



March 1, 2018

VIA ELECTRONIC FILING

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

Re: Revisions to ISO New England Transmission, Markets and Services Tariff Related to a Market Participant's Forward Capacity Market Financial Assurance Requirements Under the Financial Assurance Policy, Docket No. ER18-000

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act,¹ ISO New England Inc. ("ISO"), joined by the New England Power Pool ("NEPOOL") Participants Committee (together, the "Filing Parties"),² hereby submit to the Federal Energy Regulatory Commission ("Commission") this transmittal letter and revisions to the ISO's Transmission, Markets and Services Tariff ("Tariff") to modify the calculation of FCM Delivery Financial Assurance³ in the ISO New England Financial Assurance Policy ("FAP").⁴ In support of these Tariff changes, the ISO is submitting the testimony of Robert Henry, Director of Enterprise Risk Management at the ISO ("Henry Testimony"), which is sponsored solely by the ISO. The Tariff revisions filed here were considered through the complete NEPOOL Participant Processes and received the unanimous support of the NEPOOL Participants Committee. **The ISO respectfully requests an effective date of June 1, 2018 for these changes.**

¹ 16 U.S.C. § 824d (2012).

² Under New England's RTO arrangements, the ISO has the rights to make this filing of changes to the Tariff under Section 205 of the Federal Power Act. NEPOOL, which pursuant to the Participants Agreement provides the sole Market Participant stakeholder process for advisory voting on ISO matters, supported the changes reflected in this filing and accordingly, joins in this Section 205 filing.

³ Capitalized terms used but not defined in this filing are intended to have the meaning given to such terms in the Tariff, the Second Restated New England Power Pool Agreement, and the Participants Agreement.

⁴ The FAP is Exhibit IA to Section I of the Tariff.

I. DESCRIPTION OF THE FILING PARTIES AND COMMUNICATIONS

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

NEPOOL is a voluntary association organized in 1971 pursuant to the New England Power Pool Agreement, and it has grown to include more than 470 members. The participants include all of the electric utilities rendering or receiving service under the Tariff, as well as independent power generators, marketers, load aggregators, brokers, consumer-owned utility systems, end users, developers, demand resource providers, and a merchant transmission provider. Pursuant to revised governance provisions accepted by the Federal Energy Regulatory Commission (the "Commission"),⁵ the participants act through the NEPOOL Participants Committee. The Participants Committee is authorized by Section 6.1 of the Second Restated NEPOOL Agreement and Section 8.1.3(c) of the Participants Agreement to represent NEPOOL in proceedings before the Commission. Pursuant to Section 2.2 of the Participants Agreement, "NEPOOL provide[s] the sole Participant Processes for advisory voting on ISO matters and the selection of ISO Board members, except for input from state regulatory authorities and as otherwise may be provided in the Tariff, [Transmission Operating Agreement] and the Market Participant Service Agreement included in the Tariff."

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⁵ *ISO New England Inc.*, 109 FERC ¶ 61,147 (2004).

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II. STANDARD OF REVIEW

The Tariff revisions are submitted pursuant to Section 205 of the Federal Power Act, which “gives a utility the right to file rates and terms for services rendered with its assets.”⁷ Under Section 205, the Commission “plays ‘an essentially passive and reactive’ role”⁸ whereby it “can reject [a filing] only if it finds that the changes proposed by the public utility are not ‘just and reasonable.’”⁹ The Commission limits this inquiry “into whether the rates proposed by a utility are reasonable – and [this inquiry does not] extend to determining whether a proposed rate schedule is more or less reasonable than alternative rate designs.”¹⁰ The revisions filed herein “need not be the only reasonable methodology, or even the most accurate.”¹¹ As a result, even if an intervenor or the Commission develops an alternate proposal, the Commission must accept this Section 205 filing if it is just and reasonable.¹²

⁶ Due to the joint nature of this filing, the Filing Parties respectfully request a waiver of Section 385.203(b)(3) of the Commission’s regulations to allow the inclusion of more than two persons on the service list in this proceeding.

⁷ *Atlantic City Elec. Co. v. FERC*, 295 F.3d 1, 9 (D.C. Cir. 2002).

⁸ *Id.* at 10 (quoting *City of Winnfield v. FERC*, 744 F.2d 871, 876 (D.C. Cir. 1984)).

⁹ *Id.* at 9.

¹⁰ *Cities of Bethany, Bushnell et al. v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir.), *cert. denied*, 469 U.S. 917 (1984) (“*Cities of Bethany*”); *see also ISO New England Inc.*, 114 FERC ¶ 61,315 at P 33 and n.35 (2006) (citing *Pub. Serv. Co. of New Mexico v. FERC*, 832 F.2d 1201, 1211 (10th Cir. 1987) and *Cities of Bethany* at 1136.).

¹¹ *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995) (citing *Cities of Bethany* at 1136).

¹² *Cf. Southern California Edison Co., et al.*, 73 FERC ¶ 61,219 at 61,608 n.73 (1995) (“Having found the Plan to be just and reasonable, there is no need to consider in any detail the alternative plans proposed by the Joint Protesters.”) (citing *Cities of Bethany* at 1136).

III. DESCRIPTION OF THE REVISIONS TO THE ISO TARIFF

A. FCM Delivery Financial Assurance

FCM Delivery Financial Assurance is one component of the financial assurance that a Market Participant will be required to provide if it is participating in the Forward Capacity Market upon the implementation of the two-settlement capacity market design (often referred to as Pay For Performance, or “PFP”) on June 1, 2018.¹³ Under the Forward Capacity Market design reflected in the currently-effective Tariff, capacity payments cannot be negative, and hence, for commercial resources, there is no potential financial obligation to collateralize. Under PFP, however, a resource’s net capacity payments may be negative, and so the FAP was revised to account for the possibility of net payment obligations under PFP. To collateralize this additional potential obligation, a Market Participant with a Capacity Supply Obligation will be required to add FCM Delivery Financial Assurance to its total financial assurance requirements calculation beginning on June 1, 2018.¹⁴

As already filed with and accepted by the Commission, FCM Delivery Financial Assurance will be calculated using the following formula: $\text{FCM Delivery Financial Assurance} = \text{MCC} + \text{DFAMW} \times \text{PE} \times \max[(\text{ABR}-\text{CWAP}), 0.1] \times \text{SF} \times \text{DF}$.¹⁵ As explained in the Henry Testimony, generally, this formula is designed to address three types of risk: clearing risk, credit risk, and liquidation risk. Clearing risk is the potential that a Market Participant does not pay their incurred FCM Charges in a timely manner (covered by the MCC variable). Credit risk is the potential that a Market Participant will default on payment obligations arising from negative capacity payments associated with a Capacity Supply Obligation (covered by the following portion of the formula: $\text{DFAMW} \times \text{PE} \times \max[(\text{ABR}-\text{CWAP}), 0.1]$). Finally, liquidation risk is the potential that losses may continue to accrue against a defaulted Capacity Supply Obligation up to the annual stop-loss in any Capacity Commitment Period prior to a Market Participant being able to close the position and, that the defaulted position, is sold at a loss (covered by the SF variable). (The DF, or discount factor, variable is not directly related to these three types of risk; it is a multiplier that accounts for the phase-in of the Capacity Performance Payment Rate.)¹⁶

¹³ See ISO New England Inc. and New England Power Pool, Filings of Performance Incentives Market Rule Changes, Docket Nos. ER14-1050-000 and ER14-1050-001, January 17, 2014 (“January 17 Filing”); ISO New England Inc. and New England Power Pool, Compliance Filing of Two-Settlement Forward Capacity Market Design, Docket Nos. ER14-2419-000, July 14, 2014 (“July 14 Filing”). See also ISO New England Inc. and New England Power Pool, Order on Tariff Filing and Instituting Section 206 Proceeding, 147 FERC ¶61,172 (May 30, 2014); ISO New England Inc., Order on Compliance Filing, 149 FERC ¶61,009 (October 2, 2014); ISO New England Inc., Letter Order Accepting Compliance Filing in Docket No. ER14-2419-002 (January 15, 2015).

