thereof to such Market Participant, to the NEPOOL Budget and Finance Subcommittee, to all members and alternates of the Participants Committee, to the New England governors and utility regulatory agencies and to the billing and credit contacts for all Market Participants, and (c) such Market Participant shall be suspended from: (1) the New England Markets, as provided below; (2) receiving transmission service under any existing or pending arrangements under the Tariff or scheduling any future transmission service under the Tariff; (3) voting on matters before the Participants Committee and NEPOOL Technical Committees; (4) entering into any future transactions in the FTR system; and (5) submitting an offer of Non-Commercial Capacity in any Forward Capacity Auction or any reconfiguration auction in the Forward Capacity Market, in each case until such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are at 100 percent (100%) or less. In addition to all of the provisions above, any Market Participant that has received six or more notices in the previous 365 days that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage has exceeded 100 percent (100%) shall receive a notice thereof and shall be required to maintain sufficient financial assurance to keep such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage at less than or equal to 90

percent (90%). If such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage or Transmission Credit Test Percentage exceeds 90 percent (90%), the ISO shall issue a notice thereof to such Market Participant. If sufficient financial assurance to lower such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to less than or equal to 90 percent (90%) is not provided by 8:30 a.m. Eastern Time on the next Business Day, then the consequences described in subsections (a), (b) and (c) of Section III.B.2.c (iii) above shall apply until such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are at 90 percent (90%) or less.

However, when a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) or 90 percent (90%), as applicable under this Section III.B.2.c, solely because its Investment Grade Rating is downgraded by one grade and the resulting grade is BBB-/Baa3 or higher, then (x) for five Business Days after such downgrade, such downgrade shall not by itself cause a change to such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage and (y) no notice shall be sent and none of the other actions described in this Section III.B shall occur with respect to such downgrade if such Market Participant cures such default within such five Business Day period. When a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent solely because a letter of credit is valued at \$0 prior to the termination of that letter of credit, as described in Section X.B, then the ISO, in its sole discretion, may determine that: (x) for five Business Days after such change in the valuation of the letter of credit, such valuation shall not by itself cause a change to such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage; and/or (y) no notice shall be sent and none of the other actions described in this Section III.B shall occur with respect to such valuation if such Market Participant cures such default within such five Business Day period.

Notwithstanding the foregoing, a Market Participant shall neither (x) receive a notice that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) nor (y) be suspended under this Section

III.B if (i) the amount of financial assurance necessary for that Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage to get to 100 percent (100%) or lower is less than \$1,000 or (ii) that Market Participant's status with the ISO has been terminated.

3. Suspension from the New England Markets

a. General

The suspension of a Market Participant, and any resulting annulment, termination or removal of OASIS reservations, removal from the settlement system and the FTR system, suspension of the ability to offer Non-Commercial Capacity or participate in a substitution auction in the Forward Capacity Market, drawing down of financial assurance, rejection of Increment Offers and Decrement Bids, and rejection of bilateral transactions submitted to the ISO, shall not limit, in any way, the ISO's right to invoice or collect payment for any amounts owed (whether such amounts are due or becoming due) by such suspended Market Participant under the Tariff or the ISO's right to administratively submit a bid or offer of a Market Participant's Non-Commercial Capacity in any Forward Capacity Auction or any reconfiguration auction or to make other adjustments under Market Rule 1.

In addition to the notices provided herein, the ISO will provide any additional information required under the ISO New England Information Policy.

Each notice issued by the ISO pursuant to this Section III.B shall indicate whether the subject Market Participant has a registered load asset. If the ISO has issued a notice pursuant to this Section III.B and subsequently the subject Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are equal to or less than 100 percent (100%), such Market Participant may request the ISO to issue a notice stating such fact. However, the ISO shall not be obligated to issue such a notice unless, in its sole discretion, the ISO concludes that such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, and Transmission Credit Test Percentage are equal to or less than 100 percent (100%).

Notwithstanding the foregoing, if a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equals or exceeds 90 percent (90%) as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant, or as a result of the submission to the ISO of one or more bilateral transactions to which the Market Participant is a party, and, but for such Increment Offers and/or Decrement Bids or such bilateral transactions, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, a notice will not be issued.

If a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent (100%) as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant, or as a result of the submission to the ISO of one or more bilateral transactions to which the Market Participant is a party, and, but for such Increment Offers and/or Decrement Bids or such bilateral transactions, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, a notice will be issued only to such Market Participant, and such Market Participant shall be "suspended" as described below.

Any such suspension as a result of one or more Increment Offers or Decrement Bids submitted by a Market Participant, or as a result of the submission to the ISO of one or more bilateral transactions to which the Market Participant is a party, shall take effect immediately upon submission of such Increment Offers and/or Decrement Bids or such bilateral transactions to remain in effect until such Market Participant is in compliance with the ISO New England Financial Assurance Policy, notwithstanding any provision of this Section III.B to the contrary.

If a Market Participant is suspended from the New England Markets in accordance with the provisions of the ISO New England Financial Assurance Policy or the ISO New England Billing Policy, then the provisions of this Section III.B shall control notwithstanding any other provision of the Tariff to the contrary. A suspended Market Participant shall have no ability so long as it is suspended (i) to be reflected in the ISO's settlement system, including any bilateral transactions, as either a purchaser or a seller of any products or services sold through the New England Markets (other than (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial

Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the Market Participants, (ii) to submit Demand Bids, Decrement Bids or Increment Offers in the New England Markets, (iii) to submit offers for Non-Commercial Capacity in any Forward Capacity Auction or reconfiguration auction or acquire Non-Commercial Capacity through a Capacity Supply Obligation Bilateral, or (iv) to submit supply offers or demand bids in any Forward Capacity Market substitution auction. Any transactions, including bilateral transactions with a suspended Market Participant (other than transactions for (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the other Market Participants and any Demand Bids, Decrement Bids, Increment Offers, and Export Transactions submitted by a suspended Market Participant shall be deemed to be terminated for purposes of the Day-Ahead Energy Market clearing and the ISO's settlement system. If a Market Participant has provided the financial assurance required for a Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, then that Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, respectively, will not be deemed to be terminated when that Market Participant is suspended.

b. Load Assets

Any load asset registered to a suspended Market Participant shall be terminated, and the obligation to serve the load associated with such load asset shall be assigned to the relevant unmetered load asset(s) unless and until the host Market Participant for such load assigns the obligation to serve such load to another asset. If the suspended Market Participant is responsible for serving an unmetered load asset, such suspended Market Participant shall retain the obligation to serve such unmetered load asset. If a suspended Market Participant has an ownership share of a load asset, such ownership share shall revert to the Market Participant that assigned such ownership share to such suspended Market Participant. If a suspended Market Participant has the obligation under the Tariff or otherwise to offer any of its supply or to bid any pumping load to provide products or services sold through the New England Markets, that obligation shall continue, but only in Real-Time, notwithstanding the Market Participant's suspension, and such offer or bid, if cleared under the Tariff, shall be effective.

c. FTRs

If a Market Participant is suspended from entering into future transactions in the FTR system, such Market Participant shall retain all FTRs held by it but shall be prohibited from acquiring any additional FTRs during the course of its suspension. It is intended that any suspension under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy will occur promptly, and the definitive timing of any such suspension shall be determined by the ISO from time to time as reported to the NEPOOL Budget and Finance Subcommittee, and shall be posted on the ISO website.

d. Virtual Transactions

Notwithstanding the foregoing, if a Market Participant is suspended in accordance with the provisions of the ISO New England Financial Assurance Policy as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant and, but for such Increment Offers and/or Decrement Bids, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, then such suspension shall be limited to (i) the immediate “last in, first out” rejection of pending individual uncleared Increment Offers and Decrement Bids submitted by that Market Participant (it being understood that Increment Offers and Decrement Bids are batched by the ISO in accordance with the time, and that Increment Offers and Decrement Bids will be rejected by the batch); and (ii) the suspension of that Market Participant’s ability to submit additional Increment Offers and Decrement Bids unless and until it has complied with the ISO New England Financial Assurance Policy, and the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of that Market Participant after giving effect to the immediate rejection of that Market Participant’s Increment Offers and Decrement Bids described in clause (i).

e. Bilateral Transactions

If the sum of the financial assurance and credit limits of a Market Participant that has financial assurance requirements equals zero and that Market Participant would be in compliance with the ISO New England Financial Assurance Policy but for the submission of bilateral transactions to the ISO to which the Market Participant is a party, or if a Market Participant’s Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent as a result of one or more bilateral transactions submitted to the ISO to which the Market Participant is a party, then the consequences described in subsection (a) above shall be limited to: (i) rejection of any pending bilateral transactions to which a Market Participant is a party that cause the Market Participant to incur a financial obligation in the ISO’s settlement system or any

liability to the ISO, NEPOOL, or the Market Participants, such that the aggregate value of the pending bilateral transactions submitted by all Market Participants is maximized (recognizing the downstream effect that rejection of a bilateral transaction may have on the Market Credit Test Percentages, FTR Credit Test Percentages, or Transmission Credit Test Percentages of other Market Participants), while ensuring that the financial assurance requirements of each Market Participant are satisfied; and (ii) suspension of that Market Participant's ability to submit additional bilateral transactions until it has complied with the ISO New England Financial Assurance Policy (the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of the Market Participant after giving effect to the immediate rejection of the bilateral transactions to which the Market Participant is a party as described in clause (i) above). In the case of a bilateral transaction associated with the Day-Ahead Energy Market, the ISO will provide notice to a Market Participant that would be in default of the ISO New England Financial Assurance Policy as a result of the bilateral transaction, and the consequences described in clauses (i) and (ii) above shall only apply if the Market Participant fails to cure its default by 6:00 p.m. Eastern Time of that same Business Day. In the case of a Capacity Load Obligation Bilateral, the consequences described in clauses (i) and (ii) above shall apply if the Market Participant does not cure its default within one Business Day after notification that a Capacity Load Obligation Bilateral caused the default. Bilateral transactions that transfer Forward Reserve Obligations and Supplemental Availability Bilaterals are not subject to the provisions of this Section III.B.3(e).

4. Serial Notice and Suspension Penalties

If either (x) a Market Participant is suspended from the New England Markets because of a failure to satisfy its Financial Assurance Requirements in accordance with the provisions of the ISO New England Financial Assurance Policy or (y) a Market Participant receives more than five notices that its Market Credit Test Percentage, FTR Credit Test Percentage or Transmission Credit Test Percentage has exceeded 100 percent (100%) in any rolling 365-day period, then such Market Participant shall pay a \$1,000 penalty for such suspension and for each notice after the fifth notice in a rolling 365-day period. If a Market Participant receives a notice that its Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage has exceeded 100 percent (100%) in the same day, then only one of those notices will count towards the

five notice limit. All penalties paid under this paragraph shall be deposited in the Late Payment Account maintained under the ISO New England Billing Policy.

C. Additional Financial Assurance Requirements for Certain Municipal Market Participants

Notwithstanding the other provisions of the ISO New England Financial Assurance Policy and in addition to the other obligations hereunder, a Credit Qualifying Municipal Market Participant that is not a municipality (which, for purposes of this Section III.C, does not include an agency or subdivision of a municipality) must provide additional financial assurance in one of the forms described in Section X below in an amount equal to its FCM Financial Assurance Requirements at the time of calculation, unless either: (1) that Credit Qualifying Municipal Market Participant has a corporate Investment Grade Rating from one or more of the Rating Agencies; or (2) that Credit Qualifying Municipal Market Participant has an Investment Grade Rating from one or more of the Rating Agencies for all of its rated indebtedness; or (3) that Credit Qualifying Municipal Market Participant provides the ISO with an opinion of counsel that is acceptable to the ISO confirming that amounts due to the ISO under the Tariff have priority over, or have equal priority with, payments due on the debt on which the Credit Qualifying Municipal Market Participant's Investment Grade Rating is based. Each legal opinion provided under clause (3) of this Section III.C will be updated no sooner than 60 days and no later than 30 days before each reconfiguration auction that precedes a Capacity Commitment Period to which such legal opinion relates, and if that update is not provided or that update is not acceptable to the ISO, the applicable Credit Qualifying Municipal Market Participant must either satisfy one of the other clauses of this Section III.C or provide additional financial assurance in one of the forms described in Section X below in an amount equal to its FCM Financial Assurance Requirements at the time of calculation.

D. Inventoried Energy Program Financial Assurance Requirement

Notwithstanding the other provisions of the ISO New England Financial Assurance Policy and in addition to the other obligations hereunder, if any Market Participant has submitted a Forward Energy Inventory Election approved by the ISO under Section III.K.1.1 of the Tariff, such Market Participant shall be subject to the additional financial assurance requirements of this section. Any such Market Participant must provide additional financial assurance in one of the forms described in Section X below in an

amount equal to the Inventoried Energy Program Financial Assurance Requirement on or before December 1 of each program year. The Inventoried Energy Program Financial Assurance Requirement will be calculated on a daily basis for each program year, from December 1, 2023 through February 29, 2024 and separately from December 1, 2024 through February 28, 2025, as follows:

$$\text{IEP Financial Assurance Requirement} = \text{MAX}(0, \text{FE_MWh} - \text{Q_MWh}) * \text{D_95} * \text{MF} * \text{SPR}$$

Where:

FE_MWh = is the amount of Forward Energy Inventory elected by the Market Participant;

Q_MWh = is the maximum observed physical inventory over the prior 15 days;

D_95 = is the 95th percentile of observed Inventoried Energy Days, which for the 2023-2024 and 2024-2025 program years shall be 19;

MF = is the month factor, which shall be 100% for December, 87% for January, and 26% for February; and

SPR = spot payment rate = the \$/MWh rate used in the calculation of Inventoried Energy Spot Payments as described in Section III.K.3.2 of the Tariff.

IV. CERTAIN NEW AND RETURNING MARKET PARTICIPANTS REQUIREMENTS

A new Market Participant or a Market Participant other than an FTR-Only Customer, or a Governance Only Member whose previous membership as a Market Participant was involuntarily terminated due to a Financial Assurance Default or a payment default and, since returning, has been a Market Participant for less than six consecutive months (a “Returning Market Participant”) is required to provide the ISO, for three months in the case of a new Market Participant and six months in the case of a Returning Market Participant, financial assurance in one of the forms described in Section X below equal to any amount of additional financial assurance required to meet the capitalization requirements described in Section II.A.4 plus the greater of (a) its Financial Assurance Requirement or (b) its “Initial Market Participant Financial Assurance Requirement.” A new Market Participant’s or a Returning Market Participant’s Initial Market Participant Financial Assurance Requirement must be provided to the ISO no later than one Business Day before commencing activity in the New England Markets or commencing transmission service under the Tariff, and shall be determined by the following formula:

$$\text{FAR} = \text{G} + \text{T} + \text{L} + \text{E}$$

Where FAR is the Initial Market Participant Financial Assurance Requirement and G, T, L and E are determined by the following formulas:

$$\text{G} = (\text{MW}_g \times \text{Hr}_{\text{DA}} \times \text{D} \times 3.25) + (\text{MW}_g \times \text{Hr}_{\text{MIS}} \times \text{S}_2 \times 3.25);$$

Where:

- $\text{MW}_g =$ Total nameplate capacity of the Market Participant's generation units that have achieved commercial operation;
- $\text{Hr}_{\text{DA}} =$ The number of hours of generation that any such generation unit could be bid in the Day-Ahead Energy Market before it could be removed if such unit tripped, as determined by the ISO in its sole discretion;
- $\text{D} =$ The maximum observed differential between Energy prices in the Day-Ahead and Real-Time Energy Markets during the prior calendar year ("Maximum Energy Price Differential"), as determined by the ISO in its sole discretion;
- $\text{Hr}_{\text{MIS}} =$ The standard number of hours between generation and the issuance of initial Market Information Server ("MIS") settlement reports including projected generation activity for such units, as determined by the ISO in its sole discretion; and
- $\text{S}_2 =$ The per MW amount assessed pursuant to Schedule 2 of Section IV.A of this Tariff, as determined by the ISO.
- $\text{T} =$ $\text{MW}_t \times \text{Hr}_{\text{MIS}} \times (\text{D} + \text{S}_{2-3}) \times 3.25;$

Where: $\text{MW}_t =$ Number of MWs to be traded in the New England Markets as reasonably projected by the new Market Participant or the Returning Market Participant;

Hr_{MIS} = The standard number of hours between generation and the issuance of initial MIS settlement reports including projected generation activity, as determined by the ISO in its sole discretion;

D = Maximum Energy Price Differential; and

S_{2-3} = The per MWh amount assessed pursuant to Schedules 2 and 3 of Section IV.A of the Tariff, as determined annually by the ISO.

$$L = (MW_1 \times LF \times Hr_{MIS} \times (EP + S_{2-3}) \times 3.25) + (MW_1 \times Hr_{MIS} \times TC \times 3.25)$$

Where:

MW_1 = MWs of Real-Time Load Obligation (as defined in Market Rule 1) of the new Market Participant or Returning Market Participant;

LF = Average load factor in New England, as determined annually by the ISO in its sole discretion;

Hr_{MIS} = The standard number of hours between generation and the issuance of initial MIS settlement reports including projected generation activity, as determined by the ISO in its sole discretion;

EP = The average price of Energy in the Day-Ahead Energy Market for the most recent calendar year for which information is available from the Annual Reports published by the ISO, as determined by the ISO in its sole discretion;

S_{2-3} = The per MW amount assessed pursuant to Schedules 2 and 3 of Section IV.A of the Tariff, as determined annually by the ISO; and

TC = The hourly transmission charges per MW_1 assessed under the Tariff (other than Schedules 1, 8 and 9 of Section II of the Tariff), as determined annually by the ISO.

$$E = (SE) \times 3.25$$

Where:

SE = Average monthly share of Participant Expenses for the applicable Sector.

If a new Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV is 80 percent or more of the available amount of the financial assurance provided by that new Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equaled or exceeded 80 percent (80%) under Section III.B above.

If a new Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV is 90 percent or more of the available amount of the financial assurance provided by that new Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage equaled or exceeded 90 percent (90%) under Section III.B above.

If a new Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV exceeds 100 percent of the available amount of the financial assurance provided by that new Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeded 100 percent (100%) under Section III.B above.

V. NON-MARKET PARTICIPANT TRANSMISSION CUSTOMERS REQUIREMENTS

A. Ongoing Financial Review and Credit Ratings

1. Rated Non-Market Participant Transmission Customer and Transmission Customers

Each Rated Non-Market Participant Transmission Customer that does not currently have an Investment Grade Rating must provide an appropriate form of financial assurance as described in Section X below.

2. Unrated Non-Market Participant Transmission Customers

Any Unrated Non-Market Participant Transmission Customer that (i) has defaulted on any of its obligations under the Tariff (including without limitation its obligations hereunder and under the ISO New England Billing Policy) during the immediately preceding 365-day period; or (ii) does not have a Current Ratio of at least 1.0, a Debt-to-Total Capitalization Ratio of 0.6 or less, and an EBITDA-to-Interest Expense Ratio of at least 2.0 must provide an appropriate form of financial assurance as described in Section X below. An Unrated Non-Market Participant Transmission Customer that does not meet either of the conditions described in clauses (i) and (ii) of this paragraph is referred to herein as satisfying the “NMPTC Credit Threshold.”

B. NMPTC Credit Limits

1. NMPTC Market Credit Limit

A Market Credit Limit shall be established for each Non-Market Participant Transmission Customer as set forth in this Section V.B.1.

The Market Credit Limit of each Rated Non-Market Participant Transmission Customer shall at any time be equal to the least of: (i) the applicable percentage of such Rated Non-Market Participant Transmission Customer’s Tangible Net Worth (as reflected in the following table); (ii) \$50 million; or (iii) 20 percent (20%) of TADO:

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
S&P/Fitch	Moody’s	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%

A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%
BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

The Market Credit Limit of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold shall at any time be equal to the least of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Market Participant Transmission Customer’s Tangible Net Worth, (ii) \$25 million or (iii) 20 percent (20%) of TADO. The Market Credit Limit of each Unrated Non-Market Participant Transmission Customer that does not satisfy the NMPTC Credit Threshold shall be \$0.

2. NMPTC Transmission Credit Limit

A Transmission Credit Limit shall be established for each Non-Market Participant Transmission Customer in accordance with this Section V.B.2.

