

## **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: (i) a list of Principals; (ii) a list of any material criminal or civil litigation involving the customer or applicant or any of the Principals of the customer or applicant arising out of participation in any U.S. wholesale or retail energy market in the past five years; (iii) a list of sanctions involving the customer or applicant or any of the Principals of the customer or applicant 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 where such sanctions were either imposed in the

past five years or, if imposed prior to that, are still in effect; (iv) a written summary of any bankruptcy, dissolution, merger or acquisition of the customer or applicant in the preceding five years; and (v) a list of current retail and wholesale electricity markets-related operations in the United States, other than in the New England Markets. 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, 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 and must be notarized. 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 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 customer with FTR transactions in any currently open month that exceed 1,000 MW per month 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 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; or (ii) that changes have been made to the previously submitted written risk management policies, procedures, and controls 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 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, and controls 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 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 and must be notarized. 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. Such a customer or applicant may enter into future transaction of a duration of one month or less in the FTR system. 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 and must be notarized. 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 and must be notarized.

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.

**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>
<u>S&amp;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%

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:

**Investment Grade Rating**

**Percentage of Tangible Net Worth**

<b>S&amp;P/Fitch</b>	<b>Moody's</b>	
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) 120 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 for such Market Participant that have been invoiced but not paid (which amount shall not be less than \$0), plus (y) the Hourly Charges for such Market Participant that have been settled but not invoiced, plus (z) the Hourly 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 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 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 “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 capacity transactions, (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;
- (iii) 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.
- (iv) 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);
- (v) 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 Virtual Requirements; plus
  - c. such Market Participant's Non-Hourly Requirements times 2.5-0 (subject to Section X.D with respect to Provisional Members); plus
  - d. such Market Participant's "FTR Financial Assurance Requirements" under Section VI below; plus
  - e. such Market Participant's "FCM Financial Assurance Requirements" under Section VII below; plus
  - f. the amount of any Disputed Amounts received by such Market Participant; and
- (vi) 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 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 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, or (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. 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. However, if a Market Participant has provided the financial assurance required for a Capacity Supply Obligation Bilateral, then that Capacity Supply Obligation Bilateral 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 as a 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.

#### **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:

$$FAR = G + T + L + E$$

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

$$G = (MW_g \times Hr_{DA} \times D \times 3.25) + (MW_g \times Hr_{MIS} \times S_2 \times 3.25);$$

Where:

$MW_g$  = Total nameplate capacity of the Market Participant’s generation units that have achieved commercial operation;

$Hr_{DA}$  = 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;

$D$  = 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;

$Hr_{MIS}$  = 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

$S_2$  = The per MW amount assessed pursuant to Schedule 2 of Section IV.A of this Tariff, as determined by the ISO.

$T$  =  $MW_t \times Hr_{MIS} \times (D + S_{2-3}) \times 3.25$ ;

Where:  $MW_t$  = 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>
<b>S&amp;P/Fitch</b>	<b>Moody’s</b>	
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>
<b>S&amp;P/Fitch</b>	<b>Moody’s</b>	
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 FTR Bid Financial Assurance, the FTR Award 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 bid that is awarded to it in an FTR Auction. The amount of a Designated FTR Participant’s FTR Settlement Risk Financial Assurance for each FTR bid or awarded FTR bid shall be based upon the node(s)-specific on-peak and off-peak proxy value to which such FTR bid or awarded FTR bid relates (the “Nodal Amount”) multiplied by the number of MW-months included in the Designated FTR Participant’s bid or remaining in the awarded FTR bid. The Nodal Amount for each node shall be determined from time to time by the ISO based on historical data for that node according to a methodology approved from time to time by the NEPOOL Budget and Finance Subcommittee and shall be posted on the ISO’s website. Such Nodal Amounts may be adjusted from time to time. In no event will the FTR Settlement Risk Financial Assurance be less than \$0.

### **B. FTR Bid Financial Assurance**

A Designated FTR Participant is required to provide “FTR Bid Financial Assurance” for each bid it submits into an FTR Auction. The amount of a Designated FTR Participant’s FTR Bid Financial Assurance for any FTR Auction is the maximum dollar value of the bids submitted by such Designated FTR Participant in such FTR Auction at the time such



FTR Auction closes. For purposes of calculating FTR Bid Financial Assurance, negative bids are treated as having a value of \$0.