¹⁴ See Henry Testimony at 2-3.

¹⁵ See revised FAP Section VII.A.

¹⁶ See Henry Testimony at 3.

As explained by Mr. Henry, with the benefit of additional consideration since that formula was accepted by the Commission, the ISO has determined that modifications to the FCM Delivery Financial Assurance calculation are warranted. There are two general categories of revisions being made here to the FCM Delivery Financial Assurance Calculation, each of which will be discussed in more detail below. First, the monthly capacity charge (“MCC”) component of the FCM Delivery Financial Assurance formula is being revised to include both positive and negative Monthly Capacity Payments (so that positive Monthly Capacity Payments may serve to reduce the Market Participant’s financial assurance requirements). Second, three other components of the FCM Delivery Financial Assurance formula are being revised to improve the collateralization of energy efficiency resources.¹⁷

1. Changes to the Monthly Capacity Charge

As explained in the Henry Testimony, pursuant to the version of the FAP already accepted by the Commission (to become effective on June 1, 2018), the MCC component of the FCM Delivery Financial Assurance formula is defined as the sum of any negative Monthly Capacity Payments incurred in previous months, but not yet paid. Limiting the MCC to only negative Monthly Capacity Payments in this manner ensures that the MCC can only be a negative value (a charge). To collateralize this charge, the amount of that charge (or more precisely, the absolute value of the amount of that charge) is added to the FCM Delivery Financial Assurance. Hence, as currently conceived, the MCC can only increase the amount of FCM Delivery Financial Assurance that a Market Participant must provide.¹⁸

With the benefit of additional consideration, Mr. Henry states, the ISO has concluded that it is not appropriate to limit the MCC in this manner. It is needlessly restrictive to only consider negative Monthly Capacity Payments in determining the amount of FCM Delivery Financial Assurance. If a Market Participant is instead set to receive positive Monthly Capacity Payments, it is appropriate that the financial assurance calculation recognize such positive payments, and that they serve to reduce the amount of FCM Delivery Financial Assurance that the Market Participant must provide. For this reason, the definition of MCC is being revised to remove the reference to “negative” Monthly Capacity Payments, such that it will instead apply to both negative and positive Monthly Capacity Payments.¹⁹

With this change, it is possible that a sufficient amount of positive Monthly Capacity Payments could reduce the amount of FCM Delivery Financial Assurance that a Market Participant must provide to zero, or even below zero. This simply means that the Market Participant is set to receive payments equal to or larger than the amount of collateral required pursuant to the other terms of the FCM Delivery Financial Assurance calculation. As Mr. Henry explains, the ISO believes that in such a case, it is appropriate that such payments be permitted to

¹⁷ See Henry Testimony at 4 and revised FAP Section VII.A.

¹⁸ See Henry Testimony at 4-5.

¹⁹ See Henry Testimony at 5.

offset the Market Participant's other Financial Assurance Obligations (excluding FTR Financial Assurance Requirements). Not doing so could lead to unnecessary over-collateralization. To effectuate this change, a provision is being added stating that if a participant's FCM Delivery Financial Assurance is negative (again, which can result from accounting for positive Monthly Capacity Payments), the negative portion will be used to reduce the participant's Financial Assurance Obligations (excluding FTR Financial Assurance Requirements²⁰), but not to less than zero.²¹

Mr. Henry further explains that the change to the MCC described above requires a couple of minor conforming changes. First, because the MCC will account for both negative and positive Monthly Capacity Payments, it is no longer accurate to refer to such payments that have not yet been "paid" (which is specific to negative payments). To better reflect the new structure, the revised language will instead refer to Monthly Capacity Payments incurred in previous months, but not yet "billed."²²

Second, in the revised FCM Delivery Financial Assurance formula, the MCC value will be subtracted from the other terms rather than added to them. When the MCC only accounted for negative Monthly Capacity Payments, and hence could only be a charge, there was little ambiguity that the absolute value of the amount of that charge must be added to the total amount of FCM Delivery Financial Assurance to properly collateralize that charge. With the revised MCC accounting for both positive and negative Monthly Capacity Payments, it is more important to properly address whether the MCC is positive or negative. Subtracting the MCC at the end of the formula accomplishes this. If the MCC is positive (as a result of positive Monthly Capacity Payments), subtracting it from the other terms of the FCM Delivery Financial Assurance will, appropriately, lower the total amount of FCM Delivery Financial Assurance. If the MCC is negative (as a result of negative Monthly Capacity Payments), subtracting it from the other terms of the FCM Delivery Financial Assurance will increase the total amount of FCM Delivery Financial Assurance.²³

2. Changes Regarding Energy Efficiency

In the Commission's May 30, 2014 Order, the Commission largely accepted the ISO's PFP design but did require some changes, including changes to ensure that "energy efficiency resources' Capacity Performance Payments are calculated only for Capacity Scarcity Conditions

²⁰ This potential offset will not apply to the Market Participant's FTR Financial Assurance Requirements, consistent with current practice and with clear Commission direction in Order No. 741 prohibiting the netting of credit requirements between FTR and non-FTR activity. *See* Henry Testimony at 6. *See also* Credit Reforms in Organized Wholesale Electric Markets, 133 FERC ¶ 61,060, at P 78 (issued October 21, 2010).

²¹ *See* Henry Testimony at 5-6.

²² *See* Henry Testimony at 7.

²³ *See* Henry Testimony at 7-8.

during hours in which demand reduction values are calculated under the Tariff for that particular type of resource.”²⁴ In July 2014, the ISO filed Tariff changes to address this directive by clarifying that an energy efficiency resource will only be subject to Capacity Performance Payments during Demand Resource On-Peak Hours or Demand Resource Seasonal Peak Hours (depending on whether the energy efficiency resource has selected to be treated as an On-Peak Demand Resource or a Seasonal Peak Demand Resource).²⁵

As explained by Mr. Henry, the ISO did not make associated changes to the FAP at that time, but with the benefit of additional consideration, has determined that such changes are warranted. Because Demand Resource On-Peak Hours and Demand Resource Seasonal Peak Hours only occur in the months of June, July, August, December, and January, energy efficiency resources will not be subject to negative Capacity Performance Payments in months other than June – August and December and January. In other words, it will be impossible for an energy efficiency resource to receive a negative Capacity Performance Payment under the PFP design for seven months of the year, and there is no need to collateralize such payments during those months.²⁶

Accordingly, modifications are needed to the FCM Delivery Financial Assurance calculation to properly reflect this. These modifications will require updates to the delivery financial assurance MW (“DFAMW”), potential exposure (“PE”), and capacity weighted average performance (“CWAP”) variables in the FCM Delivery Financial Assurance calculation. In each of these variables, language is being added that says “during February through May and September through November” the “Capacity Supply Obligation associated with any Energy Efficiency measures” will be excluded from the calculation of that variable. Adding this exclusion will ensure that energy efficiency resources will not be required to post collateral in months that they cannot incur negative Capacity Performance Payments.²⁷

B. Clean-Up and Conforming Revisions

In addition to the MCC and energy efficiency-related changes described above, the changes to the FAP filed here also include some additional clean-up and conforming changes.²⁸ First, to prevent potential double-collateralization of certain capacity charges that might be captured in both the MCC calculation and the calculation of financial assurance related to transfers of Capacity Supply Obligations in reconfiguration auctions, the latter provisions (in Section VII.F.1) are being revised such that they only apply in months not covered by the

²⁴ ISO New England Inc. and New England Power Pool, Order on Tariff Filing and Instituting Section 206 Proceeding, 147 FERC ¶61,172 (May 30, 2014).