The Transmission Credit Limit of each Rated Non-Market Participant Transmission Customer shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Market Participant Transmission Customer’s Tangible Net Worth as listed in the following table or (ii) \$50 million:

<u>Investment Grade Rating</u>		<u>Percentage of Tangible Net Worth</u>
<u>S&P/Fitch</u>	<u>Moody’s</u>	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%
A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%

BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

The Transmission Credit Limit of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Market Participant Transmission Customer's Tangible Net Worth or (ii) \$25 million. The Transmission Credit Limit of each Unrated Non-Market Participant Transmission Customer that does not satisfy the NMPTC Credit Threshold shall be \$0.

3. NMPTC Total Credit Limit

The sum of a Non-Market Participant Transmission Customer's Market Credit Limit and Transmission Credit Limit shall not exceed \$50 million and the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million. No later than five Business Days prior to the first day of each calendar quarter, and no later than five Business Days after any Affiliate change, each Rated Non-Market Participant Transmission Customer that has a Market Credit Limit and a Transmission Credit Limit shall determine the amounts to be allocated to its Market Credit Limit (up to the amount set forth in Section V.B.1 above) and its Transmission Credit Limit (up to the amount set forth in Section V.B.2 above) such that the sum of its Market Credit Limit and its Transmission Credit Limit are equal to not more than \$50 million and such that the sum of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates do not exceed \$50 million and shall provide the ISO with that determination in writing. Each Rated Non-Market Participant Transmission Customer may provide such determination for up to four consecutive calendar quarters. If a Rated Non-Market Participant Transmission Customer does not provide such determination, then the ISO shall use the amounts provided for the previous calendar quarter. If no such determination is provided, then the ISO shall apply an allocation of \$25 million each to the Market Credit Limit and Transmission Credit Limit, which values shall also be used in allocating the \$50 million credit limit among Affiliates. If the sum of the amounts for Affiliates is greater than \$50 million, then the ISO shall reduce the amounts (proportionally to the amounts provided by each Affiliate, or to the allocation applied by the ISO in the case of an Affiliate that provided no determination) such that the sum is no greater than \$50 million.

C. Information Reporting Requirements for Non-Market Participant Transmission Customers

Each Rated Non-Market Participant Transmission Customer having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 65 days after the end of the applicable fiscal quarter of such Rated Non-Market Participant Transmission Customer, its balance sheet, which shall show sufficient detail for the ISO to assess the Rated Non-Market Participant Transmission Customer's Tangible Net Worth. In addition, each Rated Non-Market Participant Transmission Customer that has an Investment Grade Rating having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of their becoming available and within 120 days after the end of the fiscal year of such Rated Non-Market Participant Transmission Customer, balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available, then another alternative form of financial statements accepted by the ISO as described below may be submitted). If any of this financial information is available on the internet, the Rated Non-Market Participant Transmission Customer may provide instead a letter to the ISO stating where such information may be located and retrieved.

Each Unrated Non-Market Participant Transmission Customer having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 65 days after the end of the applicable fiscal quarter of such Unrated Non-Market Participant Transmission Customer, its balance sheet, which shall show sufficient detail for the ISO to assess the Unrated Non-Market Participant Transmission Customer's Tangible Net Worth. Unrated Non-Market Participant Transmission Customers having a Market Credit Limit or Transmission Credit Limit greater than \$0 shall also provide additional financial statements, which shall show

sufficient detail for the ISO to calculate such Unrated Non-Market Participant Transmission Customer's Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each such Unrated Non-Market Participant Transmission Customer that satisfies the Credit Threshold and has a Market Credit Limit or Transmission Credit Limit of greater than \$0 or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of becoming available and within 120 days after the end of the fiscal year of such Unrated Non-Market Participant Transmission Customer balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available, then another alternative form of financial statements accepted by the ISO as described below may be submitted). Where any of the above financial information is available on the internet, the Unrated Non-Market Participant Transmission Customer may provide the ISO with a letter stating where such information may be located and retrieved.

If any of the information or documentation required by this section is not available, alternate requirements may be specified by the ISO (such alternate requirements may include, but are not limited to: (i) consolidating statements or other financial statements (in the case of a stand-alone subsidiary) that are certified as to their accuracy and basis of accounting (in accordance with international accounting standards or generally accepted accounting principles in the United States) by an officer of the entity with the title of chief financial officer or equivalent position; (ii) reviewed statements; (iii) compiled statements; (iv) internally prepared statements; or (v) tax returns).

Except in the case of a Non-Market Participant Transmission Customer that submits audited financial statements to the ISO, financial statements submitted to the ISO pursuant to this Section V.C shall be accompanied by a written statement from a Senior Officer of the Non-Market Participant Transmission Customer certifying the accuracy of those financial statements. If an attestation was made by an independent accounting firm, then the written statement shall indicate the level of attestation made; if no attestation was made by an independent accounting firm, then no such indication is required.

Notwithstanding any other provision in this subsection, the ISO may require any Non-Market Participant Transmission Customer to submit the financial statements and other information described in this subsection. The Non-Market Participant Transmission Customer shall provide the requested statements and other information within 10 days of such request. If a Non-Market Participant Transmission Customer fails to provide financial statements or other information as requested and the ISO determines that the Non-Market Participant Transmission Customer poses an unreasonable risk to the New England Markets, then the ISO may request that the Non-Market Participant Transmission Customer provide additional financial assurance in an amount no greater than \$10 million, or take other measures to substantiate the Non-Market Participant Transmission Customer's ability to safely transact in the New England Markets (any additional financial assurance provided pursuant to this Section V.C shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy). If the Non-Market Participant Transmission Customer fails to comply with such a request from the ISO, then the ISO may issue a notice of suspension or termination to the Non-Market Participant Transmission Customer. If the Non-Market Participant Transmission Customer fails to comply with the ISO's request within 5 Business Days from the date of issuance of the notice of suspension or termination, then the ISO may suspend or terminate the Non-Market Participant Transmission Customer.

A Non-Market Participant Transmission Customer may choose not to submit financial statements as described in this Section V.C, in which case the ISO shall use a value of \$0.00 for the Non-Market Participant Transmission Customer's total assets and Tangible Net Worth for purposes of the capitalization assessment described in Section II.A.4(a) and such Non-Market Participant Transmission Customer's Market Credit Limit and Transmission Credit Limit shall be \$0.00.

A Non-Market Participant Transmission Customer may choose to provide additional financial assurance in an amount equal to \$10 million in lieu of providing financial statements under this Section V.C. Such amount shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy but shall be sufficient to meet the capitalization requirements in Section II.A.4(a)(iii).

D. Financial Assurance Requirement for Non-Market Participant Transmission Customers

Each Non-Market Participant Transmission Customer that provides additional financial assurance pursuant to the ISO New England Financial Assurance Policy must provide the ISO with financial assurance in one of the forms described in Section X below and in the amount described in this Section V.D (the “NMPTC Financial Assurance Requirement”).

1. Financial Assurance for ISO Charges

Each Non-Market Participant Transmission Customer must provide the ISO with additional financial assurance such that the sum of its Market Credit Limit and that additional financial assurance shall at all times be at least equal to the sum of:

- (i) two and one-half (2.5) times the average monthly Non-Hourly Charges for such Non-Market Participant Transmission Customer over the two most recently invoiced calendar months (which amount shall not in any event be less than \$0); plus
- (ii) amount of any unresolved Disputed Amounts received by such Non-Market Participant Transmission Customer.

2. Financial Assurance for Transmission Charges

Each Non-Market Participant Transmission Customer must provide the ISO with additional financial assurance hereunder such that the sum of (x) its Transmission Credit Limit and (y) the excess of (A) the available amount of the additional financial assurance provided by that Non-Market Participant Transmission Customer over (B) the amount of that additional financial assurance needed to satisfy the requirements of Section V.D.1 above is equal to two and one-half (2.5) times the average monthly Transmission Charges for such Non-Market Participant Transmission Customer over the two most recently invoiced calendar months (which amount shall not in any event be less than \$0)

3. Notice of Failure to Satisfy NMPTC Financial Assurance Requirement

A Non-Market Participant Transmission Customer that knows or can reasonably be expected to know that it is not satisfying its NMPTC Financial Assurance Requirement shall notify the ISO immediately of that fact. Without limiting the availability of any other remedy or right hereunder, failure by any Non-Market Participant Transmission

Customer to comply with the provisions of the ISO New England Financial Assurance Policy (including failure to satisfy its NMPTC Financial Assurance Requirement) may result in the commencement of termination of service proceedings against that non-complying Non-Market Participant Transmission Customer.

VI. ADDITIONAL PROVISIONS FOR FTR TRANSACTIONS

Market Participants must complete an ISO-prescribed training course prior to participating in the FTR Auction. All Market Participants transacting in the FTR Auction that are otherwise required to provide additional financial assurance under the ISO New England Financial Assurance Policy, including all FTR-Only Customers (“Designated FTR Participants”) are required to provide financial assurance in an amount equal to the sum of the FTR Settlement Risk Financial Assurance, the Unsettled FTR Financial Assurance, and the Settlement Financial Assurance, each as described in this Section VI (such sum being referred to in the ISO New England Financial Assurance Policy as the “FTR Financial Assurance Requirements”).

A. FTR Settlement Risk Financial Assurance

A Designated FTR Participant is required to provide “FTR Settlement Risk Financial Assurance” for each bid it submits into an FTR Auction and for each FTR that is awarded to it in an FTR Auction, as described below.

After bids are finalized for an FTR Auction, but before the auction results are final, a Designated FTR Participant must provide FTR Settlement Risk Financial Assurance based on its bids for each FTR path. The ISO will calculate an FTR Settlement Risk Financial Assurance amount for each direction (prevailing flow and counter flow) of each FTR path on which the Designated FTR Participant has bid, equal to the total number of MW bid for that direction of the FTR path multiplied by the applicable proxy value for the FTR path (as described below) multiplied by the number of hours associated with the bid. For that FTR path, the Designated FTR Participant must provide FTR Settlement Risk Financial Assurance equal to the higher of the amounts calculated for each direction.

Once an FTR Auction’s results are final, a Designated FTR Participant must provide FTR Settlement Risk Financial Assurance based on awarded FTRs, equal to the MW value of each awarded FTR multiplied by the applicable proxy value for the FTR path (as described below) multiplied by the number of hours associated with the FTR. For

purposes of this calculation, the ISO will net the MW values of a Designated FTR Participant's awarded FTRs having the same or opposite path, same contract month, and same type (on-peak or off-peak). For purposes of this netting, annual FTRs may be converted into monthly positions.

The proxy value for each FTR path, which shall be calculated separately for on-peak and off-peak FTRs, will be based on the standard deviation observed in the difference between the average congestion components of the Locational Marginal Price in the Day-Ahead Energy Market at the path's sink and source for the previous 36 months, with differing multipliers for annual and monthly FTRs and for prevailing flow and counter flow paths. These multipliers will be reviewed and approved by the NEPOOL Budget and Finance Subcommittee and shall be posted on the ISO's website. Where there is insufficient data to perform these calculations for a node, zonal data will be used instead.

FTR Settlement Risk Financial Assurance will be adjusted as the awarded FTRs are settled. In no event will the FTR Settlement Risk Financial Assurance be less than \$0.

B. Unsettled FTR Financial Assurance

A Designated FTR Participant is required to maintain, at all times, "Unsettled FTR Financial Assurance" for all FTRs awarded to it in any FTR Auctions. Immediately after FTRs are awarded in an FTR Auction, the Unsettled FTR Financial Assurance for those FTRs shall be zero. After subsequent FTR Auctions, the Unsettled FTR Financial Assurance for each FTR awarded in a previous FTR Auction shall be adjusted to reflect any change in the clearing price for that FTR based on non-zero volume. The adjustment will be equal to the change in the clearing price multiplied by the number of MW of the previously awarded FTR, with increases in the clearing price reducing the Unsettled FTR Financial Assurance amount and decreases in the clearing price increasing the Unsettled FTR Financial Assurance amount. For purposes of these calculations, the ISO will consider FTRs having the same or opposite path, same contract month, and same type (on-peak or off-peak) together. A Designated FTR Participant's Unsettled FTR Financial Assurance may be a charge or a credit, and in the case of a credit, may offset the Designated FTR Participant's other FTR Financial Assurance Requirements (but not to less than zero). A Designated FTR Participant's Unsettled FTR Financial Assurance will be adjusted as the awarded FTRs are settled.

C. Settlement Financial Assurance

A Designated FTR Participant that has been awarded a bid in an FTR Auction is required to provide “Settlement Financial Assurance.” The amount of a Designated FTR Participant’s Settlement Financial Assurance shall be equal to the amount of any settled but uninvoiced Charges incurred by such Designated FTR Participant for FTR transactions less the settled but uninvoiced amounts due to such Market Participant for FTR transactions. These amounts shall include the costs of acquiring FTRs as well as payments and charges associated with FTR settlement.

D. Consequences of Failure to Satisfy FTR Financial Assurance Requirements

If a Designated FTR Participant does not have additional financial assurance equal to its FTR Financial Assurance Requirements (in addition to its other financial assurance obligations hereunder) in place at the time an FTR Auction into which it has bid closes, then, in addition to the other consequences described in the ISO New England Financial Assurance Policy, all bids submitted by that Designated FTR Participant for that FTR Auction will be rejected. The Designated FTR Participant will be allowed to participate in the next FTR Auction held provided it meets all requirements for such participation, including without limitation those set forth herein. Each Designated FTR Participant must maintain the requisite additional financial assurance equal to its FTR Financial Assurance Requirements for the duration of the FTRs awarded to it. The amount of any additional financial assurance provided by a Designated FTR Participant in connection with an unsuccessful bid in an FTR Auction which, as a result of such bid being unsuccessful, is in excess of its FTR Financial Assurance Requirements will be held by the ISO and will be applied against future FTR bids by and awards to that Designated FTR Participant unless that Designated FTR Participant requests in writing to have such excess financial assurance returned to it. Prior to returning any financial assurance to a Designated FTR Participant, the ISO shall use such financial assurance to satisfy any overdue obligations of that Designated FTR Participant. The ISO shall only return to that Designated FTR Participant the balance of such financial assurance after all such overdue obligations have been satisfied.

VII. ADDITIONAL PROVISIONS FOR FORWARD CAPACITY MARKETS

Any Lead Market Participant, including any Provisional Member that is a Lead Market Participant, transacting in the Forward Capacity Market that is otherwise required to provide additional financial assurance under the ISO New England Financial Assurance Policy (each a “Designated FCM Participant”), is required to provide additional financial assurance meeting the requirements of Section X below in the amounts described in this Section VII (such amounts being referred to in the ISO New England Financial Assurance Policy as the “FCM Financial Assurance Requirements”). If the Lead Market Participant for a Resource changes, then the new Lead Market Participant for the Resource shall become the Designated FCM Participant.

A. FCM Delivery Financial Assurance

A Designated FCM Participant must include, for the Capacity Supply Obligation of each resource in its portfolio other than the Capacity Supply Obligation associated with any Energy Efficiency measures, FCM Delivery Financial Assurance in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy. If a Designated FCM Participant’s FCM Delivery Financial Assurance is negative, it will be used to reduce the Designated FCM Participant’s Financial Assurance Obligations (excluding FTR Financial Assurance Requirements), but not to less than zero. FCM Delivery Financial Assurance is calculated according to the following formula:

$$\text{FCM Delivery Financial Assurance} = [\text{DFAMW} \times \text{PE} \times \max[(\text{ABR} - \text{CWAP}), 0.1] \times \text{SF}] - \text{IMC} - \text{MCC}$$

Where:

MCC (monthly capacity charge) equals monthly capacity payments incurred in previous months, but not yet billed. The MCC is estimated from the first day of the current delivery month until it is replaced by the actual settled MCC value when settlement is complete.

IMC (intra-month collateral) equals estimated monthly capacity payments incurred during the current delivery month and, for each Designated FCM Participant, shall be updated three (3) days after publication of the most recent FCM Preliminary Capacity Performance Score report (or equivalent report) on the Market Information Server and

shall be limited by the monthly stop loss as described in Section III.13.7.3.1 of Market Rule 1.

DFAMW (delivery financial assurance MW) equals the sum of the Capacity Supply Obligations of each resource in the Designated FCM Participant's portfolio for the month, excluding the Capacity Supply Obligation of any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1. If the calculated DFAMW is less than zero, then the DFAMW will be set equal to zero.

PE (potential exposure) is a monthly value calculated for the Designated FCM Participant's portfolio as the difference between the Capacity Supply Obligation weighted average Forward Capacity Auction Starting Price and the Capacity Supply Obligation weighted average capacity price for the portfolio, excluding the Capacity Supply Obligation of any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1. The Forward Capacity Auction Starting Price shall correspond to that used in the Forward Capacity Auction corresponding to the current Capacity Commitment Period and the capacity prices shall correspond to those used in the calculation of the Capacity Base Payment for each Capacity Supply Obligation in the delivery month.

In the case of a resource subject to a multi-year Capacity Commitment Period election made in a Forward Capacity Auction prior to the ninth Forward Capacity Auction as described in Sections III.13.1.1.2.2.4 and III.13.1.4.1.1.2.7 of Market Rule 1, the Forward Capacity Auction Starting Price shall be replaced with the applicable Capacity Clearing Price (indexed for inflation) in the above calculation until the multi-year election period expires.

ABR (average balancing ratio) is the duration-weighted average of all of the system-wide Capacity Balancing Ratios calculated for each system-wide Capacity Scarcity Condition occurring in the relevant group of months in the three Capacity Commitment Periods immediately preceding the current Capacity Commitment Period and those occurring in the months within the relevant group that are prior to the current month of the current Capacity Commitment Period. Three separate groups of months shall be used for this purpose: June through September, December through February, and all other months.

Until data exists to calculate this number, the temporary ABR for June through September shall equal 0.90; the temporary ABR for December through February shall equal 0.70; and the temporary ABR for all other months shall equal 0.60. As actual data becomes available for each relevant group of months, calculated values for the relevant group of months will replace the temporary ABR values after the end of each group of months each year until all ABR values reflect actual data.

CWAP (capacity weighted average performance) is the capacity weighted average performance of the Designated FCM Participant's portfolio. For each resource in the Designated FCM Participant's portfolio, excluding any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1, and excluding from the remaining resources the resource having the largest Capacity Supply Obligation in the month, the resource's Capacity Supply Obligation shall be multiplied by the average performance of the resource. The CWAP shall be the sum of all such values, divided by the Designated FCM Participant's DFAMW. If the DFAMW is zero, then the CWAP is set equal to one.

The average performance of a resource is the Actual Capacity Provided during Capacity Scarcity Conditions divided by the product of the resource's Capacity Supply Obligation and the equivalent hours of Capacity Scarcity Conditions in the relevant group of months in the three Capacity Commitment Periods immediately preceding the current Capacity Commitment Period and those occurring in the months within the relevant group that are prior to the current month of the current Capacity Commitment Period. Three separate groups of months shall be used for this purpose: June through September, December through February, and all other months. Until data exists to calculate this number, the temporary average performance for gas-fired steam generating resources, combined-cycle combustion turbines and simple-cycle combustion turbines shall equal 0.90; the temporary average performance for coal-fired steam generating resources shall equal 0.85; the temporary average performance for oil-fired steam generating resources shall equal 0.65; the temporary average performance for all other resources shall equal 1.00. As actual data for each resource becomes available for each relevant group of months, calculated values for the relevant group of months will replace the temporary average performance values after the end of each group of months each year until all average performance values reflect actual data. The applicable temporary average performance

value will be used for new and existing resources until actual performance data is available.

SF (scaling factor) is a month-specific multiplier, as follows:

June and December	2.000;
July and January	1.732;
August and February	1.414;
All other months	1.000.

B. Non-Commercial Capacity

Notwithstanding any provision of this Section VII to the contrary, a Designated FCM Participant offering Non-Commercial Capacity for a Resource that elected existing Resource treatment for the Capacity Commitment Period beginning June 1, 2010 will not be subject to the provisions of this Section VII.B with respect to that Resource (other than financial assurance obligations relating to transfers of Capacity Supply Obligations).

1. FCM Deposit

A Designated FCM Participant offering Non-Commercial Capacity into any upcoming Forward Capacity Auction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) on the fifth (5th) Business Day after its qualification for such auction under Market Rule 1, an amount equal to \$2/kW times the Non-Commercial Capacity qualified for such Forward Capacity Auction by such Designated FCM Participant (the “FCM Deposit”).