**C. FTR Award Financial Assurance**

A Designated FTR Participant is required to maintain, at all times, “FTR Award Financial Assurance” for each FTR awarded to it in an FTR Auction. The amount of a Designated FTR Participant’s FTR Award Financial Assurance shall be the total dollar amount of any FTRs awarded to that Designated FTR Participant in any FTR Auctions. Once an FTR is awarded, the FTR Bid Financial Assurance that relates to the bid for that FTR will be converted to the FTR Award Financial Assurance related to such awarded FTR. The required amount of the FTR Award Financial Assurance will be based on the amount of the awarded FTR, not the FTR Bid Financial Assurance, and will decrease proportionately as the amount due with respect to such awarded FTR decreases in a manner approved by the NEPOOL Budget and Finance Subcommittee from time to time. Unpaid credits due to a Designated FTR Participant for short-term FTR awards, and unpaid credits due to a Designated FTR Participant for long-term FTR awards for the current month only, may offset other FTR obligations for purposes of calculating that Designated FTR Participant’s FTR Award Financial Assurance. In the event that, as a result of those offsets, a Designated FTR Participant’s FTR Award Financial Assurance is less than \$0, those offsets may be used to reduce that Designated FTR Participant’s FTR Financial Assurance Requirements or remaining Financial Assurance Requirement.

**D. 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.

**E. 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 any Forward Capacity Auctions, reconfiguration auctions or Capacity Supply Obligation Bilaterals for capacity 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. Commercial Capacity**

A Designated FCM Participant offering the capacity of a Resource that (i) has been declared commercial and had its capacity rating verified by the ISO and (ii) has not elected to be treated as, and is not required to be treated as, a New Generating Capacity

Resource in connection with new investment in that Resource pursuant to Market Rule 1 (“Commercial Capacity”) into an upcoming Forward Capacity Auction or providing Commercial Capacity during any Capacity Commitment Period must generally comply with the requirements of the ISO New England Financial Assurance Policy with respect to such transactions; provided, however, that for any Resource representing Commercial Capacity that has been permitted to retire at the end of a current Capacity Commitment Period under Section I.3.9 of the ISO Tariff or any similar provision and whose obligation to provide all of such Commercial Capacity during that Capacity Commitment Period has not been transferred to another Resource, the Designated FCM Participant for such Resource shall include in the calculation of its Financial Assurance Requirement under the Policy, beginning at least five (5) Business Days prior to the applicable Capacity Commitment Period, an amount equal to two and one-half (2.5) times the monthly FCM payment due to such Designated FCM Participant with respect to such Commercial Capacity during the applicable Capacity Commitment Period.

**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 Forward Capacity Auction Starting Price 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:

Non-Commercial Capacity Financial Assurance Amount = NCC x NCCFCA\$ x Multiplier

Where:

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

NCCFCA\$ = the applicable capacity price from the Forward Capacity Auction in which the Capacity Supply Obligation was awarded

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.

**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 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” above, 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. FCM Capacity Charge Requirements**

The FCM Capacity Charge Requirements shall be calculated for the current month and all previously unbilled months. The FCM Capacity Charge Requirements shall be the product of the Estimated Capacity Load Obligation times the FCM Charge Rate for the applicable Capacity Zone. For purposes of this calculation, the Estimated Capacity Load Obligation shall be the Capacity Requirement from the latest available month, adjusted as appropriate to account for any relevant Capacity Load Obligation Bilaterals, HQICCs, and Self-Supplied FCA Resource Designations for the applicable month. For purposes of this calculation, the FCM Charge Rate for a Capacity Zone will be calculated using the same methodology described in Section III.13.7.3 of Market Rule 1 for deriving the Net Regional Clearing Price, with the exceptions that the FCM Charge Rate: will not subtract PER adjustments or account for adjustments related to any Demand Resource Performance Penalties in excess of Demand Resource Performance Incentives, each as described in Section III.13.7.3 of Market Rule 1; and will include the balance of the CTR fund after the value of specifically allocated CTRs has been paid, as described in Section III.13.7.3.3.1 of Market Rule 1, but without the adjustments for PER and for Demand Resource Performance Penalties net of Demand Resource Incentives described in such section.