²⁵ See Henry Testimony at 8 and July 14 Filing.

²⁶ See Henry Testimony at 8-9.

²⁷ See Henry Testimony at 9 and revised FAP Section VII.A.

²⁸ See Henry Testimony at 9-10.

MCC.²⁹ Second, during presentations of the MCC revisions discussed above, stakeholders indicated that some of the language in the FCM Delivery Financial Assurance provisions regarding timing is confusing, and so the revisions here clarify when estimated (as opposed to actual) MCC values will be used and when FCM Delivery Financial Assurance must be included in a participant's financial assurance.³⁰ Finally, an internal cross-reference clean-up change is being made in the description of the PE component of FCM Delivery Financial Assurance to properly reference a section in Market Rule 1,³¹ and the title of Section X.A in the FAP table of contents is being updated to match the text of the FAP.³²

IV. STAKEHOLDER PROCESS

The Tariff revisions filed here were considered through the complete NEPOOL Participant Processes. These changes were discussed by the NEPOOL Budget & Finance Subcommittee during its September 11, 2017, October 11, 2017, and November 28, 2017 teleconferences, and the subcommittee recommended without objection that the NEPOOL Participants Committee support the changes. At its November 3, 2017 and January 5, 2018 meetings, the Participants Committee unanimously approved the changes filed here.

V. REQUESTED EFFECTIVE DATE

The ISO requests that the Commission accept these Tariff changes as filed, without suspension or hearing, to be effective on June 1, 2018.

VI. ADDITIONAL SUPPORTING INFORMATION

Section 35.13 of the Commission's regulations generally requires public utilities to file certain cost and other information related to an examination of traditional cost-of-service rates.³³ However, the ISO is not a traditional investor-owned utility. Therefore, to the extent necessary, the Filing Parties request waiver of Section 35.13 of the Commission's regulations. Notwithstanding their request for waiver, the Filing Parties submit the additional information enumerated below in substantial compliance with the relevant provisions of Section 35.13.

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

- ◆ This transmittal letter;
- ◆ Marked sections of the Tariff, reflecting the revisions effected by this filing;

²⁹ See revised FAP Section VII.F.1.

³⁰ See revised FAP Section VII.A.

³¹ See revised FAP Section VII.A.

³² See revised FAP Table of Contents.

³³ 18 C.F.R. § 35.13 (2011).

- ◆ Clean sections of the Tariff incorporating the revisions effected by this filing;
- ◆ Testimony of Robert Henry (solely sponsored by the ISO); and
- ◆ List of governors, utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont, and others to which a copy of this filing has been e-mailed.

35.13(b)(2) – As noted in Part V above, the Filing Parties request that the revisions to the FAP become effective on June 1, 2018.

35.13(b)(3) - Pursuant to Section 17.11(e) of the Participants Agreement, Governance Participants are being served electronically rather than by paper copy. The names and addresses of the Governance Participants are posted on the ISO's website at <http://www.iso-ne.com/participate/participant-asset-listings>. A copy of this transmittal letter and the accompanying materials have also been sent electronically to the governors and electric utility regulatory agencies for the six New England states that comprise the New England Control Area, to the New England Conference of Public Utility Commissioners, and to the Executive Director of the New England States Committee on Electricity. In accordance with Commission rules and practice, there is no need for the Governance Participants or the other entities described above to be included on the Commission's official service list in the captioned proceeding unless such entities become intervenors in this proceeding.

35.13(b)(4) - A description of the materials submitted pursuant to this filing is contained in Part VI of this transmittal letter.

35.13(b)(5) - The reasons for this filing are discussed in Part III of this transmittal letter.

35.13(b)(6) – The ISO's approval of the revisions to the FAP is evidenced by this filing. The revisions to the FAP reflect the results of the Participant Processes required by the Participants Agreement and the support of the Participants Committee.

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

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

35.13(c)(1) – The Tariff changes herein do not modify a traditional "rate," and the statement required under this Commission regulation is not applicable to the instant filing.

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

35.13(c)(3) - No specifically assignable facilities have been or will be installed or modified in connection with the revisions filed herein.

VII. CONCLUSION

For the foregoing reasons, the Filing Parties respectfully request that the Commission accept the revisions to the FAP as described herein without condition or change.

Respectfully submitted,

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EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

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EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

Overview

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

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

I. GROUPS REGARDED AS SINGLE MARKET PARTICIPANTS

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

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

II. MARKET PARTICIPANTS' REVIEW AND CREDIT LIMITS

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

A. Minimum Criteria for Market Participation

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

1. Information Disclosure

- (a) Each customer and applicant, on an annual basis (by April 30 each year) shall submit: (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>
S&P/Fitch	Moody’s	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%

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

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

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

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

2. Market Credit Limit for Municipal Market Participants

The Market Credit Limit for each Credit Qualifying Municipal Market Participant shall be equal to the lesser of (i) 20 percent (20%) of TADO and (ii) \$25 million. The Market Credit Limit for each Non-Qualifying Municipal Market Participant shall be \$0. The sum

of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million.

E. Transmission Credit Limits

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

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

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

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

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

The Transmission Credit Limit of each Unrated Non-Municipal Market Participant that satisfies the Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Municipal Market Participant’s Tangible Net

Worth or (ii) \$25 million. The Transmission Credit Limit of each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold shall be \$0.

3. Transmission Credit Limit for Municipal Market Participants

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

F. Credit Limits for FTR-Only Customers

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

G. Total Credit Limit

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

or to the allocation applied by the ISO in the case of an Affiliate that provided no determination) such that the sum is no greater than \$50 million.