2. Non-Commercial Capacity in Forward Capacity Auctions

a. Non-Commercial Capacity Participating in a Forward Capacity Auction Up To and Including the Eighth Forward Capacity Auction

For Non-Commercial Capacity participating in a Forward Capacity Auction up to and including the eighth Forward Capacity Auction, a Designated FCM Participant that had its supply offer of Non-Commercial Capacity accepted in a Forward Capacity Auction must include in the calculation of its

Financial Assurance Requirement under the ISO New England Financial Assurance Policy the following amounts at the following times:

- (i) beginning at 8 a.m. (Eastern Time) on the fifth (5th) Business Day following announcement of the awarded supply offers in that Forward Capacity Auction, an amount equal to \$5.737 (on a \$/kW-month basis) multiplied by the number of kW of capacity awarded to that Designated FCM Participant in that Forward Capacity Auction (such amount being referred to herein as the “Non-Commercial Capacity FA Amount”);
- (ii) beginning at 8 a.m. (Eastern Time) on the tenth (10th) Business Day prior to the next annual Forward Capacity Auction after the Forward Capacity Auction in which such supply offer was awarded, an additional amount required to make the total amount included in the calculation of the Financial Assurance Requirement with respect to that Non-Commercial Capacity equal to two (2) times the Non-Commercial Capacity FA Amount; and
- (iii) beginning at 8 a.m. (Eastern Time) on the tenth (10th) Business Day prior to the second annual Forward Capacity Auction after the Forward Capacity Auction in which such supply offer was accepted, an additional amount required to make the total amount included in the calculation of the Financial Assurance Requirement with respect to that Non-Commercial Capacity equal to three (3) times the Non-Commercial Capacity FA Amount.

b. Non-Commercial Capacity Participating in the Ninth Forward Capacity Auction and All Forward Capacity Auctions Thereafter

A Designated FCM Participant offering Non-Commercial Capacity into the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction an amount equal to the difference between the Net CONE associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded (adjusted as described in Section III.13.2.4) times the Non-Commercial Capacity qualified for such Forward Capacity Auction and the FCM Deposit.

Upon completion of the Forward Capacity Auction, the Non-Commercial

Capacity Financial Assurance Amount shall be recalculated according to the following formula:

$$\text{Non-Commercial Capacity Financial Assurance Amount} = (\text{NCC} \times \text{NCCFCA\$} \times \text{Multiplier}) + \text{NCC Trading FA}$$

Where:

NCC = the Capacity Supply Obligation awarded in the Forward Capacity Auction minus any Commercial Capacity

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the thirteenth Forward Capacity Auction, NCCFCA\$ = the Capacity Clearing Price from the first run of the auction-clearing process of the Forward Capacity Auction in which the Capacity Supply Obligation was awarded. For Capacity Supply Obligations acquired in the fourteenth Forward Capacity Auction and all Forward Capacity Auctions thereafter, NCCFCA\$ = the Net CONE associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded (adjusted as described in Section III.13.2.4).

Multiplier = one at the completion of the Forward Capacity Auction in which the Capacity Supply Obligation was awarded; two beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the next Forward Capacity Auction after the Forward Capacity Auction in which the Capacity Supply Obligation was awarded; and three beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the second Forward Capacity Auction after the Forward Capacity Auction in which the Capacity Supply Obligation was awarded.

In the case of Non-Commercial Capacity that fails to become commercial by the commencement of the Capacity Commitment Period associated with the Forward Capacity Auction in which it was awarded a Capacity Supply Obligation, the Non-Commercial Capacity Financial Assurance Amount shall be recalculated as follows: beginning at 8 a.m. (Eastern Time) on the first Business Day of the second month of the Capacity Commitment Period associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded, the Multiplier in the recalculation of the Non-

Commercial Capacity Financial Assurance Amount shall be four. The Multiplier in the recalculation of the Non-Commercial Capacity Financial Assurance Amount shall increase by one every six months thereafter until the Non-Commercial Capacity becomes commercial or the Capacity Supply Obligation is terminated.

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the twelfth Forward Capacity Auction, NCC Trading FA = zero. For Capacity Supply Obligations acquired in the thirteenth Forward Capacity Auction and all Forward Capacity Auctions thereafter, NCC Trading FA shall be zero until the start of the applicable Capacity Commitment Period, at which time NCC Trading FA shall be calculated as described below, except that in no case shall NCC Trading FA be less than zero:

- (a) the total amount of NCC that has been shed (whether before or after the start of the Capacity Commitment Period) in any reconfiguration auctions or Capacity Supply Obligation Bilaterals or that is subject to a failure to cover charge pursuant to Section III.13.3.4(b) (but this total amount shall not be greater than NCC); multiplied by
- (b) the difference between: (x) the weighted average price at which the Capacity Supply Obligation was acquired in the Forward Capacity Auction (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs); and (y) the weighted average price or failure to cover charge rate at which the Capacity Supply Obligation was shed or assessed, as applicable, except that for monthly Capacity Supply Obligation Bilaterals, one of the following prices will be used:
 - (i) If the Designated FCM Participant does not certify to the ISO that it has not entered into any contract or other transaction with another party regarding the pricing of such Capacity Supply Obligation Bilateral (other than those to be settled by the ISO) that has the effect of deflating its NCC Trading FA, then the lower of: (1) the applicable monthly reconfiguration auction price, and (2) the Capacity Supply Obligation Bilateral price shall be used;
 - (ii) If the Designated FCM Participant provides the certification described in subsection (i) above, is the Capacity Transferring Resource, and is an Affiliate of the Capacity Acquiring Resource,

then the lower of: (1) the Capacity Supply Obligation Bilateral price, and (2) the applicable Capacity Clearing Price (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs) shall be used; or

(iii) If neither subsection (i) nor (ii) applies, then the Capacity Supply Obligation Bilateral price shall be used.

plus

(c) the quantity of any Annual Reconfiguration Transactions associated with NCC for the relevant Capacity Commitment Period in which the Designated FCM Participant is the Capacity Transferring Resource (but this amount shall not be greater than NCC) multiplied by the difference between: (x) the applicable annual reconfiguration auction clearing price, and (y) the transaction price, which shall equal one of the following:

(i) If the Designated FCM Participant does not certify to the ISO that it has not entered into any contract or other transaction with another party regarding the pricing of such Annual Reconfiguration Transaction (other than those to be settled by the ISO) that has the effect of deflating its NCC Trading FA, the transaction price shall be equal to the lower of: (1) the applicable annual reconfiguration auction clearing price, and (2) the applicable Annual Reconfiguration Transaction price;

(ii) If the Designated FCM Participant provides the certification described in subsection (i) above, is the Capacity Transferring Resource, and is an Affiliate of the Capacity Acquiring Resource, then the transaction price shall be equal to the lower of: (1) the applicable Annual Reconfiguration Transaction price, and (2) the applicable Capacity Clearing Price (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs); or

(iii) If neither subsection (i) nor (ii) applies, then the applicable Annual Reconfiguration Transaction price shall be used.

c. Non-Commercial Capacity Deferral

Where the Commission approves a request to defer a Capacity Supply Obligation filed pursuant to Section III.13.3.7 of Market Rule 1, the Designated FCM Participant must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) 30 days after Commission approval of the request to defer, an amount equal to the amount that would apply to a resource that has not achieved commercial operation one year after the start of a Capacity Commitment Period in which it has a Capacity Supply Obligation, as calculated pursuant to Section VII.B.2.a or Section VII.B.2.b, as applicable.

3. Return of Non-Commercial Capacity Financial Assurance

Non-Commercial Capacity cleared in a Forward Capacity Auction up to and including the eighth Forward Capacity Auction that is declared commercial and has had its capacity rating verified by the ISO or otherwise becomes a Resource meeting the definition of Commercial Capacity, or that is declared commercial and had a part of its capacity rating verified by the ISO and the applicable Designated FCM Participant indicates no additional portions of that Resource will become commercial, that portion of the Resource shall no longer be considered Non-Commercial Capacity under the ISO New England Financial Assurance Policy and will instead become subject to the provisions of the ISO New England Financial Assurance Policy relating to Commercial Capacity; provided that in either such case, the Designated FCM Participant will need to include in the calculation of its Financial Assurance Requirement an amount attributable to any remaining Non-Commercial Capacity.

Once Non-Commercial Capacity associated with a Capacity Supply Obligation awarded in the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter becomes commercial, the Non-Commercial Capacity Financial Assurance Amount for any remaining Non-Commercial Capacity shall be recalculated according to the process outlined above for Non-Commercial Capacity participating in the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter.

4. Credit Test Percentage Consequences for Provisional Members

If a Provisional Member is required to provide additional financial assurance under the ISO New England Financial Assurance Policy solely in connection with (A) a supply offer of Non-Commercial Capacity into any Forward Capacity Auction and (B) its

obligation to pay Participant Expenses as a Provisional Member, and that Provisional Member is maintaining the amount of additional financial assurance required under the ISO New England Financial Assurance Policy, then the provisions of Section III.B of the ISO New England Financial Assurance Policy relating to the consequences of that Market Participant's Market Credit Test Percentage equaling 80 percent (80%) or 90 percent (90%) shall not apply to that Provisional Member.

C. [Reserved for Future Use]

D. Loss of Capacity and Forfeiture of Non-Commercial Capacity Financial Assurance

If a Designated FCM Participant that has acquired Capacity Supply Obligations associated with Non-Commercial Capacity is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy and does not cure such default within the appropriate cure period, or if a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy during the period between the day that is three Business Days before the FCM Deposit is required and the first day of the Forward Capacity Auction and does not cure such default within the appropriate cure period, then: (i) beginning with the first Business Day following the end of such cure period that Designated FCM Participant will be assessed a default charge of one percent (1%) of its total Non-Commercial Capacity Financial Assurance Amount at that time for each Business Day that elapses until it cures its default; and (ii) if such default is not cured by 5:00 p.m. (Eastern Time) on the sooner of (x) the fifth Business Day following the end of such cure period or (y) the second Business Day prior to the start of the next scheduled Forward Capacity Auction or annual reconfiguration auction or annual Capacity Supply Obligation Bilateral submission (such period being referred to herein as the "Non-Commercial Capacity Cure Period"), then, in addition to the other actions described in this Section VII, (A) all Capacity Supply Obligations associated with Non-Commercial Capacity that were awarded to the defaulting Designated FCM Participant in previous Forward Capacity Auctions and reconfiguration auctions and that the defaulting Designated FCM Participant acquired by entering into Capacity Supply Obligation Bilaterals shall be terminated; (B) the defaulting Designated FCM Participant shall be precluded from acquiring any Capacity Supply Obligation that would be associated with Non-Commercial Capacity for which the defaulting Designated FCM Participant has submitted an FCM Deposit; (C) the ISO

will (1) draw down the entire amount of the FCM Deposit and the Non-Commercial Capacity Financial Assurance Amount associated with the terminated Capacity Supply Obligations and (2) issue an Invoice to the Designated FCM Participant if there is a shortfall resulting from that Designated FCM Participant's failure to maintain adequate financial assurance hereunder or if the Designated FCM Participant used a Market Credit Limit to meet its FCM Financial Assurance Requirements; and (D) the default charges described in clause (i) above shall not be assessed to that Designated FCM Participant. All default charges collected under clause (i) above will be deposited in the Late Payment Account in accordance with the ISO New England Billing Policy.

If a Designated FCM Participant's Capacity Supply Obligation is terminated under Market Rule 1, the ISO will draw down the entire Non-Commercial Capacity Financial Assurance Amount provided by such Designated FCM Participant with respect to such terminated Capacity Supply Obligation. If the Designated FCM Participant has not provided enough financial assurance to cover the amount due (or that would have been due but for the Designated FCM Participant's positive Market Credit Limit) with respect to such Non-Commercial Capacity Financial Assurance Amount, then the ISO will issue an Invoice to the Designated FCM Participant for the amount due.

E. Composite FCM Transactions

For separate resources that seek to participate as a single composite resource in a Forward Capacity Auction in which multiple Designated FCM Participants provide that capacity (collectively, a "Composite FCM Transaction"), each Designated FCM Participant participating in that Composite FCM Transaction will be responsible for providing the financial assurance required as follows:

1. the FCM Financial Assurance Requirements for each Designated FCM Participant shall be determined solely with respect to the capacity being provided, or sought to be provided, by that Designated FCM Participant;
2. [reserved];
3. if the Composite FCM Transaction involves one or more Resources seeking to provide or providing Non-Commercial Capacity, the Non-Commercial Capacity Financial

Assurance Amount under Section VII.B for each Designated FCM Participant with respect to that Composite FCM Transaction will be calculated based on the commercial status of the Non-Commercial Capacity cleared through the Forward Capacity Auction;

4. any Non-Commercial Capacity Financial Assurance Amount provided under Section VII.B by each Designated FCM Participant with respect to each Resource providing Non-Commercial Capacity in the Composite FCM Transaction will be recalculated according to Section VII.B.3 as the corresponding Resource becomes commercial; and
5. in the event that the Capacity Supply Obligation is terminated, Section VII.D shall apply only to the Non-Commercial Capacity of the Designated FCM Participant participating in the Composite FCM Transaction that has failed to satisfy its obligations, and any Invoice issued thereunder will be issued only to that Designated FCM Participant.
6. the FCM Delivery Financial Assurance calculated under Section VII.A for each Designated FCM Participant contributing resources to a Composite FCM Transaction shall be based on the Capacity Supply Obligation that is provided by that Designated FCM Participant in the current month of the Capacity Commitment Period, provided that the FCM charges incurred in previous months, but not yet paid, shall increase the FCM Financial Assurance Requirements only of the Designated FCM Participant that incurred the charges.

F. Transfer of Capacity Supply Obligations

1. Transfer of Capacity Supply Obligations in Reconfiguration Auctions

A Designated FCM Participant that seeks to transfer its Capacity Supply Obligation in a reconfiguration auction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, prior to the close of bidding in that reconfiguration auction, the amounts described in subsections (a) and (b) below.

- (a) For the 12 month period beginning with the current month, the sum of that Designated FCM Participant's net monthly FCM charges for each month in which the net FCM revenue results in a charge. For purposes of this subsection (a), months in this period in

which that Designated FCM Participant's net FCM revenue results in a credit are disregarded (i.e., the net credits from such months are not used to reduce the amount described in this subsection (a)) and the current month FCM charges are prorated to the proportion of remaining days in the month. The amount described in this subsection (a), if any, will increase the Designated FCM Participant's FCM Financial Assurance Requirements.

- (b) For the period including each month that is after the period described in subsection (a) above and that is included in a Capacity Commitment Period for which a Forward Capacity Auction has been conducted, the sum of that Designated FCM Participant's net monthly FCM charges for each month in which the net FCM revenue results in a charge. For this period, the sum of such charges may be offset by net credits from months in which the net FCM revenue results in a credit, but in no case will the amount described in this subsection (b) be less than zero. The amount described in this subsection (b), if any, will increase the Designated FCM Participant's FCM Financial Assurance Requirements.

For purposes of these calculations, the net FCM revenue for a month shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations, demand bids and Annual Reconfiguration Transactions in the Forward Capacity Market, exclusive of any accrued Capacity Performance Payments on positions currently or previously held. Upon the completion of each reconfiguration auction, the amount to be included in the calculation of any FCM Financial Assurance Requirements of that Designated FCM Participant shall be adjusted to reflect the cleared quantities at the zonal clearing price for all activity in that reconfiguration auction and accepted Annual Reconfiguration Transactions.

2. Transfer of Capacity Supply Obligations in Capacity Supply Obligation Bilaterals

A Designated FCM Participant that seeks to transfer its Capacity Supply Obligation in a Capacity Supply Obligation Bilateral must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, prior to the close of the period for submission of that Capacity Supply Obligation Bilateral, amounts calculated as described in Section VII.F.1 above, as applicable. If a Designated FCM Participant fails to provide the required additional financial assurance for its Capacity Supply Obligation Bilaterals, all of those transactions will be rejected. If the Designated FCM Participant's request to transfer a Capacity Supply Obligation in a

Capacity Supply Obligation Bilateral is not accepted, it will no longer include amounts related to that Capacity Supply Obligation in the calculation of its FCM Financial Assurance Requirements.

3. Financial Assurance for Annual Reconfiguration Transactions

A Designated FCM Participant that submits an Annual Reconfiguration Transaction must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, prior to the close of the period for submission of that Annual Reconfiguration Transaction, amounts calculated as described in Section VII.F.1 above, as applicable. If a Designated FCM Participant fails to provide the required additional financial assurance for its Annual Reconfiguration Transactions, all of those transactions will be rejected. If a transaction is rejected, the Designated FCM Participant is no longer required to include amounts related to that transaction in the calculation of its FCM Financial Assurance Requirements.

4. Substitution Auctions

A Designated FCM Participant that participates in a substitution auction must include the following charges and credits in its FCM Financial Assurance Requirements.

- a. For any supply offer with at least one price-quantity pair priced less than zero must include in the calculation of its FCM Financial Assurance Requirements, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction, amounts calculated as described in Section VII.F.1 above. For purposes of these calculations, the maximum charge that would result from clearing any price-quantity pairs priced less than zero for each month of the Capacity Commitment Period associated with the Forward Capacity Auction shall be included in the amount calculated as described in Section VII.F.1(b) above, the net FCM revenue for all other months in the defined periods shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations in the Forward Capacity Market, and any accrued Capacity Performance Payments on positions currently or previously held are excluded.
- b. A Designated FCM Participant (i) that submits a demand bid into a substitution auction for a resource that is subject to a multi-year rate pursuant to Section III.13.1.3.5.4 or Section III.13.1.1.2.2.4, (ii) for which the maximum charge that would result from clearing the capacity subject to the multi-year rate election would exceed the revenue the Designated FCM Participant

will receive for the relevant Capacity Commitment Period under its multi-year rate election for the resource, (iii) must include in the calculation of its FCM Financial Assurance Requirements, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction, amounts calculated as described in Section VII.F.1 above. For purposes of these calculations, the maximum charge that would result from clearing the capacity subject to the multi-year rate election shall be included in the amount calculated as described in Section VII.F.1(b) above, the net FCM revenue for all other months in the defined periods shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations in the Forward Capacity Market, and any accrued Capacity Performance Payments on positions currently or previously held are excluded.

- c. If a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction and does not cure such default by the earlier of (i) the end of the appropriate cure period and (ii) 5 p.m. (Eastern Time) on the second Business Day prior to the start of the Forward Capacity Auction, then the defaulting Designated FCM Participant shall be precluded from submitting a supply offer or demand bid that is subject to this Section VII.F.4.
- d. Upon the completion of the substitution auction, the amount to be included in the calculation of the FCM Financial Assurance Requirements for a Designated FCM Participant as described in Section VII.F.1 above shall be adjusted to reflect all charges and credits related to the purchase or sale of Capacity Supply Obligations in the substitution auction.

VIII. [Reserved]

IX. THIRD-PARTY CREDIT PROTECTION

The ISO shall obtain third-party credit protection, in the form of credit insurance coverage (“Credit Coverage”), on terms acceptable to the ISO in its reasonable discretion at least in an amount covering collectively the Credit Qualifying Rated Market Participants based on the formula below.

Notwithstanding the foregoing, if the entity providing such Credit Coverage cannot provide the amount required by this Section IX, the ISO will reduce the required coverage for all Credit Qualifying Rated Market Participants on a pro rata basis. The total amount of the Credit Coverage shall be at least the

aggregate of the following formula; provided, however, if the entity providing the Credit Coverage denies coverage (in whole or in part) for any Credit Qualifying Rated Market Participant based on its rights under the insurance policy, the ISO will use reasonable efforts to obtain documentation regarding the denial and will make reasonable efforts to appeal such denial. For each Credit Qualifying Rated Market Participant, the portion of the Credit Coverage shall be the lesser of: (A) the sum of (x) 2.5 times the average Hourly Charges for such Credit Qualifying Rated Market Participant within the previous fifty-two calendar weeks plus (y) 2.5 times the sum of the average Non-Hourly Charges (excluding charges or credits related to FTR transactions) and the average Transmission Charges for such Credit Qualifying Rated Market Participant within the previous twelve calendar months; or (B) \$50 million. For any Credit Qualifying Rated Market Participant, the applicable amount of the Credit Coverage shall be adjusted monthly if the above formula produces a change that is either (A) 10% or greater, or (B) greater than \$100,000. The Credit Coverage shall be provided by an insurance company rated "A-" or better by A.M. Best & Co. or "A" or better by S&P. The cost of the Credit Coverage obtained for each calendar year shall be allocated to all Credit Qualifying Rated Market Participants pro rata based, for each Credit Qualifying Rated Market Participant, on the average amount of the Invoices issued to that Credit Qualifying Rated Market Participant under the ISO New England Billing Policy in the preceding calendar year. Each Credit Qualifying Rated Market Participant shall provide the ISO with such information as may be reasonably necessary for the ISO to obtain the Credit Coverage at the lowest possible cost.