**D. Loss of Capacity and Forfeiture of 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 FCM Financial Assurance Requirements 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 financial assurance provided by that Designated FCM Participant with respect to terminated Capacity Supply Obligations associated with Non-Commercial Capacity 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 associated with Non-Commercial Capacity is terminated under Market Rule 1, the ISO will draw down the entire amount of the financial assurance provided by such Designated FCM Participant with respect to such terminated Non-Commercial Capacity. 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) by such Designated FCM Participant with respect to such terminated Non-Commercial Capacity, 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 additional financial assurance required with respect to its Resources included in that Composite FCM Transaction, determined as follows:

1. the FCM Financial Assurance Requirements, if any, 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. if any Resource in the Composite FCM Transaction has been permitted to retire at the end of a current Capacity Commitment Period under Section I.3.9 of the ISO Tariff or any similar provision, the FCM Financial Assurance Requirements under Section VII.A with respect to that Resource will expire when that Resource is no longer responsible for providing capacity;
3. if the Composite FCM Transaction involves one or more Resources seeking to provide or providing Non-Commercial Capacity, the FCM Financial Assurance Requirements 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 additional financial assurance 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 returned by the ISO to such Designated FCM

Participant under Section VII.B.3 when the corresponding Resource has been declared commercial and successfully verified for its capacity ratings by the ISO or has otherwise become a Resource meeting the definition of Commercial Capacity above and all of the other requirements of Section VII.B.3 have been satisfied; and

5. for purposes of Section VII.D, any termination of Non-Commercial Capacity shall apply only to 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.

**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 period including the earliest month that has not yet been billed and each of the eleven months immediately thereafter, 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)). 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 Capacity Supply Obligations in the Forward Capacity Market for the month, including those resulting from the Forward Capacity Auction, any applicable reconfiguration auctions, and any applicable Capacity Supply Obligation Bilaterals. However, such charges and credits shall not include uncleared offers to supply capacity in any applicable reconfiguration auctions or any applicable Capacity Supply Obligation Bilaterals. 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 MW at the zonal clearing price for all activity in that reconfiguration auction.

**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 Credits for Capacity Supply Obligations**

If in none of the twelve months described in Section VII.F.1 (a) the net monthly FCM revenue results in a charge to that Designated FCM Participant, then the Designated FCM Participant's FCM Financial Assurance Requirements will be reduced by the sum of net credits for any months prior to and including the current month in which the net FCM

revenue results in a credit to that Designated FCM Participant and that have not yet been invoiced.

**VIII. [Reserved]**

**IX. THIRD-PARTY CREDIT PROTECTION**

The ISO shall obtain third-party credit protection, in the form of credit insurance coverage, a performance or surety bond, or a combination thereof (“Credit Coverage”), on terms acceptable to the ISO in its reasonable discretion covering collectively the Credit Qualifying Rated Market Participants. The amount of the Credit Coverage shall be adjusted monthly and shall be equal to at least the sum of (x) 3.5 times the average Hourly Charges for all Credit Qualifying Market Participants within the previous fifty-two calendar weeks plus (y) 3.5 times the sum of the average Non-Hourly Charges and the average Transmission Charges for all Credit Qualifying Market Participants within the previous twelve calendar months. 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 Market Participants pro rata based, for each Credit Qualifying Market Participant, on the average amount of the Invoices issued to that Credit Qualifying Market Participant under the ISO New England Billing Policy in the preceding calendar year. Each Credit Qualifying 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 additional 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." 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. 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 New York Mercantile Exchange ("NYMEX") or 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 NYMEX or 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, the applicable Posting Entity will have five (5) Business Days from the date on which the ISO provides notice of such failure 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. In the case of a bank that is removed from the NYMEX or CME list of approved letter of credit banks, 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.