III. MARKET PARTICIPANTS' REQUIREMENTS

Each Market Participant that provides the ISO with financial assurance pursuant to this Section III must provide the ISO with financial assurance in one of the forms described in Section X below and in an amount equal to the amount required in order to avoid suspension under Section III.B below (the "Market Participant Financial Assurance Requirement"). A Market Participant's Market Participant Financial Assurance Requirement shall remain in effect as provided herein until the later of (a) 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. If a Market Participant has provided the financial assurance required for a Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, then that Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction,

respectively, will not be deemed to be terminated when that Market Participant is suspended.

b. Load Assets

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

c. FTRs

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

d. Virtual Transactions

Notwithstanding the foregoing, if a Market Participant is suspended in accordance with the provisions of the ISO New England Financial Assurance Policy as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant and, but for such Increment Offers and/or Decrement Bids, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, then such suspension shall be limited to (i) the immediate "last in, first out" rejection of pending individual uncleared Increment Offers and Decrement Bids submitted by that Market Participant (it being understood that Increment Offers and Decrement Bids are batched by the ISO in accordance with the time, and that Increment Offers and Decrement Bids will be rejected

by the batch); and (ii) the suspension of that Market Participant's ability to submit additional Increment Offers and Decrement Bids unless and until it has complied with the ISO New England Financial Assurance Policy, and the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of that Market Participant after giving effect to the immediate rejection of that Market Participant's Increment Offers and Decrement Bids described in clause (i).

e. Bilateral Transactions

If the sum of the financial assurance and credit limits of a Market Participant that has financial assurance requirements equals zero and that Market Participant would be in compliance with the ISO New England Financial Assurance Policy but for the submission of bilateral transactions to the ISO to which the Market Participant is a party, or if a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent as a result of one or more bilateral transactions submitted to the ISO to which the Market Participant is a party, then the consequences described in subsection (a) above shall be limited to: (i) rejection of any pending bilateral transactions to which a Market Participant is a party that cause the Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the Market Participants, such that the aggregate value of the pending bilateral transactions submitted by all Market Participants is maximized (recognizing the downstream effect that rejection of a bilateral transaction may have on the Market Credit Test Percentages, FTR Credit Test Percentages, or Transmission Credit Test Percentages of other Market Participants), while ensuring that the financial assurance requirements of each Market Participant are satisfied; and (ii) suspension of that Market Participant's ability to submit additional bilateral transactions until it has complied with the ISO New England Financial Assurance Policy (the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of the Market Participant after giving effect to the immediate rejection of the bilateral transactions to which the Market Participant is a party as described in clause (i) above). In the case of a bilateral transaction associated with the Day-Ahead Energy Market, the ISO will provide notice to a Market Participant that would be in default of the ISO New England Financial Assurance Policy as a result of the bilateral transaction, and the consequences described in clauses (i) and (ii) above shall only apply if the Market Participant fails to cure its default by 6:00 p.m. Eastern Time of that same Business Day. In the case of a Capacity Load Obligation Bilateral, the consequences

described in clauses (i) and (ii) above shall apply if the Market Participant does not cure its default within one Business Day after notification that a Capacity Load Obligation Bilateral caused the default. Bilateral transactions that transfer Forward Reserve Obligations and Supplemental Availability Bilaterals are not subject to the provisions of this Section III.B.3(e).

4. Serial Notice and Suspension Penalties

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

C. Additional Financial Assurance Requirements for Certain Municipal Market Participants

Notwithstanding the other provisions of the ISO New England Financial Assurance Policy and in addition to the other obligations hereunder, a Credit Qualifying Municipal Market Participant that is not a municipality (which, for purposes of this Section III.C, does not include an agency or subdivision of a municipality) must provide additional financial assurance in one of the forms described in Section X below in an amount equal to its FCM Financial Assurance Requirements at the time of calculation, unless either: (1) that Credit Qualifying Municipal Market Participant has a corporate Investment Grade Rating from one or more of the Rating Agencies; or (2) that Credit Qualifying Municipal Market Participant has an Investment Grade Rating from one or more of the Rating Agencies for all of its rated indebtedness; or (3) that Credit Qualifying Municipal Market Participant provides the ISO with an opinion of counsel that is acceptable to the ISO confirming that amounts due to the ISO under the Tariff have priority over, or have equal

priority with, payments due on the debt on which the Credit Qualifying Municipal Market Participant's Investment Grade Rating is based. Each legal opinion provided under clause (3) of this Section III.C will be updated no sooner than 60 days and no later than 30 days before each reconfiguration auction that precedes a Capacity Commitment Period to which such legal opinion relates, and if that update is not provided or that update is not acceptable to the ISO, the applicable Credit Qualifying Municipal Market Participant must either satisfy one of the other clauses of this Section III.C or provide additional financial assurance in one of the forms described in Section X below in an amount equal to its FCM Financial Assurance Requirements at the time of calculation.

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

The Market Credit Limit of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold shall at any time be equal to the least of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Market Participant Transmission Customer’s Tangible Net Worth, (ii) \$25 million or (iii) 20 percent (20%)

of TADO. The Market Credit Limit of each Unrated Non-Market Participant Transmission Customer that does not satisfy the NMPTC Credit Threshold shall be \$0.

2. NMPTC Transmission Credit Limit

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

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

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

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

3. NMPTC Total Credit Limit

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

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

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

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

Each Unrated Non-Market Participant Transmission Customer having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 65 days after the end of the applicable fiscal quarter of such Unrated Non-Market Participant Transmission Customer, its balance sheet, which shall show sufficient detail for the ISO to assess the Unrated Non-Market Participant Transmission Customer's Tangible Net Worth. Unrated Non-Market Participant Transmission Customers having a Market Credit Limit or Transmission Credit Limit greater than \$0 shall also provide additional financial statements, which shall show sufficient detail for the ISO to calculate such Unrated Non-Market Participant Transmission Customer's Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each such Unrated Non-Market Participant Transmission Customer that satisfies the Credit Threshold and has a Market Credit Limit or Transmission Credit Limit of greater than \$0 or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of becoming available and within 120 days after the end of the fiscal year of such Unrated Non-Market Participant Transmission Customer balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available,

then another alternative form of financial statements accepted by the ISO as described below may be submitted). Where any of the above financial information is available on the internet, the Unrated Non-Market Participant Transmission Customer may provide the ISO with a letter stating where such information may be located and retrieved.

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

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

Notwithstanding any other provision in this subsection, the ISO may require any Non-Market Participant Transmission Customer to submit the financial statements and other information described in this subsection. The Non-Market Participant Transmission Customer shall provide the requested statements and other information within 10 days of such request. If a Non-Market Participant Transmission Customer fails to provide financial statements or other information as requested and the ISO determines that the Non-Market Participant Transmission Customer poses an unreasonable risk to the New England Markets, then the ISO may request that the Non-Market Participant Transmission Customer provide additional financial assurance in an amount no greater than \$10 million, or take other measures to substantiate the Non-Market Participant Transmission Customer's ability to safely transact in the New England Markets (any additional financial assurance provided pursuant to this Section V.C shall not be counted

toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy). If the Non-Market Participant Transmission Customer fails to comply with such a request from the ISO, then the ISO may issue a notice of suspension or termination to the Non-Market Participant Transmission Customer. If the Non-Market Participant Transmission Customer fails to comply with the ISO's request within 5 Business Days from the date of issuance of the notice of suspension or termination, then the ISO may suspend or terminate the Non-Market Participant Transmission Customer.

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

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

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

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

1. Financial Assurance for ISO Charges

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

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

2. Financial Assurance for Transmission Charges

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

3. Notice of Failure to Satisfy NMPTC Financial Assurance Requirement

A Non-Market Participant Transmission Customer that knows or can reasonably be expected to know that it is not satisfying its NMPTC Financial Assurance Requirement shall notify the ISO immediately of that fact. Without limiting the availability of any other remedy or right hereunder, failure by any Non-Market Participant Transmission Customer to comply with the provisions of the ISO New England Financial Assurance Policy (including failure to satisfy its NMPTC Financial Assurance Requirement) may result in the commencement of termination of service proceedings against that non-complying Non-Market Participant Transmission Customer.