X. ACCEPTABLE FORMS OF FINANCIAL ASSURANCE

Provided that the requirements set forth herein are satisfied, acceptable forms of financial assurance include shares of registered or private mutual funds held in a shareholder account or a letter of credit, each in accordance with the provisions of this Section X. All costs associated with obtaining financial security and meeting the provisions of the ISO New England Financial Assurance Policy are the responsibility of the Market Participant or Non-Market Participant Transmission Customer providing that security (each a "Posting Entity"). Any Posting Entity requesting a change to one of the model forms attached to the ISO New England Financial Assurance Policy which would be specific to such Posting Entity (as opposed to a generic improvement to such form) shall, at the time of making that request, pay a \$1,000 change fee, which fee shall be deposited into the Late Payment Account maintained under the ISO New England Billing Policy.

A. Shares of Registered or Private Mutual Funds in a Shareholder Account

Shares of registered or private mutual funds in a shareholder account are an acceptable form of financial assurance provided that the Posting Entity providing such collateral (i)

completes all required documentation to open an account with the financial institution selected by the ISO, after consultation with the NEPOOL Budget and Finance Subcommittee, (ii) completes and executes a security agreement (“Security Agreement”) in the form of Attachment 1 to the ISO New England Financial Assurance Policy and is in compliance with the Security Agreement, and (iii) completes and executes a Control Agreement in the form posted on the ISO website and is in compliance with the Control Agreement. Any material variation from the form of Security Agreement included in Attachment 1 to the ISO New England Financial Assurance Policy or the form of Control Agreement posted on the ISO website must be approved by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee and, in the case of the Security Agreement, filed with the Commission. To the extent any amount of shares contained in the shareholder account is no longer required hereunder, the ISO shall return such collateral to the Posting Entity providing it within four (4) Business Days of a request to do so.

If the amount of collateral maintained in the shareholder account is below the required level (including by reason of losses on investments), the Posting Entity shall immediately replenish or increase the amount to the required level. The collateral will be held in an account maintained in the name of the Posting Entity and invested in the investment selected by that Posting Entity from a menu of investment options listed at the time on the ISO’s website, which menu will be approved by the NEPOOL Budget and Finance Subcommittee, with discounts applied to the investments in certain of such options if and as determined by the NEPOOL Budget and Finance Subcommittee. If a Posting Entity does not select an investment for its collateral, that collateral will be invested in the “default” investment option selected by the ISO and approved by the NEPOOL Budget and Finance Subcommittee from time to time. Any dividends and distribution on such investment will accrue to the benefit of the Posting Entity. The ISO may sell or otherwise liquidate such investments at its discretion to meet the Posting Entity’s obligations to the ISO. In no event will the ISO or NEPOOL or any NEPOOL Participant have any liability with respect to the investment of collateral under this Section X.A.

Notwithstanding the foregoing, an investment in shares of a registered fund in a shareholder account shall not be an acceptable form of financial assurance for a Posting

Entity that is not a U.S. Person, as defined in Regulation S under the Securities Act of 1933, as amended, unless the financial institution selected by the ISO allows such Posting Entity to invest in the investment options listed at the time on the ISO's website or the Posting Entity is invested in the investment options listed on the ISO's website as of March 19, 2015.

B. Letter of Credit

An irrevocable standby letter of credit provides an acceptable form of financial assurance to the ISO. For purposes of the ISO New England Financial Assurance Policy, the letter of credit shall be valued at \$0 at the end of the Business Day that is 30 days prior to the termination of such letter of credit. If the letter of credit amount is below the required level, the Posting Entity shall immediately replenish or increase the letter of credit amount or obtain a substitute letter of credit. The account party on a letter of credit must be either the Posting Entity whose obligations are secured by that letter of credit or an Affiliate of that Posting Entity.

1. Requirements for Banks

Each bank issuing a letter of credit that serves as financial assurance must meet the requirements of this Section X.B.1. Each such bank must be on the ISO's "List of Eligible Letter of Credit Issuers" which shall be established pursuant to this Section X.B.1. The ISO will post the current List of Eligible Letter of Credit Issuers on its website, and update that List and posting no less frequently than quarterly; provided that if a bank is removed from the List of Eligible Credit Issuers, the ISO shall update the List and provide notice to the NEPOOL Budget & Finance Subcommittee. To be included on the List of Eligible Letter of Credit Issuers, the bank must be organized under the laws of the United States or any state thereof, or be the United States branch of a foreign bank and either: (i) be recognized by the Chicago Mercantile Exchange ("CME") as an approved letter of credit bank; or (ii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of "A-" by S&P, or "A3" by Moody's or "A-" by Fitch so long as its letter of credit is confirmed by a bank that is recognized by CME as an approved letter of credit issuer as described in clause (i) above; or (iii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of "A-" by S&P, or "A3" by Moody's, or "A-" by Fitch and be approved by the ISO in its

sole discretion (the ISO will promptly advise the NEPOOL Budget and Finance Subcommittee of any additional bank approved by it under this provision). Because the ratings described in clauses (ii) and (iii) are minimum ratings, a bank will not be considered to have satisfied the requirement of those clauses if any applicable rating from the Rating Agencies falls below the levels listed in those clauses. In addition, no Posting Entity may provide a letter of credit that has been issued or confirmed by a bank that is an Affiliate of that Market Participant. If a bank that is included on the List of Eligible Letter of Credit Issuers fails to satisfy any of the criteria set forth above or if the ISO determines in its sole discretion that despite satisfying any of the criteria set forth above, accepting a letter of credit from a bank on the List of Eligible Letter of Credit Issuers presents an unreasonable risk that a bank may fail to honor the terms of such letter of credit, the applicable Posting Entity will have five (5) Business Days from the date on which the ISO provides notice of such failure or removal to replace the letter of credit with a letter of credit from a bank satisfying those criteria or provide other financial assurance satisfying the requirements of the ISO New England Financial Assurance Policy. The ISO may extend that cure period to twenty (20) Business Days in its sole discretion. The ISO must promptly advise the NEPOOL Budget and Finance Subcommittee of any extension of a cure period beyond five (5) Business Days under this provision. No letter of credit bank may issue or confirm letters of credit under the ISO New England Financial Assurance Policy in an amount exceeding either: (i) \$100 million in the aggregate for any single Posting Entity; or (ii) \$150 million in aggregate for a group of Posting Entities that are Affiliates. If a bank is removed from the List of Eligible Letter of Credit Issuers based on the ISO's determination that there is an unreasonable risk that a bank may fail to honor the terms of such letter of credit, the ISO in its sole discretion may reinstate eligibility, provided that the bank otherwise meets the conditions of this Section X.B.1.

The following provisions shall apply when a bank fails to honor the terms of one or more letters of credit issued or confirmed by the bank in favor of the ISO: (i) if the bank fails to honor the terms of one letter of credit in a rolling seven hundred and thirty day period, then the ISO will issue a notice of such failure to the NEPOOL Budget and Finance Subcommittee, to all members and alternates of the Participants Committee, to the New England governors and utility regulatory agencies and to the billing and credit contracts for all Market Participants; (ii) if the bank fails to honor either the terms of one letter of

credit twice or the terms of two letters of credit in a rolling seven hundred and thirty day period, then (A) the ISO shall issue a notice described in subsection (i) above, (B) the bank will no longer be eligible to issue or confirm letters of credit in favor of the ISO, (C) any letters of credit issued or confirmed by such bank in favor of the ISO will not be renewed, and (D) any letters of credit issued or confirmed by such bank in favor of the ISO must be replaced with another acceptable form of financial assurance within five (5) Business Days from the date on which the ISO provides notice of such failure (the ISO may extend that cure period to twenty (20) Business Days in its sole discretion). Notwithstanding the foregoing, the ISO in its sole discretion may reinstate eligibility after not less than two years from the loss of eligibility, provided that the bank otherwise meets the conditions of this Section X.B.1.

Any letter of credit provided for a new Posting Entity for the purpose of covering the Initial Market Participant Financial Assurance Requirement must have a minimum term of 120 days.

2. Form of Letter of Credit

Attachment 2 provides a generally acceptable sample “clean” letter of credit, and all letters of credit provided by Posting Entities shall be in this form (with only minor, non-material changes), unless a variation therefrom is approved by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee and filed with the Commission. Notwithstanding the foregoing, Posting Entities that have provided a letter of credit in a form that was previously acceptable (e.g., under a prior version of Attachment 2) shall not be required to resubmit such letter of credit until the earlier of (a) the amendment or expiration of such letter of credit, in which case Posting Entity shall be required to provide a Letter of Credit in the Form of Attachment 2, or (b) December 31, 2021. Any letter of credit provided for a new Posting Entity must have a minimum term of 120 days. All costs incurred by the ISO in collecting on a letter of credit provided under the ISO New England Financial Assurance Policy shall be paid, or reimbursed to the ISO, by the Posting Entity providing that letter of credit.

C. Special Provisions for Provisional Members

Notwithstanding any other provision of the ISO New England Financial Assurance Policy to the contrary, due to the temporary nature of a Market Participant’s status as a

Provisional Member and the relatively small amounts due from Provisional Members, any Provisional Member required to provide additional financial assurance under the ISO New England Financial Assurance Policy may only satisfy the portion of that requirement attributable to Participant Expenses under the RNA by providing a cash deposit in accordance with Section X.A. Provisional Members will not have any other Non-Hourly Requirements under the ISO New England Financial Assurance Policy. If a Provisional Member uses a standing instruction to pay its Invoices pursuant to the ISO New England Billing Policy, in order to avoid a default and/or a Late Payment Charge, the total amount of the cash deposited by that Provisional Member should be equal to the sum of (x) the Provisional Member's Financial Assurance Requirement under the ISO New England Financial Assurance Policy that is attributable to Participant Expenses under the RNA and (y) the amount due from that Provisional Member on its next Invoice under that ISO New England Billing Policy (not including the amount of any Qualification Process Cost Reimbursement Deposit (including the annual true-up of that amount) due from such Provisional Member). Provisional Members are also required to satisfy all other provisions of the ISO New England Financial Assurance Policy, and any additional financial assurance required to be provided by a Provisional Member that is not attributable to Participant Expenses may be satisfied by providing a cash deposit or letter of credit in accordance with this Section X but shall not be satisfied through the provision of the cash deposit described in this Section X.C. Without limiting or reducing in any way the requirements of the ISO New England Financial Assurance Policy that apply to a Provisional Member, the amount of the cash deposit initially provided by a Provisional Member that is attributable to Participant Expenses (including any amounts provided in connection with the standing instruction under the ISO New England Billing Policy described above) shall be at least \$2,500, and each Provisional Member will replenish that cash deposit to at least that \$2,500 level on December 31 of each year.

XI. MISCELLANEOUS PROVISIONS

A. Obligation to Report Material Adverse Changes

Each Market Participant and each Non-Market Participant Transmission Customer is responsible for informing the ISO in writing within five (5) Business Days of any Material Adverse Change in its financial status. A "Material Adverse Change" in financial status includes, but is not limited to, the following: a downgrade to below an

Investment Grade Rating by any Rating Agency; being placed on credit watch with negative implication by any Rating Agency if the Market Participant or Non-Market Participant Transmission Customer does not have an Investment Grade Rating; a bankruptcy filing or other insolvency; a report of a significant quarterly loss or decline of earnings; the resignation of key officer(s); the sanctioning of the Market Participant or Non-Market Participant Transmission Customer or any of its Principals imposed by the Federal Energy Regulatory Commission, the Securities and Exchange Commission, the Commodity Futures Trading Commission, any exchange monitored by the National Futures Association, or any state entity responsible for regulating activity in energy markets; the filing of a material lawsuit that could materially adversely impact current or future financial results; or a significant change in the Market Participant's or Non-Market Participant Transmission Customer's market capitalization. A Market Participant's or Non-Market Participant Transmission Customer's failure to timely disclose a Material Adverse Change in its financial status may result in termination proceedings by the ISO. If the ISO determines that there is a Material Adverse Change in the financial condition of a Market Participant- or Non-Market Participant Transmission Customer, then the ISO shall provide to that Market Participant or Non-Market Participant Transmission Customer a signed written notice two Business Days before taking any of the actions described below. The notice shall explain the reasons for the ISO's determination of the Material Adverse Change. After providing notice, the ISO may take one or more of the following actions: (i) require that, within two Business Days of receipt of the notice of Material Adverse Change, the Market Participant or Non-Market Participant Transmission Customer provide one of the forms of financial assurance described in Section X of the ISO New England Financial Assurance Policy and/or an additional amount of financial assurance in one of the forms of financial assurance described in Section X of the ISO New England Financial Assurance Policy; (ii) require that the Market Participant or Non-Market Participant Transmission Customer cease one or more transactions in the New England Markets; or (iii) require that the Market Participant or Non-Market Participant Transmission Customer take other measures to restore the ISO's confidence in its ability to safely transact in the New England Markets. Any additional amount of financial assurance required as a result of a Material Adverse Change shall be sufficient, as reasonably determined by the ISO, to cover the Market Participant's or Non-Market Participant Transmission Customer's potential settled and unsettled liability or obligation, provided, however, that if the additional amount of financial assurance

required as a result of a Material Adverse Change is equal to or greater than \$25 million, then the Chief Financial Officer shall first consult, to the extent practicable, with the ISO's Chief Executive Officer, Chief Operating Officer, and General Counsel. If the Market Participant or Non-Market Participant Transmission Customer fails to comply with any of the requirements imposed as a result of a Material Adverse Change, then the ISO may initiate termination proceedings against the Market Participant or Non-Market Participant Transmission Customer.

B. Weekly Payments

A Market Participant or Non-Market Participant Transmission Customer may request that, in lieu of providing the entire amount of one of the financial assurances set forth above to satisfy its Financial Assurance Requirement, a weekly billing schedule be implemented for its Non-Hourly Charges and its Transmission Charges. The ISO may, in its discretion, agree to such a request; provided, however, that any weekly billing arrangement for Non-Hourly Charges and Transmission Charges will terminate no more than six (6) months after the date on which such arrangement begins unless the Market Participant or Non-Market Participant Transmission Customer requests an extension of such arrangement and demonstrates to the ISO's satisfaction in its sole discretion that the termination of such arrangement and compliance with the other provisions of the ISO New England Financial Assurance Policy (including providing the full amount of its Financial Assurance Requirement) will impose a substantial hardship on the Market Participant or Non-Market Participant Transmission Customer. Such demonstration of a substantial hardship shall be made every six (6) months after the initial demonstration, and a Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement for Non-Hourly Charges and Transmission Charges will be terminated if it fails to demonstrate to the ISO's satisfaction in its sole discretion at any such six (6) month interval that compliance with the other provisions of the ISO New England Financial Assurance Policy will impose a substantial hardship on it. If the ISO agrees to implement a weekly billing schedule for Non-Hourly Charges and Transmission Charges for a Market Participant or Non-Market Participant Transmission Customer, the Market Participant or Non-Market Participant Transmission Customer shall be billed weekly for such Non-Hourly Charges and Transmission Charges in accordance with the ISO New England Billing Policy. The Market Participant or Non-Market Participant Transmission Customer shall pay with respect to each weekly Invoice for Non-Hourly

Charges and Transmission Charges an administrative fee, determined by the ISO, to reimburse the ISO for the costs it incurs as a result of that Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement.

If a weekly billing schedule is implemented for a Market Participant's or Non-Market Participant Transmission Customer's Non-Hourly Charges and Transmission Charges under this Section XI.B, the Market Participant or Non-Market Participant Transmission Customer may be required to provide the full amount of its Financial Assurance Requirement at any time if the Market Participant or Non-Market Participant Transmission Customer fails to pay when due any weekly Invoice. In addition, upon the termination of a Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement for Non-Hourly Charges and Transmission Charges, the Market Participant or Non-Market Participant Transmission Customer shall either satisfy the applicable rating requirements set forth herein, satisfy the Credit Threshold, or provide the full amount of one of the other forms of financial assurance set forth herein.

C. Use of Transaction Setoffs

In the event that a Market Participant or Non-Market Participant Transmission Customer has failed to satisfy its Financial Assurance Requirement hereunder, the ISO may retain payments due to such Market Participant or Non-Market Participant Transmission Customer, up to the amount of such Market Participant's or Non-Market Participant Transmission Customer's unsatisfied Financial Assurance Requirement, as a cash deposit securing such Market Participant's or Non-Market Participant Transmission Customer's obligations to the ISO, NEPOOL, the Market Participants, the PTOs and the Non-Market Participant Transmission Customers, provided, however, that a Market Participant or Non-Market Participant Transmission Customer will not be deemed to have satisfied its Financial Assurance Requirement under the ISO New England Financial Assurance Policy because the ISO is retaining amounts due to it hereunder unless such Market Participant or Non-Market Participant Transmission Customer has satisfied all of the requirements of Section X with respect to such amounts.

D. Reimbursement of Costs

Each Market Participant or Non-Market Participant Transmission Customer that fails to perform any of its obligations under the Tariff, including without limitation those arising under the ISO New England Financial Assurance Policy and the ISO New England Billing Policy, shall reimburse the ISO, NEPOOL and each Market Participant, PTO and Non-Market Participant Transmission Customer for all of the fees, costs and expenses that they incur as a result of such failure.

E. Notification of Default

In the event that a Market Participant or Non-Market Participant Transmission Customer fails to comply with the ISO New England Financial Assurance Policy (a “Financial Assurance Default”), such failure continues for at least two days and notice of that failure has not previously been given, the ISO may (but shall not be required to) notify such Market Participant or Non-Market Participant Transmission Customer in writing, electronically and by first class mail sent in each case to such Market Participant’s or Non-Market Participant Transmission Customer’s billing and credit contacts or such Market Participant’s member or alternate member on the Participants Committee (it being understood that the ISO will use reasonable efforts to contact all three where applicable), of such Financial Assurance Default. Either simultaneously with the giving of the notice described in the preceding sentence or within two days thereafter (unless the Financial Assurance Default is cured during such period), the ISO shall notify each other member and alternate on the Participants Committee and each Market Participant’s and Non-Market Participant Transmission Customer’s billing and credit contacts of the identity of the Market Participant or Non-Market Participant Transmission Customer receiving such notice, whether such notice relates to a Financial Assurance Default, and the actions the ISO plans to take and/or has taken in response to such Financial Assurance Default. In addition to the notices provided for herein, the ISO will provide any additional information required under the ISO New England Information Policy.

F. Remedies Not Exclusive

No remedy for a Financial Assurance Default is or shall be deemed to be exclusive of any other available remedy or remedies. Each such remedy shall be distinct, separate and cumulative, shall not be deemed inconsistent with or in exclusion of any other available remedy, and shall be in addition to and separate and distinct from every other remedy. A Financial Assurance Default may result in suspension of the Market Participant or Non-

Market Participant Transmission Customer or the commencement of termination proceedings by the ISO.

G. Inquiries and Contests

A Market Participant or Non-Market Participant Transmission Customer may request a written explanation of the ISO's determination of its Market Credit Limit, Transmission Credit Limit, Financial Assurance Requirement or Transmission Obligations, including any change thereto, by submitting that request in writing to the ISO's Credit Department, either by email at CreditDepartment@iso-ne.com or by facsimile at (413) 540-4569.

That request must include the Market Participant's customer identification number, the name of the Market Participant or Non-Market Participant Transmission Customer and the specific information for which the Market Participant or Non-Market Participant Transmission Customer would like an explanation and must be submitted by the designated credit contact for that Market Participant or Non-Market Participant Transmission Customer as on file with the ISO. In addition, since Financial Assurance Requirements are updated at least daily, any request for an explanation relating to the calculation of, or a change in, a Financial Assurance Requirement must be submitted on the same day as that calculation or change. The ISO's response to any request under this Section XI.G shall include an explanation of how the applicable calculation or determination was performed using the formulas and criteria in the ISO New England Financial Assurance Policy. A Market Participant or Non-Market Participant Transmission Customer may contest any calculation or determination by the ISO under the ISO New England Financial Assurance Policy using the dispute resolution provisions of Section I.6 of the Tariff.