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 the bank will no longer be eligible to issue or confirm letters of credit in favor of the ISO and any letters of credit issued or confirmed by such bank in favor of the ISO will not be renewed. 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. 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](mailto: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 LETTER OF CREDIT**

[DATE PROVIDED]

IRREVOCABLE STANDBY LETTER OF CREDIT NO.

[EXPIRATION DATE] AT OUR COUNTERS

WE DO HEREBY ISSUE AN IRREVOCABLE NON-TRANSFERABLE STANDBY LETTER OF CREDIT BY ORDER OF AND FOR THE ACCOUNT OF ON BEHALF OF [POSTING ENTITY] (“ACCOUNT PARTY”) IN FAVOR OF ISO NEW ENGLAND INC. (“ISO”) IN AN AMOUNT NOT EXCEEDING US\$ \_\_\_\_\_.00 (UNITED STATES DOLLARS \_\_\_\_\_ AND 00/100) AGAINST PRESENTATION TO US OF 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] (“BANK”), WITH REFERENCE TO IRREVOCABLE NON-TRANSFERABLE STANDBY LETTER OF CREDIT NO. ISSUED BY [BANK] 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 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 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 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 LETTER OF CREDIT IS NOT TRANSFERABLE OR ASSIGNABLE. THIS 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 UCP, AS DEFINED BELOW) OR (B) IN WHICH THIS LETTER OF CREDIT IS REFERRED TO OR TO WHICH THIS LETTER OF CREDIT RELATES.

THIS LETTER OF CREDIT SHALL BE GOVERNED BY THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS, 2007 REVISION, INTERNATIONAL CHAMBER OF COMMERCE PUBLICATION NO. 600 (THE "UCP"), EXCEPT TO THE EXTENT THAT TERMS HEREOF ARE INCONSISTENT WITH THE PROVISIONS OF THE UCP, INCLUDING BUT NOT LIMITED TO ARTICLES 14(b) AND 36 OF THE UCP, IN WHICH CASE THE TERMS OF THE LETTER OF CREDIT SHALL GOVERN.

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

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



PRESENTATION OF ANY DRAWING CERTIFICATE UNDER THIS STANDBY LETTER OF CREDIT MAY BE SENT TO US BY COURIER, CERTIFIED MAIL, REGISTERED MAIL, TELEGRAM, OR FACSIMILE WITH A CONFIRMING COPY OF SUCH FACSIMILE SENT AFTER THE DRAWING BY CERTIFIED MAIL TO THE ADDRESS SET FORTH BELOW, 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 LETTER OF CREDIT:

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

IF TO THE ACCOUNT PARTY:

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

IF TO US:

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

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[signature]

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[signature]

**ATTACHMENT 3**

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

<b>Certifying Entity:</b>	
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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), 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 function<sup>1</sup>, 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.

Date: \_\_\_\_\_

\_\_\_\_\_  
(Signature)

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

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<sup>1</sup> 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.

Subscribed and sworn before me \_\_\_\_\_, a notary public of the State of \_\_\_\_\_, in and for the County of \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

\_\_\_\_\_

(Notary Public Signature)

My commission expires: \_\_\_\_/\_\_\_\_/\_\_\_\_

ATTACHMENT 4

ISO NEW ENGLAND ADDITIONAL ELIGIBILITY REQUIREMENTS  
CERTIFICATION FORM

<b>Certifying Entity:</b>	
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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.

\_\_\_\_\_  
(Signature)

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Subscribed and sworn before me \_\_\_\_\_, a notary public of the State of \_\_\_\_\_, in and for the County of \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

\_\_\_\_\_

(Notary Public Signature)

My commission expires: \_\_\_\_/\_\_\_\_/\_\_\_\_

ATTACHMENT 5

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

<b>Certifying Entity:</b>	
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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 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 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 applicable to the Certifying Entity’s participation in the FTR market and such changes are clearly identified and attached hereto.\*

\_\_\_\_\_  
(Signature)

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Subscribed and sworn before me \_\_\_\_\_, a notary public of the State of \_\_\_\_\_, in and for the County of \_\_\_\_\_, this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

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(Notary Public Signature)

My commission expires: \_\_\_\_/\_\_\_\_/\_\_\_\_

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- \* 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.