VI. ADDITIONAL PROVISIONS FOR FTR TRANSACTIONS

Market Participants must complete an ISO-prescribed training course prior to participating in the FTR Auction. All Market Participants transacting in the FTR Auction that are otherwise required to provide additional financial assurance under the ISO New England Financial Assurance Policy, including all FTR-Only Customers (“Designated FTR Participants”) are required to provide financial assurance in an amount equal to the sum of the FTR Settlement Risk Financial Assurance, the 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 the Forward Capacity Market that is otherwise required to provide additional financial assurance under the ISO New England Financial Assurance Policy (each a “Designated FCM Participant”), is required to provide additional financial assurance meeting the requirements of Section X below in the amounts described in this Section VII (such amounts being referred to in the ISO New England Financial Assurance Policy as the “FCM Financial Assurance Requirements”). If the Lead Market Participant for a Resource changes, then the new Lead Market Participant for the Resource shall become the Designated FCM Participant.

A. FCM Delivery Financial Assurance

A Designated FCM Participant must include FCM Delivery Financial Assurance in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy ~~on the first Business Day of each month of a Capacity Commitment Period. If a Designated FCM Participant’s FCM Delivery Financial Assurance is negative, it will be used to reduce the Designated FCM Participant’s Financial Assurance Obligations (excluding FTR Financial Assurance Requirements), but not to less than zero.~~ FCM Delivery Financial Assurance is calculated according to the following formula:

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

Where:

MCC (monthly capacity charge) equals ~~FCM charges (negative Monthly Capacity Payments)~~ incurred in previous months, but not yet ~~billed~~ paid. The MCC is estimated ~~from~~ the first ~~business~~ day of the current delivery month ~~until it is replaced by.~~ ~~The~~

actual settled MCC value ~~when replaces the MCC estimate when the actual~~ settlement is complete.

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

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

In the case of a resource subject to a multi-year Capacity Commitment Period election made in a Forward Capacity Auction prior to the ninth Forward Capacity Auction as described in Sections III.13.1.1.2.2.4 and ~~III.13.1.4.1.1.2.7~~III.13.1.4.2.2.5 of Market Rule 1, the Forward Capacity Auction Starting Price shall be replaced with the applicable Capacity Clearing Price (indexed for inflation) in the above calculation until the multi-year election period expires.

ABR (average balancing ratio) is the duration-weighted average of all of the system-wide Capacity Balancing Ratios calculated for each system-wide Capacity Scarcity Condition occurring in the relevant group of months in the three Capacity Commitment Periods

immediately preceding the instant Capacity Commitment Period. Three separate groups of months shall be used for this purpose: June through September, December through February, and all other months. Until data exists to calculate this number, the temporary ABR for June through September shall equal 0.90; the temporary ABR for December through February shall equal 0.70; and the temporary ABR for all other months shall equal 0.60. As actual data becomes available for each relevant group of months, calculated values for the relevant group of months will replace the temporary ABR values after the end of each group of months each year until all three years reflect actual data.

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

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

replace the temporary average performance values after the end of each group of months each year until all three years reflect actual data. The applicable temporary average performance value will be used for new and existing resources until actual performance data is available.

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

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

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

B. Non-Commercial Capacity

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

1. FCM Deposit

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

2. Non-Commercial Capacity in Forward Capacity Auctions

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

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

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

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

A Designated FCM Participant offering Non-Commercial Capacity into the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction an amount equal to the difference between the 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 Non-Commercial Capacity Financial Assurance

Non-Commercial Capacity cleared in a Forward Capacity Auction up to and including the eighth Forward Capacity Auction that is declared commercial and has had its capacity rating verified by the ISO or otherwise becomes a Resource meeting the definition of “Commercial Capacity” 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 Non-Commercial Capacity Financial Assurance

If a Designated FCM Participant that has acquired Capacity Supply Obligations associated with Non-Commercial Capacity is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy and does not cure such default within the appropriate cure period, or if a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy during the period between the day that is three Business Days before the FCM Deposit is required and the first day of the Forward Capacity Auction and does not cure such default within the appropriate cure period, then: (i) beginning with the first Business Day following the end of such cure period that Designated FCM Participant will be assessed a default charge of one percent (1%) of its total Non-Commercial Capacity

Financial Assurance Amount at that time for each Business Day that elapses until it cures its default; and (ii) if such default is not cured by 5:00 p.m. (Eastern Time) on the sooner of (x) the fifth Business Day following the end of such cure period or (y) the second Business Day prior to the start of the next scheduled Forward Capacity Auction or annual reconfiguration auction or annual Capacity Supply Obligation Bilateral submission (such period being referred to herein as the “Non-Commercial Capacity Cure Period”), then, in addition to the other actions described in this Section VII, (A) all Capacity Supply Obligations associated with Non-Commercial Capacity that were awarded to the defaulting Designated FCM Participant in previous Forward Capacity Auctions and reconfiguration auctions and that the defaulting Designated FCM Participant acquired by entering into Capacity Supply Obligation Bilaterals shall be terminated; (B) the defaulting Designated FCM Participant shall be precluded from acquiring any Capacity Supply Obligation that would be associated with Non-Commercial Capacity for which the defaulting Designated FCM Participant has submitted an FCM Deposit; (C) the ISO will (1) draw down the entire amount of the FCM Deposit and the Non-Commercial Capacity Financial Assurance Amount associated with the terminated Capacity Supply Obligations and (2) issue an Invoice to the Designated FCM Participant if there is a shortfall resulting from that Designated FCM Participant’s failure to maintain adequate financial assurance hereunder or if the Designated FCM Participant used a Market Credit Limit to meet its FCM Financial Assurance Requirements; and (D) the default charges described in clause (i) above shall not be assessed to that Designated FCM Participant. All default charges collected under clause (i) above will be deposited in the Late Payment Account in accordance with the ISO New England Billing Policy.

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

E. Composite FCM Transactions

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

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

Financial Assurance Requirements only of the Designated FCM Participant that incurred the charges.

F. Transfer of Capacity Supply Obligations

1. Transfer of Capacity Supply Obligations in Reconfiguration Auctions

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

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

For purposes of these calculations, the net FCM revenue for a month shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations, demand bids and Annual Reconfiguration Transactions in the Forward Capacity Market, exclusive of any accrued Capacity Performance Payments on

positions currently or previously held. Upon the completion of each reconfiguration auction, the amount to be included in the calculation of any FCM Financial Assurance Requirements of that Designated FCM Participant shall be adjusted to reflect the cleared quantities at the zonal clearing price for all activity in that reconfiguration auction and accepted Annual Reconfiguration Transactions.

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

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

3. Financial Assurance for Annual Reconfiguration Transactions

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

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 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]

[signature]

[signature]

ATTACHMENT 3

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

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

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

Date: _____ (Signature)

Print Name: _____

Title: _____

Subscribed and sworn before me _____, a notary public of the State of _____

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

_____, 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

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

1. Certifying Entity is now and in good faith will seek to remain (check applicable box(es)):

- an “appropriate person,” as defined in section(s) [_____] of the Commodity Exchange Act (7 U.S.C. § 1 *et seq.*) (specify which section(s) of Commodity Exchange Act sections 4(c)(3)(A) through (J) apply) (if Certifying Entity is relying on section 4(c)(3)(F), it shall accompany this certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the Certifying Entity’s total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy);
- an “eligible contract participant,” as defined in section 1a(18)(A) of the Commodity Exchange Act and in 17 CFR § 1.3(m); or
- a “person who actively participates in the generation, transmission, or distribution of electric energy,” as defined in the Final Order of the Commodity Futures Trading Commission published at 78 FR 19880 (April 2, 2013).