H. Forward Contract/Swap Agreement

All FTR transactions constitute "forward contracts" and/or "swap agreements" within the meaning of the United States Bankruptcy Code (the "Bankruptcy Code"), and the ISO shall be deemed to be a "forward contract merchant" and/or "swap participant" within the meaning of the Bankruptcy Code for purposes of those FTR transactions. Pursuant to the ISO New England Financial Assurance Policy, the ISO Tariff and the Market Participant Service Agreement with each Market Participant, the ISO already has, and shall continue to have, the following rights (among other rights) in respect of a Market Participant default under those documents (including the ISO New England Financial Assurance

Policy and the ISO New England Billing Policy): A) the right to terminate and/or liquidate any FTR transaction held by that Market Participant; B) the right to immediately proceed against any additional financial assurance provided by that Market Participant; C) the right to set off any obligations due and owing to that Market Participant pursuant to any forward contract, swap agreement or similar agreement against any amounts due and owing by that Market Participant pursuant to any forward contract, swap agreement or similar agreement, such arrangement to constitute a “master netting agreement” within the meaning of the Bankruptcy Code; and D) the right to suspend that Market Participant from entering into future transactions in the FTR system. For the avoidance of doubt, upon the commencement of a voluntary or involuntary proceeding for a Market Participant under the Bankruptcy Code, and without limiting any other rights of the ISO or obligations of any Market Participant under the Tariff (including the ISO New England Financial Assurance Policy and the ISO New England Billing Policy) or any Market Participant Service Agreement, the ISO may exercise any of its rights against such Market Participant, including, without limitation 1) the right to terminate and/or liquidate any FTR transaction held by that Market Participant, 2) the right to immediately proceed against any additional financial assurance provided by that Market Participant, 3) the right to set off any obligations due and owing to that Market Participant pursuant to any forward contract, swap agreement and/or master netting agreement against any amounts due and owing by that Market Participant with respect to an FTR transaction including as a result of the actions taken by the ISO pursuant to 1) above, and 4) the right to suspend that Market Participant from entering into future transactions in the FTR system.

ATTACHMENT 1
SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the “Security Agreement”) is effective as of this [__] day of [____], 20[], by and between [INSERT NAME], a [____], having its principal office and place of business at [____] (the “Debtor”), and ISO New England Inc., a Delaware nonprofit corporation (the “Secured Party” and collectively with the Debtor, the “Parties”).

WITNESSETH:

In consideration of the mutual promises and covenants herein contained, the Parties agree as follows:

1. Definitions.

a. In this Security Agreement:

- i. “Code” shall mean the Uniform Commercial Code, as enacted in the State of Connecticut and as amended from time to time.
- ii. “Collateral” shall mean (a) all cash provided, submitted, wired or otherwise transferred or deposited by the Debtor to or with the Secured Party or a financial institution, investment firm, or other designee selected by the Secured Party or acting on the Secured Party’s behalf, to hold or invest such cash deposit, from time to time in satisfaction of, pursuant to, or in compliance with, the ISO Financial Assurance Policy; (b) all securities or other investment property (as defined in the Code) of the Debtor, whether or not purchased with such cash deposit, submitted, wired or otherwise transferred, deposited or maintained by the Debtor to or with the Secured Party or its designee, in each case in satisfaction of, pursuant to, or in compliance with, the ISO Financial Assurance Policy; (c) all other property of Debtor submitted, pledged, assigned or otherwise transferred by the Debtor to the Secured Party or its designee, in each case, in satisfaction of, pursuant to, or in compliance with, the ISO Financial Assurance Policy; and (d) the products and proceeds of each of the foregoing.
- iii. “ISO Financial Assurance Policy” shall mean the Financial Assurance Policy in the Tariff, as amended, supplemented or restated from time to time, including but not limited to the Financial Assurance Policy in Exhibit 1A to Section I of the Tariff.

- iv. “Tariff” shall mean the ISO New England Inc. Transmission, Markets and Services Tariff, as filed with the Federal Energy Regulatory Commission, as amended, supplemented and/or restated from time to time.
 - v. “Obligations” shall mean any and all amounts due from Debtor from time to time under the Tariff.
 - vi. “Market Participants” shall have the meaning set forth in the Tariff.
 - b. Any capitalized term not defined herein that is defined in the Code shall have the meaning as defined in the Code.
- 2. Security Interest. To secure the payment of all Obligations of the Debtor, Debtor hereby grants and conveys to the Secured Party a security interest in the Collateral. The Debtor hereby irrevocably authorizes the Secured Party at any time and from time to time to file in any applicable filing office any initial financing statements and amendments thereto that provide any information required by part 5 of Article 9 of the Code for the sufficiency or filing office acceptance of any financing statement or amendment.
- 3. Debtor’s Covenants. The Debtor warrants, covenants and agrees with the Secured Party as follows:
 - a. The Debtor shall perform all of the Debtor’s obligations under this Security Agreement according to its terms.
 - b. The Debtor shall defend the title to the Collateral against any and all persons and against all claims.
 - c. The Debtor shall at any time and from time to time take such steps as the Secured Party may reasonably request to ensure the continued perfection and priority of the Secured Party’s security interest in the Collateral and the preservation of its rights therein.
 - d. The Debtor acknowledges and agrees that this Security Agreement grants, and is intended to grant, a security interest in the Collateral. If the Debtor is a corporation, limited liability company, limited partnership or other Registered Organization (as that term is defined in Article 9 of the Uniform Commercial Code as in effect in Connecticut) the Debtor shall, at its expense, furnish to Secured Party a certified copy of Debtor’s organization documents verifying its correct legal name or, at Secured Party’s election, shall permit the Secured Party to obtain such certified copy at Debtor’s expense. From

time to time at Secured Party's election, the Secured Party may obtain a certified copy of Debtor's organization documents and a search of such Uniform Commercial Code filing offices, as it shall deem appropriate, at Debtor's expense, to verify Debtor's compliance with the terms of this Security Agreement.

- e. The Debtor authorizes the Secured Party, if the Debtor fails to do so, to do all things required of the Debtor herein and charge all expenses incurred by the Secured Party to the Debtor together with interest thereon, which expenses and interest will be added to the Obligations.
4. Debtor's Representations and Warranties. The Debtor represents and warrants to the Secured Party as follows:
 - a. The exact legal name of the Debtor is as first stated above.
 - b. Except for the security interest of the Secured Party, Debtor is the owner of the Collateral free and clear of any encumbrance of any nature.
5. Non-Waiver. Waiver of or acquiescence in any default by the Debtor or failure of the Secured Party to insist upon strict performance by the Debtor of any warranties, covenants, or agreements in this Security Agreement shall not constitute a waiver of any subsequent or other default or failure. No failure to exercise or delay in exercising any right, power or remedy of the Secured Party under this Security Agreement shall operate as a waiver thereof, nor shall any partial exercise of any right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The failure of the Secured Party to insist upon the strict observance or performance of any provision of this Security Agreement shall not be construed as a waiver or relinquishment of such provision. The rights and remedies provided herein are cumulative and not exclusive of any other rights or remedies provided at law or in equity.
6. Events of Default. Any one of the following shall constitute an "Event of Default" hereunder by the Debtor:
 - a. Failure by the Debtor to comply with or perform any provision of this Security Agreement or to pay any Obligation; or

- b. Any representation or warranty made or given by the Debtor in connection with this Security Agreement proves to be false or misleading in any material respect; or
 - c. Any part of the Collateral is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors.

- 7. Remedy upon the Occurrence of an Event of Default. Upon the occurrence of any Event of Default the Secured Party shall, immediately and without notice, be entitled to use, sell, or otherwise liquidate the Collateral to pay all Obligations owed by the Debtor.

- 8. Attorneys' Fees, etc. Upon the occurrence of any Event of Default, the Secured Party's reasonable attorneys' fees and the legal and other expenses for pursuing, receiving, taking, keeping, selling, and liquidating the Collateral and enforcing the Security Agreement shall be chargeable to the Debtor.

- 9. Other Rights.
 - a. In addition to all rights and remedies herein and otherwise available at law or in equity, upon the occurrence of an Event of Default, the Secured Party shall have such other rights and remedies as are set forth in the Tariff and ISO Financial Assurance Policy.
 - b. Notwithstanding the provisions of the ISO New England Information Policy, as amended, supplemented or restated from time to time (the "ISO New England Information Policy"), Debtor hereby (i) authorizes the Secured Party to disclose any information concerning Debtor to any court, agency or entity which is necessary or desirable, in the sole discretion of the Secured Party, to establish, maintain, perfect or secure the Secured Party's rights and interest in the Collateral (the "Debtor Information"); and (ii) waives any rights it may have under the ISO New England Information Policy to prevent, impair or limit the Secured Party from disclosing such information concerning the Debtor.

- 10. PRE-JUDGMENT REMEDY. DEBTOR ACKNOWLEDGES THAT THIS SECURITY AGREEMENT AND THE UNDERLYING TRANSACTIONS GIVING RISE HERETO CONSTITUTE COMMERCIAL BUSINESS TRANSACTIONS WITHIN THE STATE OF CONNECTICUT. IN THE EVENT OF ANY LEGAL ACTION BETWEEN DEBTOR AND

THE SECURED PARTY HEREUNDER, DEBTOR HEREBY EXPRESSLY WAIVES ANY RIGHTS WITH REGARD TO NOTICE, PRIOR HEARING AND ANY OTHER RIGHTS IT MAY HAVE UNDER THE CONNECTICUT GENERAL STATUTES, CHAPTER 903a, AS NOW CONSTITUTED OR HEREAFTER AMENDED, OR OTHER STATUTE OR STATUTES, STATE OR FEDERAL, AFFECTING PREJUDGMENT REMEDIES, AND THE SECURED PARTY MAY INVOKE ANY PREJUDGMENT REMEDY AVAILABLE TO IT, INCLUDING, BUT NOT LIMITED TO, GARNISHMENT, ATTACHMENT, FOREIGN ATTACHMENT AND REPLEVIN, WITH RESPECT TO ANY TANGIBLE OR INTANGIBLE PROPERTY (WHETHER REAL OR PERSONAL) OF DEBTOR TO ENFORCE THE PROVISIONS OF THIS SECURITY AGREEMENT, WITHOUT GIVING DEBTOR ANY NOTICE OR OPPORTUNITY FOR A HEARING.

11. WAIVER OF JURY TRIAL. THE DEBTOR AND THE SECURED PARTY HEREBY EACH KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION, DEFENSE, COUNTERCLAIM, CROSSCLAIM AND/OR ANY FORM OF PROCEEDING BROUGHT IN CONNECTION WITH THIS SECURITY AGREEMENT OR RELATING TO ANY OBLIGATIONS SECURED HEREBY.
12. Additional Waivers. Demand, presentment, protest and notice of nonpayment are hereby waived by Debtor. Debtor also waives the benefit of all valuation, appraisal and exemption laws.
13. Binding Effect. The terms, warranties and agreements herein contained shall bind and inure to the benefit of the respective Parties hereto, and their respective legal representatives, successors and assigns.
14. Assignment. The Secured Party may, upon notice to the Debtor, assign without limitation its security interest in the Collateral.
15. Amendment. This Security Agreement may not be altered or amended except by an agreement in writing signed by the Parties.
16. Term.

- a. This Security Agreement shall continue in full force and effect until all Obligations owed by the Debtor have been paid in full.
 - b. No termination of this Security Agreement shall in any way affect or impair the rights and liabilities of the Parties hereto relating to any transaction or events prior to such termination date, or to the Collateral in which the Secured Party has a security interest, and all agreements, warranties and representations of the Debtor shall survive such termination.
17. Choice of Law. The laws of the State of Connecticut shall govern the rights and duties of the Parties herein contained without giving effect to any conflict-of-law principles.

IN WITNESS WHEREOF, the Parties have signed and sealed this Security Agreement as of the day and year first above written.

[INSERT NAME]

By: _____

Name:

Title:

ISO NEW ENGLAND INC.

By: _____

Name:

Title:

ATTACHMENT 2
SAMPLE STANDBY LETTER OF CREDIT

[DATE PROVIDED]

IRREVOCABLE STANDBY LETTER OF CREDIT NO.

[EXPIRATION DATE]

WE DO HEREBY ISSUE THIS IRREVOCABLE NON-TRANSFERABLE STANDBY LETTER OF CREDIT BY ORDER OF AND FOR THE ACCOUNT OF [POSTING ENTITY OR AFFILIATE OF POSTING ENTITY ON BEHALF OF POSTING ENTITY] (“ACCOUNT PARTY”) IN FAVOR OF ISO NEW ENGLAND INC. (“ISO” OR “BENEFICIARY”) (“STANDBY LETTER OF CREDIT”).

THIS STANDBY LETTER OF CREDIT IS IRREVOCABLE AND IS ISSUED, PRESENTABLE AND PAYABLE AND WE GUARANTY TO THE DRAWERS, ENDORSERS AND BONA FIDE HOLDERS OF THIS STANDBY LETTER OF CREDIT THAT DRAFTS UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS STANDBY LETTER OF CREDIT WILL BE HONORED ON PRESENTATION OF THIS STANDBY LETTER OF CREDIT.

THIS STANDBY LETTER OF CREDIT IS AVAILABLE IN ONE OR MORE DRAFTS AND MAY BE DRAWN HEREUNDER FOR THE ACCOUNT OF THE ACCOUNT PARTY UP TO AN AMOUNT NOT EXCEEDING US\$ _____.00 (UNITED STATES DOLLARS _____ AND 00/100) .

THIS STANDBY LETTER OF CREDIT IS DRAWN AGAINST BY PRESENTATION TO US AT OUR OFFICE LOCATED AT THE FOLLOWING ADDRESS:

A DRAWING CERTIFICATE SIGNED BY A PURPORTED OFFICER OR AUTHORIZED AGENT OF THE ISO AND DATED THE DATE OF PRESENTATION CONTAINING THE FOLLOWING STATEMENT:

“THE UNDERSIGNED HEREBY CERTIFIES TO [BANK] (“ISSUER”), WITH REFERENCE TO IRREVOCABLE NON-TRANSFERABLE STANDBY LETTER OF CREDIT NO. [-----] ISSUED BY ISSUER IN FAVOR OF ISO NEW ENGLAND INC. (“ISO”), THAT [POSTING ENTITY] HAS FAILED TO PAY THE ISO, IN ACCORDANCE WITH THE TERMS AND PROVISIONS OF THE TARIFF FILED BY THE ISO, AND THUS THE ISO IS DRAWING UPON THE STANDBY LETTER OF CREDIT IN AN AMOUNT EQUAL TO \$ _____.”

IF PRESENTATION OF ANY DRAWING CERTIFICATE IS MADE ON A BUSINESS DAY AND SUCH PRESENTATION IS MADE AT OUR COUNTERS ON OR BEFORE 10:00 A.M. _____ TIME, WE SHALL SATISFY SUCH DRAWING REQUEST ON THE SAME BUSINESS DAY. IF THE DRAWING CERTIFICATE IS RECEIVED AT OUR COUNTERS AFTER 10:00 A.M. _____ TIME, WE WILL SATISFY SUCH DRAWING REQUEST ON THE NEXT BUSINESS DAY. FOR THE PURPOSES OF THIS SECTION, A BUSINESS DAY MEANS A DAY, OTHER THAN A SATURDAY OR SUNDAY, ON WHICH THE FEDERAL RESERVE BANK OF NEW YORK IS NOT AUTHORIZED OR REQUIRED TO BE CLOSED. DISBURSEMENTS SHALL BE IN ACCORDANCE WITH THE INSTRUCTIONS OF THE ISO.

THE FOLLOWING TERMS AND CONDITIONS APPLY:

THIS STANDBY LETTER OF CREDIT SHALL EXPIRE AT THE CLOSE OF BUSINESS [DATE] [AT LEAST 120 DAYS AFTER ISSUANCE FOR NEW POSTING ENTITIES].

THE AMOUNT WHICH MAY BE DRAWN BY YOU UNDER THIS STANDBY LETTER OF CREDIT SHALL BE AUTOMATICALLY REDUCED BY THE AMOUNT OF ANY DRAWINGS HEREUNDER AT OUR COUNTERS. ANY NUMBER OF PARTIAL DRAWINGS ARE PERMITTED FROM TIME TO TIME HEREUNDER.

ALL COMMISSIONS AND CHARGES WILL BE BORNE BY THE ACCOUNT PARTY.

THIS STANDBY LETTER OF CREDIT IS NOT TRANSFERABLE OR ASSIGNABLE. THIS STANDBY LETTER OF CREDIT DOES NOT INCORPORATE AND SHALL NOT BE DEEMED MODIFIED, AMENDED OR AMPLIFIED BY REFERENCE TO ANY

DOCUMENT, INSTRUMENT OR AGREEMENT (A) THAT IS REFERRED TO HEREIN (EXCEPT FOR THE ISP, AS DEFINED BELOW) OR (B) IN WHICH THIS STANDBY LETTER OF CREDIT IS REFERRED TO OR TO WHICH THIS STANDBY LETTER OF CREDIT RELATES.

THIS STANDBY LETTER OF CREDIT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNATIONAL STANDBY PRACTICES (“ISP98”) OF THE INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 590, INCLUDING ANY AMENDMENTS, MODIFICATIONS, OR REVISIONS THEREOF (THE “ISP”), EXCEPT TO THE EXTENT THAT THE TERMS HEREOF ARE INCONSISTENT WITH THE PROVISIONS OF THE ISP, IN WHICH CASE THE TERMS OF THIS STANDBY LETTER OF CREDIT SHALL GOVERN. THIS STANDBY LETTER OF CREDIT SHALL BE GOVERNED BY THE INTERNAL LAWS OF THE COMMONWEALTH OF MASSACHUSETTS TO THE EXTENT THAT THE TERMS ARE NOT GOVERNED BY THE ISP.

THIS STANDBY LETTER OF CREDIT MAY NOT BE AMENDED, CHANGED OR MODIFIED WITHOUT THE EXPRESS WRITTEN CONSENT OF THE ISO AND ISSUER.

WE HEREBY ENGAGE WITH YOU THAT DOCUMENTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS STANDBY LETTER OF CREDIT SHALL BE DULY HONORED UPON PRESENTATION AS SPECIFIED AND WE REPRESENT THAT THE ACCOUNT PARTY IS NOT AN AFFILIATE OF THE ISSUER.

PRESENTATION OF ANY DRAWING CERTIFICATE UNDER THIS STANDBY LETTER OF CREDIT MAY BE SENT TO US BY COURIER, CERTIFIED MAIL, REGISTERED MAIL, OR FACSIMILE (WITH A CONFIRMING COPY OF SUCH FACSIMILE SENT AFTER THE DRAWING BY CERTIFIED MAIL TO THE ADDRESS SET FORTH BELOW; PROVIDED HOWEVER, THAT THE CONFIRMING COPY SHALL NOT BE A PREREQUISITE FOR US TO HONOR ANY PRESENTATION OTHERWISE MADE IN ACCORDANCE WITH THE TERMS OF THIS STANDBY LETTER OF CREDIT), OR SUCH OTHER ADDRESS AS MAY HEREAFTER BE FURNISHED BY US. OTHER NOTICES CONCERNING THIS STANDBY LETTER OF CREDIT MAY BE SENT BY SIMILAR COMMUNICATIONS FACILITY TO THE RESPECTIVE

ADDRESSES SET FORTH BELOW. ALL SUCH NOTICES AND COMMUNICATIONS SHALL BE EFFECTIVE WHEN ACTUALLY RECEIVED BY THE INTENDED RECIPIENT PARTY.

IF TO THE BENEFICIARY OF THIS STANDBY LETTER OF CREDIT:

ISO NEW ENGLAND INC.
ATTENTION: CREDIT DEPARTMENT
1 SULLIVAN RD. HOLYOKE, MA 01040
FAX: 413-540-4569
EMAIL: CREDITDEPARTMENT@ISO-NE.COM

IF TO THE ACCOUNT PARTY:

[NAME]
[ADDRESS]
[FAX]
[PHONE]

IF TO ISSUER:

[NAME]
[ADDRESS]
[FAX]
[PHONE]

[signature]

[signature]

ATTACHMENT 3

**ISO NEW ENGLAND MINIMUM CRITERIA FOR MARKET PARTICIPATION OFFICER
CERTIFICATION FORM**

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the minimum criteria for market participation requirements set forth in Sections II.A.2 and II.A.3 of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Transmission, Markets and Services Tariff) (the “Policy”), hereby certify that I have full authority to bind Certifying Entity and further certify as follows:

1. Certifying Entity has established or contracted for written policies, procedures, and controls applicable to participation in the New England Markets, approved by Certifying Entity’s independent risk management function¹, which provide an appropriate, comprehensive risk management framework that, at a minimum, clearly identifies and documents the range of risks to which Certifying Entity is exposed, including, but not limited to, credit risk, liquidity risk, concentration risk, default risk, operation risk, and market risk.
2. Certifying Entity has established or contracted for appropriate training of relevant personnel that is applicable to its participation in the New England Markets.
3. Certifying Entity has appropriate operating procedures and technical abilities to promptly and effectively respond to all ISO New England communications and directions.

I acknowledge that I have read and understand the provisions of the Policy, including those provisions describing ISO New England’s minimum criteria for market participation requirements and the remedies available to ISO New England in the event of a customer or applicant not satisfying those requirements. I acknowledge that the information provided herein true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission.

(Signature)

Print Name: _____

Title: _____

Date: _____

¹ As used in this certification, a Certifying Entity’s “independent risk management function” can include appropriate corporate persons or bodies that are independent of the Certifying Entity’s trading functions, such as a risk management committee, a risk officer, a Certifying Entity’s board or board committee, or a board or committee of the Certifying Entity’s parent company.

ATTACHMENT 4
ISO NEW ENGLAND ADDITIONAL ELIGIBILITY REQUIREMENTS
CERTIFICATION FORM

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the additional eligibility requirements set forth in Section II.A.5 of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Inc. Transmission, Markets and Services Tariff) (the “Policy”), hereby certify that I have full authority to bind Certifying Entity and further certify as follows:

1. Certifying Entity is now and in good faith will seek to remain (check applicable box(es)):
 - an “appropriate person,” as defined in section(s) [_____] of the Commodity Exchange Act (7 U.S.C. § 1 *et seq.*) (specify which section(s) of Commodity Exchange Act sections 4(c)(3)(A) through (J) apply) (if Certifying Entity is relying on section 4(c)(3)(F), it shall accompany this certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the Certifying Entity’s total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy);
 - an “eligible contract participant,” as defined in section 1a(18)(A) of the Commodity Exchange Act and in 17 CFR § 1.3(m); or
 - a “person who actively participates in the generation, transmission, or distribution of electric energy,” as defined in the Final Order of the Commodity Futures Trading Commission published at 78 FR 19880 (April 2, 2013).
2. If at any time Certifying Entity no longer satisfies the criteria in paragraph 1 above, Certifying Entity will immediately notify ISO New England in writing and will immediately cease all participation in the New England Markets.

I acknowledge that I have read and understand the provisions of the Policy, including those provisions describing ISO New England’s additional eligibility requirements and the remedies available to ISO New England in the event of a customer or applicant not satisfying those requirements. I acknowledge that the information provided herein true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission.

(Signature)

Print Name: _____

Title: _____

Date: _____

ATTACHMENT 5

ISO NEW ENGLAND CERTIFICATE REGARDING CHANGES TO SUBMITTED RISK MANAGEMENT POLICIES FOR FTR PARTICIPATION

Certifying Entity: []

I, _____, a duly authorized Senior Officer of _____ ("Certifying Entity"), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the annual certification requirement for FTR market participation regarding its risk management policies, procedures, and controls set forth in Section II.A.2(b) of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Inc. Transmission, Markets and Services Tariff) (the "Policy"), hereby certify that I have full authority to bind Certifying Entity and further certify as follows (check applicable box):

- 1. [] There have been no changes to the previously submitted written risk management policies, procedures, and controls (and any supporting documentation, if applicable) applicable to the Certifying Entity's participation in the FTR market.

OR

- 2. [] There have been changes to the previously submitted written risk management policies, procedures, and controls (and any supporting documentation, if applicable) applicable to the Certifying Entity's participation in the FTR market and such changes are clearly identified and attached hereto.*

I acknowledge that I have read and understand the provisions of the Policy, including those provisions describing ISO New England's risk management policy requirements for FTR market participants and the remedies available to ISO New England in the event of a customer or applicant not satisfying those requirements. I acknowledge that the information provided herein true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission.

(Signature)

Print Name: _____

Title: _____

Date: _____

* As used in this certificate, "clearly identified" changes may include a redline comparing the current written risk management policies, procedures, and controls and the previously submitted written risk management policies, procedures, and controls; or resubmission of the written risk management policies, procedures, and controls with a bulleted list of all changes, including section and/or page numbers.

ATTACHMENT 6
MINIMUM CRITERIA FOR MARKET PARTICIPATION
INFORMATION DISCLOSURE FORM

Date: _____

Prepared by: _____

Customer/Applicant:¹ _____

I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. (“ISO”) is relying on this certification provided pursuant to Financial Assurance Policy Section II.A.1(a), hereby certify that I have full authority to bind Certifying Entity and further certify on behalf of Certifying Entity that the information contained herein is true, complete, and correct and is not misleading or incomplete for any reason, including by reason of omission:

1. List of all Principals.² Please discuss each Principal’s relationship with the Certifying Entity and describe each Principal’s previous experience related to participation in North American wholesale or retail energy markets or trading exchanges:

2. List all material litigation (criminal or civil) against Certifying Entity or any of the Certifying Entity’s Principals, Personnel,³ or Predecessors,⁴ arising out of participation in any wholesale or retail energy market (domestic or international) or trading exchanges in the past ten (10) years:

¹ Customer and Applicant are each defined in Section II.A of the ISO New England Financial Assurance Policy, Exhibit 1A to Section 1 of the ISO Transmission, Markets, and Services Tariff (“Tariff”). Capitalized terms used but not otherwise defined herein shall have the meaning given to them in the Tariff.

² Principal is (i) the sole proprietor of a sole proprietorship; (ii) a general partner of a partnership; (iii) a president, chief executive officer, chief operating officer or chief financial officer (or equivalent position) of an organization; (iv) a manager, managing member or a member vested with the management authority for a limited liability company or limited liability partnership; (v) any person or entity that has the power to exercise a controlling influence over an organization’s activities that are subject to regulation by the Federal Energy Regulatory Commission (“FERC”), the Securities and Exchange Commission (“SEC”), the Commodity Futures Trading Commission (“CFTC”), any exchange monitored by the National Futures Association (“NFA”), or any state entity responsible for regulating activity in energy markets; or (vi) any person or entity that: (a) is the direct owner of 10% or more of any class of an organization’s equity securities; or (b) has directly contributed 10% or more of an organization’s capital.

³ Personnel means any person, current or former, responsible for decision making regarding Certifying Entity’s transaction of business in the New England Markets, including, without limitation, decisions regarding risk management and trading, or any person, current or former, with access to enter transactions into ISO systems. Disclosures regarding former Personnel shall only be required for when such Personnel was employed by Certifying Entity.

⁴ Predecessor shall mean any person or entity whose liabilities, including liabilities arising under the Tariff, have or may have been retained or assumed by Certifying Entity, either contractually, by operation of law or considering all relevant factors, including the interconnectedness of the business relationships, overlap in relevant personnel, similarity of business activities, overlap of customer base.

- (Enter N/A if not applicable)*
3. List all sanctions issued against or imposed upon Certifying Entity, Certifying Entity's Principals, Personnel, or Predecessors, by the FERC, the SEC, the CFTC, any exchange monitored by the NFA, or any entity responsible for regulating activity in any wholesale or retail energy market (domestic or international) or trading exchanges where such sanctions were either imposed in the past ten (10) years or, if imposed prior to that, are still in effect. List all known material ongoing investigations regarding Certifying Entity, Certifying Entity's Principals, Personnel, or Predecessors, imposed by the FERC, the SEC, the CFTC, any exchange monitored by the NFA, or any entity responsible for regulating activity in any wholesale or retail energy market (domestic or international) or trading exchanges:
(Enter N/A if not applicable)

 4. Provide a summary of any bankruptcy, dissolution, merger, or acquisition of Certifying Entity in the past ten (10) years (include date, jurisdiction, and other relevant details):
(Enter N/A if not applicable)

 5. List all wholesale or retail energy market-related operations in North America where Certifying Entity is currently participating, or, in the past five (5) years, has previously participated other than in the New England Markets (e.g., PJM - FTRs):
(Enter N/A if not applicable)

 6. Describe if Certifying Entity or any of Certifying Entity's Principals, Personnel, or any Predecessor of the foregoing ever had its participation or membership in any independent system operator or regional transmission organization (domestic or international) terminated, its registration/membership application denied, or is subject to an existing uncured suspension from participating in the markets of any independent system operator or regional transmission organization (domestic or international), each in the past five (5) years.
(Enter N/A if not applicable)

If you are currently an active participant and this is your annual submission you do not have to complete Question 7 and can skip to the signature block below. If you are in the process of applying for membership with the ISO you are required to answer the additional questions listed below.

7. Describe how Certifying Entity plans to fund its operations, including persons or entities providing financing and such person(s)' or entity(ies)' relationship to the Certifying Entity. Include any relationships that may impact Certifying Entity's ability to (a) comply with the time frames to post financial assurance and/or pay invoices or other amounts owed to the ISO, each as required by the Tariff; or (b) provide a first priority perfected security interest in required financial assurance to the ISO:

Certifying Entity: _____

By: _____
(Signature)

Print Name: _____

Title: _____

Date: _____

** To satisfy the disclosure requirements above, a Certifying Entity may attach additional materials and may provide the ISO with filings made to the SEC or other similar regulatory agencies that include substantially similar information to that required above, provided that Certifying Entity clearly indicates where the specific information is located in those filings.

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

ISO New England Inc. and) **Docket No. ER24-____-000**
NEPOOL Participants Committee)

**TESTIMONY OF CHRISTOPHER NOLAN
ON BEHALF OF
ISO NEW ENGLAND INC.**

1 **Q: PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.**

2 A: My name is Christopher Nolan. I am the Director, Market and Credit Risk at ISO
3 New England Inc. (the “ISO”). My business address is One Sullivan Road,
4 Holyoke, MA 01040.

5
6 **Q: PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE AND**
7 **QUALIFICATIONS.**

8 A: I joined the ISO as the Director, Market and Credit Risk in December 2022. Prior
9 to joining the ISO, I worked at NextEra Energy Inc., an investor-owned utility
10 company in Juno Beach, FL for seven years, as Executive Director – Risk and
11 Credit Exposure Management. Previous to that, I was the Managing Director –
12 Credit Risk - for SunEdison Inc. (in California) for one year, and the Director
13 Credit Risk Management with E.ON Global Commodities (based in Germany) for
14 six years. Additionally, I worked for a decade in the corporate/investment banking
15 sector in Europe in various senior credit risk management roles. I earned an

1 Executive Master of Business Administration from the Kellogg School of
2 Management at Northwestern University and a Bachelor of International
3 Marketing and Languages at Dublin City University, Ireland.

4 **I. PURPOSE AND ORGANIZATION OF TESTIMONY**

5 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A: The purpose of my testimony is to explain revisions to the ISO New England
8 Financial Assurance Policy (the “FAP”)¹ to enhance the FCM Delivery Financial
9 Assurance calculation (“FAP Revisions”).

10 **Q: HOW WILL YOUR TESTIMONY BE ORGANIZED?**

11 A: My testimony will first describe the purpose of FCM Delivery Financial
12 Assurance and how it is currently calculated (Section II). Second, I will describe
13 the stress tests that the ISO performed to test the adequacy of the FCM Delivery
14 Financial Assurance formula (Section III). Finally, I will describe the proposed
15 FAP Revisions (Section IV).

16 **Q. GENERALLY, WHY IS THE ISO PROPOSING THE FAP REVISIONS?**

17 A: The collateral requirements contained within the FAP are designed to ensure that
18 there is sufficient cash available to clear the market each day and to cover a
19 Market Participant’s settled obligations in the case of a default. Specifically, the
20 ISO has determined that the collateral requirements related to the Forward

¹ Capitalized terms used in this testimony but not otherwise defined herein shall have the meaning set forth the ISO New England Transmission, Markets and Services Tariff (the “Tariff”), the Second Restated NEPOOL Agreement, and the Participants Agreement. The FAP is Exhibit IA to the Tariff.

1 Capacity Market (“FCM”) pay-for-performance (“PFP”) design feature can be
2 enhanced to better collateralize risks. While the ISO’s PFP collateral design (*i.e.*,
3 the FCM Delivery Financial Assurance formula) has performed well during the
4 short duration Capacity Scarcity Conditions (“CSC”) that have occurred to date,
5 the Capacity Performance Payment Rates for resources that perform during CSCs
6 will increase in 2024 and again in 2026. Increased Capacity Performance
7 Payment Rates mean that the penalties incurred by resources that underperform
8 will also increase, exacerbating any collateral shortfall risks.

9

10 The ISO also monitored the disputes between PJM Interconnection, L.L.C.
11 (“PJM”) and its members over Winter Storm Elliott “non-performance” charges
12 and generator defaults, particularly in the context of the ISO’s recent study of the
13 operational impact of extreme weather events published in 2023 (explained in
14 more detail below).

15

16 Each of these triggered the ISO’s analysis of the FCM Delivery Financial
17 Assurance methodology to determine if sufficient collateral will be posted for
18 future months as the Capacity Performance Payment Rate increases. To evaluate
19 the sufficiency of the FCM Delivery Financial Assurance formula, the ISO
20 performed several stress tests (historical and forward looking) to see how the
21 methodology performed during longer duration capacity scarcity conditions at the
22 increased Capacity Performance Payment Rate (\$9337/MWh as of June 1, 2026).
23 As a result of this testing, the ISO determined that several FCM Delivery

1 Financial Assurance methodology updates were prudent to minimize the risk of
2 collateral shortfalls.

3 **II. PURPOSE AND CALCULATION OF FCM DELIVERY FINANCIAL**
4 **ASSURANCE**

5 **Q: WHAT IS THE PURPOSE OF FCM DELIVERY FINANCIAL**
6 **ASSURANCE?**

7 FCM Delivery Financial Assurance is one component of the financial assurance
8 that a Market Participant is required to provide if it is participating in FCM and
9 has acquired a CSO. One design feature of the ISO's FCM is the "pay-for-
10 performance" or "PFP" construct which provides incentives for resources that
11 perform during CSCs and conversely penalizes resources that do not perform or
12 underperform during such conditions. Resultantly, a resource's net capacity
13 payments may be negative and, therefore, the FAP contains financial assurance
14 requirements to collateralize the possibility of net payment obligations under PFP.
15 A Market Participant with a resource that has a Capacity Supply Obligation
16 ("CSO") is required to add FCM Delivery Financial Assurance to its total
17 financial assurance requirements calculation.

18
19 The FCM Delivery Financial Assurance methodology is designed to cover three
20 risks: (1) clearing risk, (2) credit risk, and (3) liquidation risk. Clearing risk is the
21 risk that a Market Participant does not timely discharge settled payment
22 obligations that have already been incurred, which could result in a cash
23 imbalance that impairs the ability of the ISO to clear all market positions. Credit

1 risk is the risk that a Market Participant will default on payment obligations
2 arising from negative capacity payments associated with CSOs in the current
3 delivery month. Liquidation risk in this context has two components: the risk that
4 losses may continue to accrue against a CSO position post default up to the annual
5 stop-loss in any Capacity Commitment Period before a Market Participant is able
6 to close the position, and the risk that the defaulted position, when closed, is sold
7 at a loss.

8 **Q: HOW IS FCM DELIVERY FINANCIAL ASSURANCE CURRENTLY**
9 **CALCULATED?**

10 A: The current FCM Delivery Financial Assurance is calculated using the following
11 formula:

$$[DFAMW \times PE \times \max[(ABR - CWAP), 0.1] \times SF \times DF] - MCC$$

13 I will explain each element of the formula in detail below.

14 **Q: HOW IS CLEARING RISK ADDRESSED BY THE FCM DELIVERY**
15 **FINANCIAL ASSURANCE FORMULA?**

16 A: The first of the three risks that I mentioned is clearing risk – the risk that a Market
17 Participant does not timely discharge settled payment obligations that have
18 already been incurred. The MCC or “monthly capacity charge” component of the
19 FCM Delivery Financial Assurance formula addresses clearing risk. The monthly
20 capacity charge is an amount equal to all capacity performance payments
21 calculated in accordance with Section III.13.7.2 of the Tariff (which may be
22 payments or charges) incurred in previous months, but not yet billed. This value is
23 estimated on the first day of the current delivery month and is replaced with the

1 actual settled value when settlement is complete. By requiring the posting of the
2 monthly capacity charge, if a Market Participant fails to pay its invoice on time,
3 the ISO can still meet its obligations to all other cleared positions by drawing
4 against the Market Participant's posted collateral. Failure to post the required
5 financial assurance results in suspension from the markets, limiting the extent to
6 which the Market Participant can accumulate additional market obligations.

7 **Q: HOW IS CREDIT RISK ADDRESSED BY THE FCM DELIVERY**
8 **FINANCIAL ASSURANCE FORMULA?**

9 A: The second of the three risks that I mentioned is credit risk – the risk that a
10 Market Participant will default on payment obligations arising from negative
11 capacity payments associated with CSOs in the current delivery month. This risk
12 is addressed in the portion of the FCM Delivery Financial Assurance formula that
13 states: $DFAMW \times PE \times \max[(ABR - CWAP), 0.1]$. I will explain each element
14 of this portion of the formula below.

15 **Q: WHAT DOES THE “DFAMW” VARIABLE REPRESENT?**

16 A: The “DFAMW,” or “delivery financial assurance MW,” term represents the MW
17 amount on which a Market Participant must submit FCM Delivery Financial
18 Assurance. In other words, DFAMW is the total MW amount of a Market
19 Participant's resources subject to a CSO in the current month. This MW amount
20 serves as the basis for the credit risk portion of the FCM Delivery Financial
21 Assurance calculation. The DFAMW is equal to the sum of the CSOs of all
22 resources in a Market Participant's portfolio for the current month, excluding the

1 CSO of any resource that has reached the annual stop-loss amount. In no case will
2 DFAMW be less than zero.

3 **Q: HOW IS THE “PE” VARIABLE CALCULATED?**

4 A: “PE,” or “potential exposure” is the dollar per MW value that will apply in
5 calculating the Market Participant’s FCM Delivery Financial Assurance.
6 Conceptually, this value is the maximum monthly payment a Market Participant
7 would be required to make. As such, for a given delivery month, this value forms
8 the upper bound on credit default exposure. PE is calculated monthly for a Market
9 Participant’s portfolio as the difference between the CSO weighted average
10 Forward Capacity Auction Starting Price and the CSO weighted average capacity
11 price (*i.e.*, clearing price) for the portfolio, excluding the CSO of any resource
12 that has reached the annual stop-loss amount. The difference between the Forward
13 Capacity Auction Starting Price (from the current Capacity Commitment Period)
14 and the capacity price (used to calculate a Market Participant’s capacity
15 payments) is used because, as a general matter, this is equivalent to how the stop-
16 loss amounts are calculated under PFP, and so represent the amount per MW that
17 a Market Participant might be required to pay if its resource(s) fail to perform.

18 **Q: PLEASE EXPLAIN THE “ABR” AND “CWAP” VARIABLES AND HOW
19 THEY ARE USED WITHIN THE FORMULA?**

20 A: “ $\max[(ABR - CWAP), 0.1]$ ” reflects the performance of a Market Participant’s
21 capacity resources. Under PFP, a resource is not held to the standard of providing
22 the full amount of its CSO in all cases. Rather, the amount of capacity that a
23 resource provides during a CSC is measured against the ratio of the total amount

1 of load plus the reserve requirement, divided by the total amount of CSOs. This
2 ratio is called the Capacity Balancing Ratio. Because capacity payments are
3 linked to the Capacity Balancing Ratio, FCM Delivery Financial Assurance must
4 be as well. The term “ $\max[(ABR - CWAP), 0.1]$ ” is the minimum percentage of
5 the calculated potential exposure (PE) that must be posted as financial assurance
6 given assumptions regarding the average system-wide Capacity Balancing Ratio
7 and on the performance of a Market Participant’s capacity resources.