2. If at any time Certifying Entity no longer satisfies the criteria in paragraph 1 above, Certifying Entity will immediately notify ISO New England in writing and will immediately cease all participation in the New England Markets.

(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

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of
 _____ (“Certifying Entity”), understanding that ISO New
 England Inc. is relying on this certification as evidence that Certifying Entity meets the 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_____.

(Notary Public Signature)

My commission expires: ____/____/____

-
- * 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.

EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

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SUBMITTED RISK MANAGEMENT POLICIES FOR FTR PARTICIPATION

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>
S&P/Fitch	Moody’s	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%

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

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

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

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

2. Market Credit Limit for Municipal Market Participants

The Market Credit Limit for each Credit Qualifying Municipal Market Participant shall be equal to the lesser of (i) 20 percent (20%) of TADO and (ii) \$25 million. The Market Credit Limit for each Non-Qualifying Municipal Market Participant shall be \$0. The sum

of the Market Credit Limits and Transmission Credit Limits of entities that are Affiliates shall not exceed \$50 million.

E. Transmission Credit Limits

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

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

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

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

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

The Transmission Credit Limit of each Unrated Non-Municipal Market Participant that satisfies the Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Municipal Market Participant’s Tangible Net

Worth or (ii) \$25 million. The Transmission Credit Limit of each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold shall be \$0.

3. Transmission Credit Limit for Municipal Market Participants

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

F. Credit Limits for FTR-Only Customers

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

G. Total Credit Limit

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

or to the allocation applied by the ISO in the case of an Affiliate that provided no determination) such that the sum is no greater than \$50 million.

III. MARKET PARTICIPANTS' REQUIREMENTS

Each Market Participant that provides the ISO with financial assurance pursuant to this Section III must provide the ISO with financial assurance in one of the forms described in Section X below and in an amount equal to the amount required in order to avoid suspension under Section III.B below (the "Market Participant Financial Assurance Requirement"). A Market Participant's Market Participant Financial Assurance Requirement shall remain in effect as provided herein until the later of (a) 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. If a Market Participant has provided the financial assurance required for a Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, then that Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction,

respectively, will not be deemed to be terminated when that Market Participant is suspended.

b. Load Assets

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

c. FTRs

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

d. Virtual Transactions

Notwithstanding the foregoing, if a Market Participant is suspended in accordance with the provisions of the ISO New England Financial Assurance Policy as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant and, but for such Increment Offers and/or Decrement Bids, such Market Participant would be in compliance with the ISO New England Financial Assurance Policy, then such suspension shall be limited to (i) the immediate "last in, first out" rejection of pending individual uncleared Increment Offers and Decrement Bids submitted by that Market Participant (it being understood that Increment Offers and Decrement Bids are batched by the ISO in accordance with the time, and that Increment Offers and Decrement Bids will be rejected

by the batch); and (ii) the suspension of that Market Participant's ability to submit additional Increment Offers and Decrement Bids unless and until it has complied with the ISO New England Financial Assurance Policy, and the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of that Market Participant after giving effect to the immediate rejection of that Market Participant's Increment Offers and Decrement Bids described in clause (i).

e. Bilateral Transactions

If the sum of the financial assurance and credit limits of a Market Participant that has financial assurance requirements equals zero and that Market Participant would be in compliance with the ISO New England Financial Assurance Policy but for the submission of bilateral transactions to the ISO to which the Market Participant is a party, or if a Market Participant's Market Credit Test Percentage, FTR Credit Test Percentage, or Transmission Credit Test Percentage exceeds 100 percent as a result of one or more bilateral transactions submitted to the ISO to which the Market Participant is a party, then the consequences described in subsection (a) above shall be limited to: (i) rejection of any pending bilateral transactions to which a Market Participant is a party that cause the Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the Market Participants, such that the aggregate value of the pending bilateral transactions submitted by all Market Participants is maximized (recognizing the downstream effect that rejection of a bilateral transaction may have on the Market Credit Test Percentages, FTR Credit Test Percentages, or Transmission Credit Test Percentages of other Market Participants), while ensuring that the financial assurance requirements of each Market Participant are satisfied; and (ii) suspension of that Market Participant's ability to submit additional bilateral transactions until it has complied with the ISO New England Financial Assurance Policy (the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of the Market Participant after giving effect to the immediate rejection of the bilateral transactions to which the Market Participant is a party as described in clause (i) above). In the case of a bilateral transaction associated with the Day-Ahead Energy Market, the ISO will provide notice to a Market Participant that would be in default of the ISO New England Financial Assurance Policy as a result of the bilateral transaction, and the consequences described in clauses (i) and (ii) above shall only apply if the Market Participant fails to cure its default by 6:00 p.m. Eastern Time of that same Business Day. In the case of a Capacity Load Obligation Bilateral, the consequences

described in clauses (i) and (ii) above shall apply if the Market Participant does not cure its default within one Business Day after notification that a Capacity Load Obligation Bilateral caused the default. Bilateral transactions that transfer Forward Reserve Obligations and Supplemental Availability Bilaterals are not subject to the provisions of this Section III.B.3(e).

4. Serial Notice and Suspension Penalties

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

C. Additional Financial Assurance Requirements for Certain Municipal Market Participants

Notwithstanding the other provisions of the ISO New England Financial Assurance Policy and in addition to the other obligations hereunder, a Credit Qualifying Municipal Market Participant that is not a municipality (which, for purposes of this Section III.C, does not include an agency or subdivision of a municipality) must provide additional financial assurance in one of the forms described in Section X below in an amount equal to its FCM Financial Assurance Requirements at the time of calculation, unless either: (1) that Credit Qualifying Municipal Market Participant has a corporate Investment Grade Rating from one or more of the Rating Agencies; or (2) that Credit Qualifying Municipal Market Participant has an Investment Grade Rating from one or more of the Rating Agencies for all of its rated indebtedness; or (3) that Credit Qualifying Municipal Market Participant provides the ISO with an opinion of counsel that is acceptable to the ISO confirming that amounts due to the ISO under the Tariff have priority over, or have equal

priority with, payments due on the debt on which the Credit Qualifying Municipal Market Participant’s Investment Grade Rating is based. Each legal opinion provided under clause (3) of this Section III.C will be updated no sooner than 60 days and no later than 30 days before each reconfiguration auction that precedes a Capacity Commitment Period to which such legal opinion relates, and if that update is not provided or that update is not acceptable to the ISO, the applicable Credit Qualifying Municipal Market Participant must either satisfy one of the other clauses of this Section III.C or provide additional financial assurance in one of the forms described in Section X below in an amount equal to its FCM Financial Assurance Requirements at the time of calculation.

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

The Market Credit Limit of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold shall at any time be equal to the least of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated Non-Market Participant Transmission Customer’s Tangible Net Worth, (ii) \$25 million or (iii) 20 percent (20%)

of TADO. The Market Credit Limit of each Unrated Non-Market Participant Transmission Customer that does not satisfy the NMPTC Credit Threshold shall be \$0.