8
9 ABR, or “average balancing ratio,” is the duration-weighted average of all of the
10 system-wide Capacity Balancing Ratios calculated for each system-wide CSC
11 occurring in the relevant group of months in the three Capacity Commitment
12 Periods immediately preceding the current Capacity Commitment Period. Three
13 separate groups of months are used for this purpose: June through September,
14 December through February, and all other months.

15
16 CWAP, or “capacity weighted average performance,” is the capacity weighted
17 average performance of a Market Participant’s portfolio during CSCs based on
18 historical performance data from the prior three Capacity Commitment Periods on
19 a weighted average basis. As I stated above, the term “ $\max[(ABR - CWAP),$
20 $0.1]$ ” is the minimum percentage of the calculated potential exposure (PE) that
21 must be posted as financial assurance given assumptions regarding the average
22 system-wide Capacity Balancing Ratio and on the performance of a Market
23 Participant’s capacity resources. Generally, the better a Market Participant’s

1 resources have performed, the higher its CWAP value will be, and the lower the
2 value (ABR – CWAP) becomes. The worse a Market Participant’s resources have
3 performed, the lower its CWAP value will be, and the higher the value (ABR –
4 CWAP) becomes. The higher the value (ABR – CWAP), the more financial
5 assurance the Market Participant must post for its portfolio.

6
7 Conceptually, CWAP is simply the amount of capacity provided during CSCs
8 divided by the amount of capacity obligated. Specifically, for each resource in a
9 Market Participant’s portfolio, excluding any resource that has reached the annual
10 stop-loss amount, and excluding from the remaining resources the resource
11 having the largest CSO in the month, the resource’s CSO is multiplied by the
12 average performance of the resource. The CWAP is the sum of all such values,
13 divided by a Market Participant’s DFAMW. If the DFAMW is zero, then the
14 CWAP is set equal to one.

15
16 The average performance of a resource is the Actual Capacity Provided during
17 CSCs divided by the product of the resource’s CSO and the equivalent hours of
18 CSCs in the relevant group of months in the three Capacity Commitment Periods
19 immediately preceding the current Capacity Commitment Period. Three separate
20 groups of months are used for this purpose: June through September, December
21 through February, and all other months. Unless data exists to calculate the
22 CWAP, the temporary average performance for gas-fired steam generating
23 resources, combined-cycle combustion turbines and simple-cycle combustion

1 turbines equals 0.90; the temporary average performance for coal-fired steam
2 generating resources equals 0.85; the temporary average performance for oil-fired
3 steam generating resources equals 0.65; the temporary average performance for
4 all other resources equals 1.00. When actual data for each resource is available for
5 each relevant group of months, calculated values for the relevant group of months
6 replace the temporary average performance values after the end of each group of
7 months each year until all three years reflect actual data. The applicable
8 temporary average performance value is used for new and existing resources until
9 actual performance data is available.

10

11 Finally, the maximization function of the credit risk portion of the formula (*i.e.*,
12 $\max[(ABR - CWAP), 0.1]$) ensures that at least 10% of potential exposure will be
13 included in the FCM Delivery Financial Assurance calculation to account for the
14 fact that this portion of the formula is based on historical data which may differ
15 from future performance. More specifically, as I explained above, generally, the
16 better a Market Participant's resources perform, the higher its CWAP value will
17 be, and the lower the value $(ABR - CWAP)$ becomes. The worse a Market
18 Participant's resources perform, the lower its CWAP value will be, and the higher
19 the value $(ABR - CWAP)$ becomes. For a resource with a CWAP value that
20 approaches or exceeds ABR, the value $(ABR - CWAP)$ will become very low, or
21 possibly even negative. If this value reached zero, the credit risk portion of the
22 FCM Delivery Financial Assurance would also become zero. Although this would
23 occur because a Market Participant's resources were performing well, even those

1 portfolios with a CWAP value higher than the ABR are not completely without
2 risk. The ABR and the CWAP are based on historical data, and if future
3 performance is worse, holding some financial assurance associated with credit
4 risk is a reasonable and prudent protection. For this reason, the maximization
5 function included in the term “ $\max[(ABR - CWAP), 0.1]$ ” ensures that the value
6 of that term will not be below 0.10, and hence, at least ten percent of the potential
7 exposure amount will be included in the FCM Delivery Financial Assurance
8 amount.

9 **Q: WHY ARE CERTAIN RESOURCES WITHIN A MARKET**
10 **PARTICIPANT’S PORTFOLIO EXCLUDED FROM THE CWAP**
11 **CALCULATION?**

12 A: As noted above, when determining CWAP, any resource that has reached the
13 annual stop-loss amount is excluded because it is no longer exposed to
14 performance payments or penalties during the remainder of the Capacity
15 Commitment Period. The CWAP calculation also excludes, from the remaining
16 resources after the elimination of resources that have reached the annual stop-loss,
17 the resource having the largest CSO in the month. Practically, this means that
18 single plant resources are assumed to be fully off-line during CSCs and that FCM
19 Delivery Financial Assurance is based on the assumption that each Market
20 Participant’s largest (or only) resource is unavailable during CSCs. Currently,
21 approximately 50% of CSO volumes in the New England Markets are
22 collateralized based on the assumption that they are unavailable. For the
23 remaining volumes, collateral is collected assuming the resources perform in line

1 with the weighted average historical performance data from the past three
2 Capacity Commitment Periods.

3
4 This design feature (*i.e.*, excluding the largest resource) was part of the original
5 PFP collateral design accepted by the Commission to ensure that an appropriate
6 risk balance was struck and that portfolios with multiple resources weren't
7 unreasonably over-collateralized. A portfolio with multiple resources provides
8 some diversification benefits, with negative performance payments to one
9 resource offset by positive payments to another. As a general matter, the portfolio
10 is exposed to the greatest loss when the largest resource fails to perform. The
11 failure of the largest resource also serves as a reasonable proxy for below-average
12 performance by other resources in the portfolio. Assuming that all resources in a
13 portfolio fail to perform, or perform substantially below average, would
14 overestimate the degree to which any portfolio of resources actually faces
15 negative performance payments. Given the composition of resource portfolios in
16 New England, assuming that the largest resource in a multiple resource portfolio
17 does not perform but that the balance of the portfolio performs as expected during
18 shortage conditions provides a reasonable protection against Market Participant
19 default under extreme loss scenarios.

20 **Q: HOW IS LIQUIDATION RISK ADDRESSED BY THE FCM DELIVERY**
21 **FINANCIAL ASSURANCE FORMULA?**

22 A: The third of the three risks that I mentioned is liquidation risk – the risk that
23 losses may continue to accrue against a CSO position post default up to the annual

1 stop-loss in any Capacity Commitment Period before a Market Participant is able
2 to close the position, and the risk that the defaulted position, when closed, is sold
3 at a loss. Liquidation risk is addressed in the “SF,” or “scaling factor,” term
4 included in the formula. The scaling factor is a month-specific multiplier, as
5 follows:

- 6 • June: 2.000;
- 7 • December and July: 1.732;
- 8 • January and August: 1.414;
- 9 • all other months: 1.000.

10 More specifically, the risk that losses may continue to accrue against a CSO
11 position post default (up to the annual stop-loss) before a Market Participant is
12 able to close the position is not uniform across all months of the Capacity
13 Commitment Period. The likelihood of a severe scarcity event is different each
14 month of the year. The initial scaling factors were based on review of historical
15 data (2010-2013) that showed that the risk of scarcity is highest in the summer
16 months (June – September), followed by the winter months (December –
17 February) and lowest in the shoulder months (the other months, October –
18 November and March – May). Furthermore, given that in the summer and winter
19 there are consecutive high-risk months in a row, should a resource default early in
20 the summer season, for example, there is the risk that it will accrue additional
21 losses in subsequent months due to the higher potential for additional CSCs. In
22 large measure this risk exists because a defaulted CSO position is not terminated

1 from the market. Rather, the Market Participant must close the position through a
2 bilateral contract or continue to be exposed to charges up to the annual stop-loss.

3 **III. STRESS TESTS ON FCM DELIVERY FINANCIAL ASSURANCE**

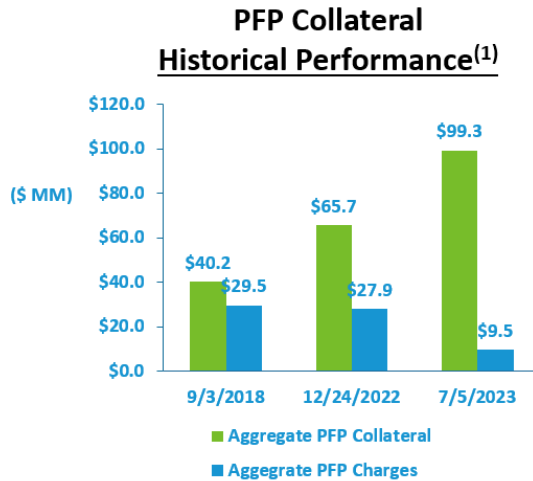
4 **Q: HOW DID THE ISO EVALUATE THE ADEQUACY OF THE FCM**
5 **DELIVERY FINANCIAL ASSURANCE FORMULA?**

6 A: The ISO conducted several stress tests to evaluate how the FCM Delivery
7 Financial Assurance methodology would perform under various scarcity event
8 conditions, including historical stress testing and forward looking testing.

9 **Q: PLEASE DESCRIBE THE HISTORICAL COLLATERAL STRESS TEST**
10 **ANALYSIS.**

11 A: First, the ISO evaluated how the FCM Delivery Financial Assurance methodology
12 performed during the CSCs to date (three events through summer 2023) and
13 concluded that PFP penalties were adequately covered by collateral requirements
14 during these three events. Notably, the three historical CSC events were all short
15 duration (*i.e.*, 2 hours or less) events, minimizing the impact of nonperformance
16 penalties, and occurred in fall 2018, winter 2022 (Winter Storm Elliott), and
17 summer 2023. As the table below shows, in each instance, the amount of available
18 FCM Delivery Financial Assurance collateral, aggregated for all Market
19 Participants, was adequate.

ISO NE's Capacity Scarcity Condition Events History



- In fall 2018, the ISO held \$40.2 MM in PFP collateral and ultimately collected \$29.5 MM in PFP charges related to 32 CSC intervals
- In winter 2022, the ISO held \$65.7 MM in PFP collateral and ultimately collected \$27.9 MM in PFP charges related to 17 CSC intervals
- In July 2023, the ISO held \$99.3 MM in collateral versus \$9.5 MM of penalties related to 6 intervals
- No defaults occurred in any year

PFP collateral has performed well during short duration scarcity events where the monthly stop loss limit is in play and the lower ~\$3.5k/MWh PFP rate

1) Only includes collateral against market participants that incurred payment penalties

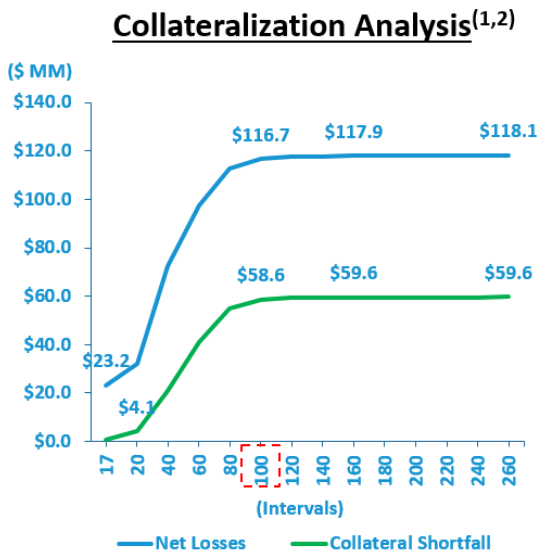
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Next, the ISO more carefully evaluated the most recent winter CSC that occurred during Winter Storm Elliott on December 24, 2022 as it was the most recent winter scarcity event that prompted significant issues within the PJM markets. Specifically, within New England, on December 24, 2022, CSCs occurred over 17 intervals (85 minutes)² resulting in net payment penalties of \$27.9 million. The ISO stress tested how collateral shortfalls would evolve if a longer duration event occurred (*e.g.*, approximately 100 intervals) and at the higher Capacity Performance Payment Rate of \$9337/MW hour that will apply during the 2025-2026 Capacity Commitment Period. The ISO used 100 CSC intervals because at that duration, most resources will not incur further penalties because of the stop-loss (*i.e.*, the 100 intervals is an extreme boundary and after reaching 100

² A CSC can occur in one or more five-minute pricing intervals.

1 intervals there are diminishing returns to further tightening collateral
 2 requirements) and used the \$9337/MWh Capacity Performance Payment Rate
 3 because the higher the payment rate, the less extreme a CSC needs to be in order
 4 for a Market Participant to reach its maximum monthly potential net loss (*i.e.*,
 5 performance penalty payments minus capacity payment) under the Tariff. As the
 6 table below illustrates, if Winter Storm Elliott caused approximately 100 CSC
 7 intervals while the higher Capacity Performance Payment Rate was in place, the
 8 New England Markets would be under-collateralized by approximately \$59
 9 million.

ISO-NE Winter Storm Elliot Stress Analysis – CCP 2022-23



- Capacity scarcity conditions occurred over 17 intervals (85 minutes) on December 24, 2022 resulting in net payment penalties of \$27.9 MM
- If we stress the net penalties/losses from that event by increasing the duration to ~100 intervals and apply the higher \$9.3k/MWh PFP rate, the vast majority of the non-performing market participants reach their maximum monthly potential net loss exposure
- The total amount of net losses peak at ~\$118 MM and the ISO is under-collateralized by ~\$59 MM in this stress scenario

1) Stressed at the higher \$9.3k PFP rate
 2) Net loss = total net penalty payment minus monthly capacity base payment

10
 11
 12
 13
 14

It is important to note that when reviewing the stress test results, under-collateralization reflects the potential amount of penalties that would not be covered by an acceptable form of financial assurance. It does not however, mean

1 that all of those penalties will actually be incurred. In other words, under- or over-
2 collateralization looks at potential credit risk to the markets, rather than clearing
3 risk (*i.e.*, the amount need to settle obligations).

4 **Q: PLEASE DESCRIBE THE FORWARD LOOKING STRESS TESTING**
5 **THAT THE ISO PERFORMED ON THE FCM DELIVERY FINANCIAL**
6 **ASSURANCE METHODOLOGY.**

7 A: The ISO reviewed several worst case extreme weather event scenarios to stress
8 test the adequacy of the FCM Delivery Financial Assurance methodology at the
9 higher Capacity Performance Payment Rate of \$9337/MWh. Again, the ISO
10 chose this rate because it will apply as of June 1, 2026 and it reduces the amount
11 of CSC intervals that must occur before payment penalties exceed the monthly
12 stop-loss. Essentially, increasing the Capacity Performance Payment Rate
13 proportionally decreases the number of intervals required to breach the monthly
14 stop-loss. For example, if the monthly stop-loss was \$300,000, the ABR (average
15 balancing ratio) was 1.0, and the Capacity Performance Payment Rate was
16 \$3000/MWh and a 10 MW portfolio did not perform at all, it would take ten hours
17 for that portfolio to reach the monthly stop-loss. If the Capacity Performance
18 Payment Rate was increased to \$9,000, it would only take 3 hours and 20 minutes
19 (*i.e.*, 1/3 of the amount of time) for the portfolio to reach the monthly stop-loss.

20

1 The ISO selected three worst case scenarios (one for summer and two for winter)
2 from a recent one-time extreme weather study on the operational impacts of
3 extreme weather³ conducted by ISO-NE and the Electric Power Research Institute
4 (EPRI). The study identifies a set of 21-day events that appear most stressful to
5 the future New England power system in terms of energy availability both in the
6 summer and winter. For purposes of the study, the CSO portfolio was based on
7 generation resources that cleared in Forward Capacity Auction 16 (*i.e.*, the
8 resource mix for the 2025-2026 Capacity Commitment Period) as well as state-
9 sponsored resources under contract or that have been collected under recent RFPs.
10 In addition to the three events selected from the PEAT Study, the ISO also
11 applied the actual CSCs that occurred during Winter Storm Elliott in December
12 2022 to the same CSO portfolio (*i.e.*, the resources that cleared in Forward
13 Capacity Auction 16).
14
15 The following chart shows which events the ISO used in the forward looking
16 stress tests on the adequacy of the FCM Delivery Financial Assurance
17 methodology:

³ This extreme weather study, which focused on quantifying the region’s energy adequacy risk, is now commonly referred to as “Probabilistic Energy Adequacy Tool”, or “PEAT,” study. See Stephen George & Jinye Zhao, Operational Impact of Extreme Weather Events: Preliminary Results of Energy Adequacy Studies for Winter 2027, ISO NEW ENGLAND (May 16, 2023) (“Winter 2027 Presentation”), https://www.iso-ne.com/static-assets/documents/2023/08/a10_operational_impact_of_extreme_weather_events.pdf; see also Stephen George & Jinye Zhao, Operational Impact of Extreme Weather Events: Preliminary Results of Energy Adequacy Studies for Winter 2032, ISO NEW ENGLAND (Aug. 15, 2023) (“Winter 2032 Presentation”), https://www.iso-ne.com/static-assets/documents/2023/08/a10_operational_impact_of_extreme_weather_events.pdf.

Extreme Weather Scenarios

Summer July	Winter Dec	Winter Jan	Winter Feb
ISO Study - Simulation	Actual Event – Storm Elliot	ISO Study - Simulation	ISO Study - Simulation
July 5, 2010	Dec 24, 2022	Jan 22, 1961	Feb 2, 1979

- July 5, 2010 summer event was characterized by a long duration heat wave coincident with low winds and resulted in 3 hours of capacity scarcity conditions
- Dec 24, 2022 (Winter Storm Elliot) was a short duration event with ~ 1 hour of scarcity)
- Jan 22, 1961 (12 day cold wave scenario no New England Clean Energy Connect, no Everett Marine Terminal – total of 90 hours of scarcity)
- Feb 2, 1979 (10 day cold wave scenario with no New England Clean Energy Connect and no Everett Marine Terminal – total of 29 hours of scarcity)

1

2 **Q: WHAT WERE THE RESULTS OF THE FORWARD LOOKING STRESS**
 3 **TEST?**

4 A: Testing the four scenarios noted above, the forward looking stress test revealed
 5 that extreme weather events occurring later in the winter season results in sizable
 6 collateral shortfalls. As the table below illustrates, only a small amount of net
 7 losses (\$1.0 million) were incurred in July due to non-performance caused by the
 8 low-wind scenario test case. In stark contrast, collateralization of net losses (*i.e.*,
 9 PFP payment penalties minus capacity payments) significantly deteriorates
 10 through the winter as the collateral scaling factors reduce under the current
 11 methodology. The same issue did not occur in the summer because the scaling
 12 factor for the summer season months is currently higher than the winter season
 13 months.

14

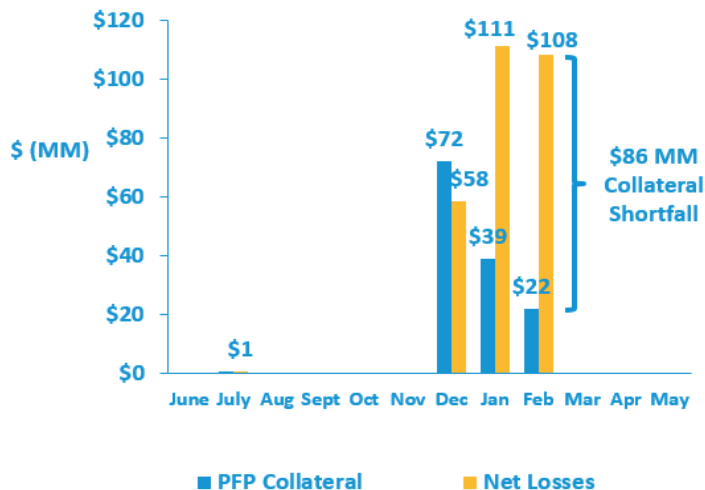
1 As the chart below illustrates, ultimately, a peak collateral shortfall of \$86 million
 2 occurs in February at the increased Capacity Performance Payment Rate of
 3 \$9337/MWh, with the resource mix for the 2025-2026 Capacity Commitment
 4 Period. Importantly, this significant shortfall is also based on the assumption that
 5 no generators were suspended for collateral or payment obligations arising from
 6 prior events in July, December, or January. In other words, the stress test assumed
 7 that Market Participants had sufficient liquidity to post collateral for each month
 8 otherwise the collateral shortfalls would have been more severe as suspended
 9 Market Participants who had not paid performance penalties would likely be
 10 unable to post future financial assurance obligations.