2. NMPTC Transmission Credit Limit

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

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

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

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

3. NMPTC Total Credit Limit

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

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

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

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

Each Unrated Non-Market Participant Transmission Customer having a Market Credit Limit or Transmission Credit Limit greater than zero or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 65 days after the end of the applicable fiscal quarter of such Unrated Non-Market Participant Transmission Customer, its balance sheet, which shall show sufficient detail for the ISO to assess the Unrated Non-Market Participant Transmission Customer's Tangible Net Worth. Unrated Non-Market Participant Transmission Customers having a Market Credit Limit or Transmission Credit Limit greater than \$0 shall also provide additional financial statements, which shall show sufficient detail for the ISO to calculate such Unrated Non-Market Participant Transmission Customer's Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each such Unrated Non-Market Participant Transmission Customer that satisfies the Credit Threshold and has a Market Credit Limit or Transmission Credit Limit of greater than \$0 or meeting the capitalization requirements by maintaining a minimum Tangible Net Worth or minimum total assets as described in Section II.A.4(a) shall submit to the ISO, annually within 10 days of becoming available and within 120 days after the end of the fiscal year of such Unrated Non-Market Participant Transmission Customer balance sheets and income statements (balance sheets and income statements that are part of audited financial statements shall be submitted if available; if such balance sheets and income statements are not available,

then another alternative form of financial statements accepted by the ISO as described below may be submitted). Where any of the above financial information is available on the internet, the Unrated Non-Market Participant Transmission Customer may provide the ISO with a letter stating where such information may be located and retrieved.

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

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

Notwithstanding any other provision in this subsection, the ISO may require any Non-Market Participant Transmission Customer to submit the financial statements and other information described in this subsection. The Non-Market Participant Transmission Customer shall provide the requested statements and other information within 10 days of such request. If a Non-Market Participant Transmission Customer fails to provide financial statements or other information as requested and the ISO determines that the Non-Market Participant Transmission Customer poses an unreasonable risk to the New England Markets, then the ISO may request that the Non-Market Participant Transmission Customer provide additional financial assurance in an amount no greater than \$10 million, or take other measures to substantiate the Non-Market Participant Transmission Customer's ability to safely transact in the New England Markets (any additional financial assurance provided pursuant to this Section V.C shall not be counted

toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy). If the Non-Market Participant Transmission Customer fails to comply with such a request from the ISO, then the ISO may issue a notice of suspension or termination to the Non-Market Participant Transmission Customer. If the Non-Market Participant Transmission Customer fails to comply with the ISO's request within 5 Business Days from the date of issuance of the notice of suspension or termination, then the ISO may suspend or terminate the Non-Market Participant Transmission Customer.

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

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

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

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

1. Financial Assurance for ISO Charges

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

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

2. Financial Assurance for Transmission Charges

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

3. Notice of Failure to Satisfy NMPTC Financial Assurance Requirement

A Non-Market Participant Transmission Customer that knows or can reasonably be expected to know that it is not satisfying its NMPTC Financial Assurance Requirement shall notify the ISO immediately of that fact. Without limiting the availability of any other remedy or right hereunder, failure by any Non-Market Participant Transmission Customer to comply with the provisions of the ISO New England Financial Assurance Policy (including failure to satisfy its NMPTC Financial Assurance Requirement) may result in the commencement of termination of service proceedings against that non-complying Non-Market Participant Transmission Customer.

VI. ADDITIONAL PROVISIONS FOR FTR TRANSACTIONS

Market Participants must complete an ISO-prescribed training course prior to participating in the FTR Auction. All Market Participants transacting in the FTR Auction that are otherwise required to provide additional financial assurance under the ISO New England Financial Assurance Policy, including all FTR-Only Customers (“Designated FTR Participants”) are required to provide financial assurance in an amount equal to the sum of the FTR Settlement Risk Financial Assurance, the 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 the Forward Capacity Market that is otherwise required to provide additional financial assurance under the ISO New England Financial Assurance Policy (each a “Designated FCM Participant”), is required to provide additional financial assurance meeting the requirements of Section X below in the amounts described in this Section VII (such amounts being referred to in the ISO New England Financial Assurance Policy as the “FCM Financial Assurance Requirements”). If the Lead Market Participant for a Resource changes, then the new Lead Market Participant for the Resource shall become the Designated FCM Participant.

A. FCM Delivery Financial Assurance

A Designated FCM Participant must include FCM Delivery Financial Assurance in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy. If a Designated FCM Participant’s FCM Delivery Financial Assurance is negative, it will be used to reduce the Designated FCM Participant’s Financial Assurance Obligations (excluding FTR Financial Assurance Requirements), but not to less than zero. FCM Delivery Financial Assurance is calculated according to the following formula:

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

Where:

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

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

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

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

ABR (average balancing ratio) is the duration-weighted average of all of the system-wide Capacity Balancing Ratios calculated for each system-wide Capacity Scarcity Condition occurring in the relevant group of months in the three Capacity Commitment Periods immediately preceding the instant Capacity Commitment Period. Three separate groups of months shall be used for this purpose: June through September, December through February, and all other months. Until data exists to calculate this number, the temporary

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

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

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

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

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

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

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

B. Non-Commercial Capacity

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

1. FCM Deposit

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

2. Non-Commercial Capacity in Forward Capacity Auctions

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

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

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

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

A Designated FCM Participant offering Non-Commercial Capacity into the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter must include in the calculation of its FCM Financial Assurance Requirements under the ISO New England Financial Assurance Policy, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction an amount equal to the difference between the 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 Non-Commercial Capacity Financial Assurance

Non-Commercial Capacity cleared in a Forward Capacity Auction up to and including the eighth Forward Capacity Auction that is declared commercial and has had its capacity rating verified by the ISO or otherwise becomes a Resource meeting the definition of “Commercial Capacity” 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 Non-Commercial Capacity Financial Assurance

If a Designated FCM Participant that has acquired Capacity Supply Obligations associated with Non-Commercial Capacity is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy and does not cure such default within the appropriate cure period, or if a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy during the period between the day that is three Business Days before the FCM Deposit is required and the first day of the Forward Capacity Auction and does not cure such default within the appropriate cure period, then: (i) beginning with the first Business Day following the end of such cure period that Designated FCM Participant will be assessed a default charge of one percent (1%) of its total Non-Commercial Capacity Financial Assurance Amount at that time for each Business Day that elapses until it cures

its default; and (ii) if such default is not cured by 5:00 p.m. (Eastern Time) on the sooner of (x) the fifth Business Day following the end of such cure period or (y) the second Business Day prior to the start of the next scheduled Forward Capacity Auction or annual reconfiguration auction or annual Capacity Supply Obligation Bilateral submission (such period being referred to herein as the “Non-Commercial Capacity Cure Period”), then, in addition to the other actions described in this Section VII, (A) all Capacity Supply Obligations associated with Non-Commercial Capacity that were awarded to the defaulting Designated FCM Participant in previous Forward Capacity Auctions and reconfiguration auctions and that the defaulting Designated FCM Participant acquired by entering into Capacity Supply Obligation Bilaterals shall be terminated; (B) the defaulting Designated FCM Participant shall be precluded from acquiring any Capacity Supply Obligation that would be associated with Non-Commercial Capacity for which the defaulting Designated FCM Participant has submitted an FCM Deposit; (C) the ISO will (1) draw down the entire amount of the FCM Deposit and the Non-Commercial Capacity Financial Assurance Amount associated with the terminated Capacity Supply Obligations and (2) issue an Invoice to the Designated FCM Participant if there is a shortfall resulting from that Designated FCM Participant’s failure to maintain adequate financial assurance hereunder or if the Designated FCM Participant used a Market Credit Limit to meet its FCM Financial Assurance Requirements; and (D) the default charges described in clause (i) above shall not be assessed to that Designated FCM Participant. All default charges collected under clause (i) above will be deposited in the Late Payment Account in accordance with the ISO New England Billing Policy.