11

12 The following table shows the results of the forward looking stress test:

**Stress Scenario – Minor Scarcity in
 Summer & Extreme Winter**

CCP 2025-26 CSO Portfolio^(1,2)



1) Only includes CSOs of market participants that incurred penalty payments during capacity scarcity conditions per the scenario
 2) Penalties are based on the \$9.3k/MWh PFP rate

13

1 **IV. DESCRIPTION OF THE FAP REVISIONS**

2 **A. SCALING FACTOR CHANGES**

3 **Q: WHAT CHANGES DOES THE ISO PROPOSE TO MAKE TO THE**
4 **SCALING FACTOR?**

5 A: The FAP Revisions increase the winter scaling factors to be as high as the
6 summer scaling factors. Accordingly, the ISO revised scaling factors would be as
7 follows:

- 8 • June and December: 2.000; (previously June only)
- 9 • July and January: 1.732; (previously December and July)
- 10 • August and February: 1.414; (previously January and August)
- 11 • all other months: 1.000. (unchanged)

12 Put another way, the below chart shows the current scaling factors and the
13 proposed revised scaling factors.

Proposed Scaling Factors

Month	Current SF	Updated SF
June	2.000	2.000
July	1.732	1.732
August	1.414	1.414
September	1	1
October	1	1
November	1	1
December	1.732	2.000
January	1.414	1.732
February	1	1.414
March	1	1
April	1	1
May	1	1

1 **Q: PLEASE EXPLAIN WHY THE ISO IS PROPOSING TO INCREASE THE**
2 **WINTER SCALING FACTORS.**

3 A: As noted earlier in my testimony, the liquidation risk, and therefore, the scaling
4 factor is not uniform across all months of the Capacity Commitment Period as the
5 risk of CSCs varies seasonally and, during the summer and winter, there are
6 consecutive high-risk months. Accordingly, the scaling factors need to reflect that
7 the risk and the corresponding collateral should be higher earlier in the summer or
8 winter season. For example, the June scaling factor (the first month of summer)
9 needs to be higher than the August scaling factor because there is a greater portion
10 of the summer season remaining in June. As I explained earlier, when the initial
11 scaling factors were developed, they were based on historical data from 2010-
12 2013, which reflected that summer risk was greater than winter risk.

13
14 However, the PEAT study (*i.e.*, the ISO's more recent study of the operational
15 impact of extreme weather events on energy adequacy in 2027 and 2032,
16 completed in 2023) highlights an increasing risk of CSCs (and energy shortfall)
17 during winter months over the next decade. As highlighted by the PEAT study,
18 the energy shortfall risk (and associated CSC risk) is manageable in the near-term,
19 but is expected to increase toward the end of the decade. As such, collateral
20 shortfalls under the existing FCM Delivery Financial Assurance formula will
21 become particularly risky for the New England Markets as the risk of extreme
22 winter weather increases.

23

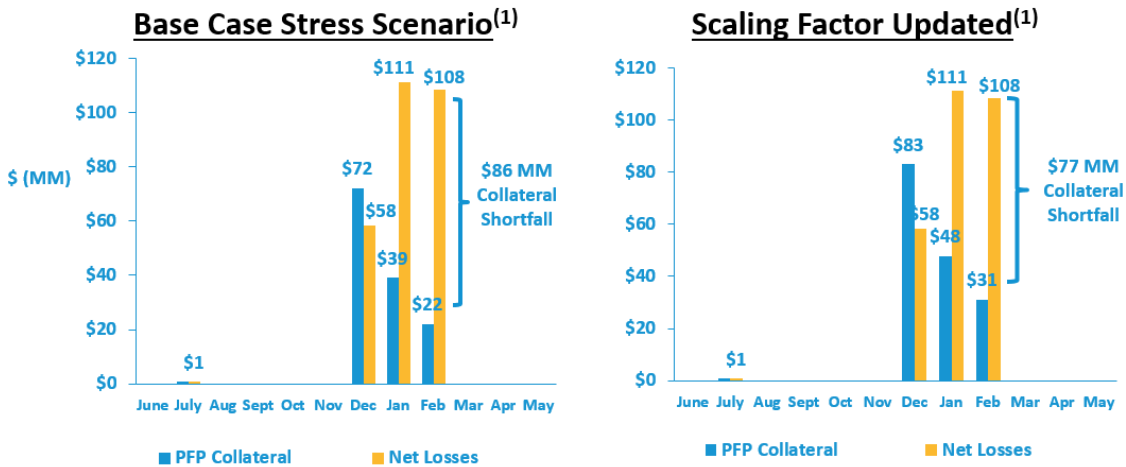
1 This increased winter risk is illustrated by the forward looking stress test
 2 scenarios which showed that collateral shortfalls increased from December to
 3 January, and from January to February, resulting in a peak shortfall in February.

4 **Q: WHAT IS THE IMPACT OF THE REVISED SCALING FACTORS ON**
 5 **THE COLLATERAL SHORTFALL?**

6 A: If the revised scaling factors are applied to the same test cases, the collateral
 7 shortfall in February drops by \$9 million (from \$86 million to \$77 million). The
 8 below chart shows the impact of the scaling factor adjustment in each test case.

9

Impact Analysis of Scaling Factor Update



10

11 **Q: WHY DOESN'T THE REVISED SCALING FACTORS COMPLETELY**
 12 **ELIMINATE THE RISK OF COLLATERAL SHORTFALLS?**

13 A: Consistent with the original FCM Delivery Financial Assurance methodology that
 14 was previously accepted by the Commission, by design, the formula does not
 15 collateralize all potential risk. While the maximum possible exposure is the
 16 annual stop-loss, the probability that a resource will hit the monthly stop-loss

1 three months in a row (the annual stop-loss equals three times the monthly stop-
2 loss) is low. Thus, requiring all Market Participants to post financial assurance up
3 to the annual stop-loss unnecessarily over collateralizes the market.

4 **B. CAPACITY WEIGHTED AVERAGE PERFORMANCE (CWAP)**
5 **CHANGES**

6 **Q: WHAT CHANGES DOES THE ISO PROPOSE TO MAKE TO THE**
7 **CWAP VARIABLE?**

8 A: To reduce credit risk exposure, ISO-NE also proposes to revise the FAP to
9 calculate a Market Participant's CWAP using more recent operating data (*i.e.*, a
10 Market Participant's operating performance from the most recent CSCs that occur
11 in the current delivery season).

12 **Q: PLEASE EXPLAIN WHY THE ISO IS PROPOSING TO CHANGE THE**
13 **CWAP CALCULATION.**

14 A: As noted earlier in my testimony, CWAP, or capacity weighted average
15 performance, is the capacity weighted average performance of a Market
16 Participant's portfolio. The CWAP variable is included in the portion of the FCM
17 Delivery Financial Assurance calculation to cover credit risk (the risk that a
18 Market Participant will default on payment obligations arising from negative
19 capacity payments associated with CSOs). And a resource's past performance is
20 an important indicator of this risk. Generally, the better a Market Participant's
21 resources have performed, the higher its CWAP value will be, resulting in lower
22 collateral requirements. The worse a Market Participant's resources have

1 performed, the lower its CWAP value will be, resulting in higher collateral
2 requirements.

3
4 Generally, accurately accounting for risk includes using the most current or
5 recently available data. Currently, the CWAP calculation includes the operating
6 performance of a Market Participant's resources during CSCs occurring in the
7 prior three Capacity Commitment Periods on a weighted average basis. Although
8 performance scores are typically available approximately four to five business
9 days after CSCs occur, that data does not get incorporated into the CWAP
10 calculation until the start of a new Capacity Commitment Period. For example,
11 actual performance data from the summers of Capacity Commitment Periods
12 2022-2023, 2023-2024, and 2024-2025 are applied to the CWAP to calculate
13 collateral for Capacity Commitment Period 2025-2026. This time-lag results in
14 potential under-collateralization of non-performing generators until the collateral
15 requirement is adjusted the following year (and conversely, over-collateralization
16 of high performing resources). As a result, the FAP Revisions update the CWAP
17 calculation to include the data from the relevant group of months in the prior three
18 years *and* operating performance data from the relevant group of months within
19 the current Capacity Commitment Period.

20 **Q: WHAT IS THE IMPACT OF THE REVISED CWAP CALCULATION?**

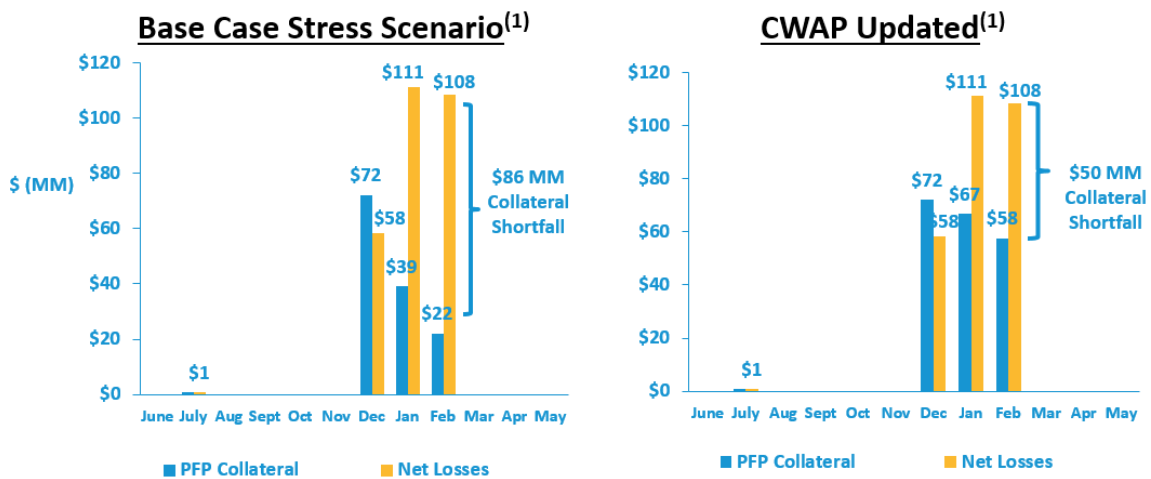
21 A: The chart below illustrates the impact of the revised CWAP calculation. If current
22 operating performance data was used in the stress test cases that the ISO
23 performed, collateral shortfalls would be reduced in the January test case by \$28

1 million (from \$72 million to \$44 million) and, in the February test case by \$36
 2 million (from \$86 million to \$50 million). There was no impact of the revised
 3 CWAP definition to the July test case, because in the test cases, there was no CSC
 4 that occurred in the prior month. There was no impact in December because
 5 December is the first month in the relevant group of months, so there was no prior
 6 month to pull CSC operating performance data from.

7
 8
 9
 10
 11
 12
 13

Importantly, and consistent with the original FCM Delivery Financial Assurance
 design, the credit risk portion of the formula is not intended to collateralize all
 risk, but rather strikes a balance between a reasonable amount of potential
 unsecured financial obligations and imposing cost prohibitive barriers to the
 market.

Impact Analysis of CWAP Update



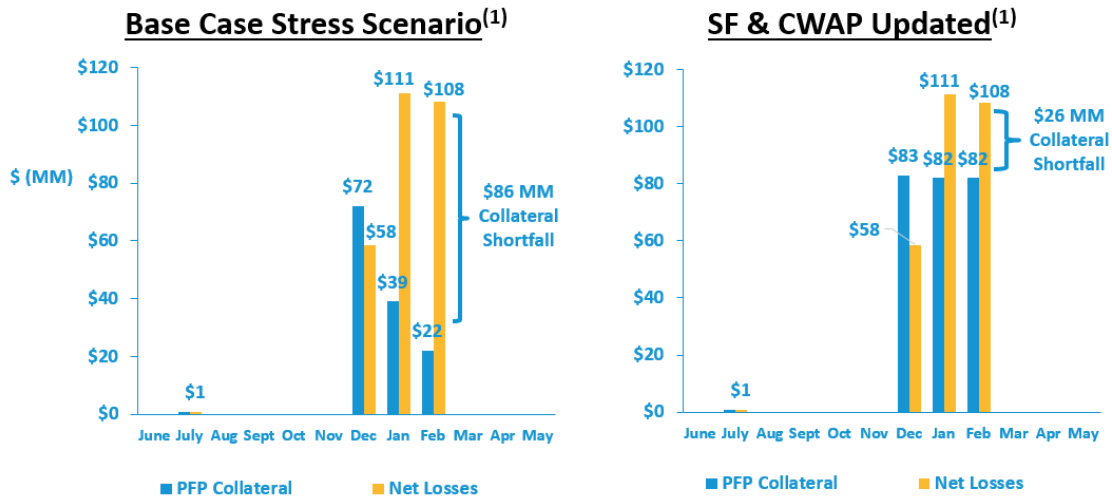
1) CCP 2025-26 CSO Portfolio

14

1 **Q: PLEASE EXPLAIN THE IMPACT OF THE CWAP REVISIONS WHEN**
 2 **COMBINED WITH THE PROPOSED SCALING FACTOR REVISIONS.**

3 A: Because the scaling factor variable and the $\max[(ABR-CWAP), 1]$ function are
 4 multiplicative within the FCM Delivery Financial Assurance formula, the impact
 5 of the combined changes reduce the collateral shortfalls to a reasonable level. As
 6 the chart below shows, the overall collateral shortfall from the initial test cases
 7 (which peaked at \$86 million in the February test case) reduces to \$26 million
 8 when the impact of the two changes are combined.

Impact Analysis of Combined SF & CWAP Updates



1) CCP 2025-26 CSO Portfolio

9
 10 **Q: PLEASE EXPLAIN YOUR DETERMINATION THAT THE COMBINED**
 11 **IMPACT OF THE SCALING FACTOR AND CWAP REVISIONS**
 12 **REDUCE THE POTENTIAL COLLATERAL SHORTFALLS TO A**
 13 **REASONABLE LEVEL.**

14 A: The combined impact of the scaling factor and CWAP revisions reduce collateral
 15 shortfalls to a reasonable level as they are decreased by more than half during the

1 last two months (January and February) in the stress case scenarios. Furthermore,
2 not all of the remaining collateral shortfalls are likely to be associated with
3 Market Participants that do not have sufficient liquidity on-hand to meet
4 incremental Financial Assurance requirements due to non-performance penalty
5 payment obligations. The impact of these changes increases the winter financial
6 assurance requirements while not raising the yearly peak financial assurance
7 requirements for well performing assets. Thus, the FAP Revisions mitigate high
8 risk scenarios while not over burdening the market unnecessarily.

9 **C. INTRA-MONTH COLLATERAL VARIABLE ADDITION**

10 **Q: PLEASE EXPLAIN THE INTRA-MONTH COLLATERAL REVISION.**

11 A: The third revision to the FCM Delivery Financial Assurance calculation is the
12 addition of a variable: “intra-month collateral” or “IMC.” The addition of this
13 variable to the formula is to enhance clearing risk management (*i.e.*, the risk that
14 incurred penalties won’t be timely discharged) that is currently addressed by the
15 MCC variable in the formula. The IMC variable will collateralize incurred PFP
16 penalties within the month they are incurred (*i.e.*, within the month of the CSC)
17 by adding to, in the case of a performance penalty, or subtracting from, in the case
18 of a performance credit, a Market Participant’s FCM Delivery Financial
19 Assurance.

20 **Q: PLEASE EXPLAIN WHY THE ADDITION OF THE IMC VARIABLE**
21 **WILL ENHANCE CLEARING RISK MANAGEMENT.**

22 A: Currently, the monthly capacity charge (“MCC”) component of the FCM
23 Delivery Financial Assurance is an amount equal to all capacity payments

1 incurred in previous months, but not yet billed. This value is either added to, or
2 subtracted from, a Market Participant's FCM Delivery Financial Assurance
3 (depending on whether it is a charge or a credit) and is estimated from the first
4 day following a completed delivery month. It is replaced with the actual settled
5 value when settlement is complete. The current method of increasing collateral
6 requirements on the first day of the month following the incurrence of penalties
7 from a recent CSC results in unsecured credit exposure during the month in which
8 the CSC occurred. If a CSC, resulting in penalties, occurs early in a month, there
9 could be a time-lag of up to twenty-two days between the date the PFP penalties
10 are calculated and the resulting collateral increases on the first day of the
11 following month.

12 **Q: HOW IS THE IMC VARIABLE CALCULATED?**

13 A: The IMC is an estimated value to reflect the time it takes to finalize the
14 settlements related to CSCs. Typically, upon the occurrence of a CSC, provisional
15 operating performance scores are available to a Market Participant in its Market
16 Information Server (MIS) report approximately five business days later. The IMC
17 variable will not calculate until three days after the publication of this report to
18 allow Market Participants adequate time to increase their collateral. Three days
19 was selected to balance the risk that occurs from including a lag from when a
20 penalty is incurred to when it is collateralized and the need to allow Market
21 Participants time to increase their collateral, if necessary, accounting for the
22 potential that the three days will include non-business days (e.g., a weekend).

23

1 Once a new month begins, the MCC variable will collateralize any penalties that
2 have been incurred but not yet billed, and the IMC variable will reduce
3 accordingly.

4 **D. CONFORMING AND CLEAN-UP CHANGES**

5 **Q: ARE THERE OTHER CHANGES INCLUDED IN THE FAP REVISIONS?**

6 A: Yes, in addition to the three changes I have described above (scaling factor,
7 CWAP, and IMC changes), the FAP Revisions include a few conforming and
8 clean-up changes.

9 **Q: PLEASE DESCRIBE THE FIRST CHANGE, THE DELETION OF THE**
10 **DISCOUNT FACTOR VARIABLE.**

11 A: The FAP Revisions delete the “discount factor” or “DF” variable from the FCM
12 Delivery Financial Assurance calculation. This variable was a multiplier applied
13 to the formula for the three Capacity Commitment Periods beginning June 1, 2018
14 and ending May 31, 2021 to reflect the phase in of the Capacity Performance
15 Payment Rate as the PFP design was implemented. Because those Capacity
16 Commitment Periods have passed, the discount factor is no longer applicable and
17 can be deleted.

18 **Q: PLEASE DESCRIBE THE SECOND CONFORMING CHANGE, THE**
19 **UPDATING OF THE ABR VARIABLE.**

20 A: The FAP Revisions update the ABR variable to make it consistent with the
21 CWAP variable. As I testified earlier, a portion of the FCM Delivery Financial
22 Assurance reflects the performance of a Market Participant’s capacity resources:
23 $\max[(ABR-CWAP), 01]$. This portion of the formula reflects that when

1 calculating collateral requirements, the standard of performance a resource is held
2 to is based on the Capacity Balancing Ratio (*i.e.*, the amount of capacity that a
3 resource provides during a CSC is measured against the ratio of the total amount
4 of load plus the reserve requirement, divided by the total amount of CSOs).
5 Accordingly, “max[(ABR-CWAP), 0]” is a percentage of the duration weighted
6 average of all system-wide Capacity Balancing Ratios for each CSC minus a
7 Market Participant’s capacity weighted performance during CSCs over the past
8 three years. Because the FAP Revisions update the CWAP calculation to include
9 recent operating performance data from the relevant group of months within the
10 current Capacity Commitment Period, corresponding changes must be made to
11 the ABR calculation. In other words, if the Market Participant specific variable
12 within this portion of the formula reflects data from the current Capacity
13 Commitment Period, then the variable that reflects the system-wide Capacity
14 Balancing Ratios must also be adjusted to include data from the current Capacity
15 Commitment Period.

16 **Q: PLEASE DESCRIBE THE FINAL CLEAN-UP CHANGE.**

17 A: The last clean-up change updates the word “instant” to “current” within the “PE,”
18 “ABR,” and “CWAP” variables when describing the current Capacity
19 Commitment Period for consistency throughout the formula. This is not a
20 substantive change. It does not affect the current/future calculation of such
21 variables and only updates the language for clarity and consistency.

1 Q: DOES THIS CONCLUDE YOUR TESTIMONY?


2 A: Yes.

3

4 I declare under penalty of perjury that the foregoing is true

5 and correct. Executed on December 14, 2023.

6

7 

8 Christopher Nolan, Director, Market and Credit Risk

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