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

E. Composite FCM Transactions

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

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

Financial Assurance Requirements only of the Designated FCM Participant that incurred the charges.

F. Transfer of Capacity Supply Obligations

1. Transfer of Capacity Supply Obligations in Reconfiguration Auctions

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

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

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

Requirements of that Designated FCM Participant shall be adjusted to reflect the cleared quantities at the zonal clearing price for all activity in that reconfiguration auction and accepted Annual Reconfiguration Transactions.

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

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

3. Financial Assurance for Annual Reconfiguration Transactions

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

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 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]

[signature]

[signature]

ATTACHMENT 3

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

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

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

Date: _____ (Signature) _____

Print Name: _____

Title: _____

Subscribed and sworn before me _____, a notary public of the State of _____

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

_____, 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

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

1. Certifying Entity is now and in good faith will seek to remain (check applicable box(es)):

- an “appropriate person,” as defined in section(s) [_____] of the Commodity Exchange Act (7 U.S.C. § 1 *et seq.*) (specify which section(s) of Commodity Exchange Act sections 4(c)(3)(A) through (J) apply) (if Certifying Entity is relying on section 4(c)(3)(F), it shall accompany this certification with supporting documentation reasonably acceptable to the ISO, provided that letters of credit shall be in the form of Attachment 2 to the ISO New England Financial Assurance Policy and shall be in an amount equal to the difference between five million dollars and the Certifying Entity’s total assets. Any such supporting documentation shall serve to establish eligibility under this Section II.A.5 and shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy);
- an “eligible contract participant,” as defined in section 1a(18)(A) of the Commodity Exchange Act and in 17 CFR § 1.3(m); or
- a “person who actively participates in the generation, transmission, or distribution of electric energy,” as defined in the Final Order of the Commodity Futures Trading Commission published at 78 FR 19880 (April 2, 2013).

2. If at any time Certifying Entity no longer satisfies the criteria in paragraph 1 above, Certifying Entity will immediately notify ISO New England in writing and will immediately cease all participation in the New England Markets.

(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

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the 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_____.

(Notary Public Signature)

My commission expires: ____/____/____

-
- * 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.

1 Prior to joining the ISO, I was a Vice President at Sterling Planet, Inc., based in
2 Norcross, GA, and held multiple roles such as Director, Risk Management and
3 Manager, Trading and Risk Management during my tenure. Prior to joining
4 Sterling Planet, Inc. in 2007, I served as a Trading Controls Analyst at Mirant
5 Americas Energy Marketing based in Atlanta, GA where I also worked in several
6 accounting groups in their back office. I hold a B.A. from the Virginia Military
7 Institute.

8

9 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A: The purpose of my testimony is to explain revisions being filed here to the
12 calculation of FCM Delivery Financial Assurance, contained in Section VII.A of
13 the ISO New England Financial Assurance Policy (the “FAP”).

14

15 **Q: WHAT IS FCM DELIVERY FINANCIAL ASSURANCE?**

16 A: FCM Delivery Financial Assurance is one component of the financial assurance
17 that a Market Participant will be required to provide if it is participating in the
18 Forward Capacity Market upon the implementation of the two-settlement capacity
19 market design (often referred to as Pay For Performance, or “PFP”) on June 1,
20 2018. Under the Forward Capacity Market design reflected in the currently-
21 effective Tariff, capacity payments cannot be negative, and hence, for commercial
22 resources, there is no potential financial obligation to collateralize. Under PFP,
23 however, a resource’s net capacity payments may be negative, and so the FAP

1 was revised to account for the possibility of net payment obligations under PFP.
2 To collateralize this additional potential obligation, a Market Participant with a
3 Capacity Supply Obligation will be required to add FCM Delivery Financial
4 Assurance to its total financial assurance requirements calculation beginning on
5 June 1, 2018.

6
7 As already filed with and accepted by the Commission, FCM Delivery Financial
8 Assurance will be calculated using the following formula: FCM Delivery
9 Financial Assurance = $MCC + DFAMW \times PE \times \max[(ABR-CWAP), 0.1] \times SF \times$
10 DF . Generally, this formula is designed to address three types of risk: clearing
11 risk, credit risk, and liquidation risk. Clearing risk is the potential that a Market
12 Participant does not pay their incurred FCM Charges in a timely manner (covered
13 by the MCC variable). Credit risk is the potential that a Market Participant will
14 default on payment obligations arising from negative capacity payments
15 associated with a Capacity Supply Obligation (covered by the following portion
16 of the formula: $DFAMW \times PE \times \max [(ABR-CWAP), 0.1]$). Finally, liquidation
17 risk is the potential that losses may continue to accrue against a defaulted
18 Capacity Supply Obligation up to the annual stop-loss in any Capacity
19 Commitment Period prior to a Market Participant being able to close the position
20 and, that the defaulted position, is sold at a loss (covered by the SF variable). (The
21 DF, or discount factor, variable is not directly related to these three types of risk;
22 it is a multiplier that accounts for the phase-in of the Capacity Performance
23 Payment Rate.)

1 With the benefit of additional consideration since that formula was accepted by
2 the Commission, the ISO has determined that modifications to the FCM Delivery
3 Financial Assurance calculation are warranted.

4

5 **Q: WHAT MODIFICATIONS ARE BEING MADE TO THE FCM**
6 **DELIVERY FINANCIAL ASSURANCE FORMULA?**

7 A: There are two general categories of revisions being made to the FCM Delivery
8 Financial Assurance Calculation, each of which will be discussed in more detail
9 below. First, the monthly capacity charge (“MCC”) component of the FCM
10 Delivery Financial Assurance formula is being revised to include both positive
11 and negative Monthly Capacity Payments (so that positive Monthly Capacity
12 Payments may serve to reduce the Market Participant’s financial assurance
13 requirements). Second, three other components of the FCM Delivery Financial
14 Assurance formula are being revised to improve the collateralization of energy
15 efficiency resources.

16

17 **Q: PLEASE EXPLAIN THE CHANGES BEING MADE TO THE MCC**
18 **COMPONENT OF THE FCM DELIVERY FINANCIAL ASSURANCE**
19 **FORMULA IN MORE DETAIL.**

20 A: Pursuant to the version of the FAP already accepted by the Commission (to
21 become effective on June 1, 2018), the MCC component of the FCM Delivery
22 Financial Assurance formula is defined as the sum of any *negative* Monthly
23 Capacity Payments incurred in previous months, but not yet paid. Limiting the

1 MCC to only negative Monthly Capacity Payments in this manner ensures that the
2 MCC can only be a negative value (a charge). To collateralize this charge, the
3 amount of that charge (or more precisely, the absolute value of the amount of that
4 charge) is added to the FCM Delivery Financial Assurance. Hence, as currently
5 conceived, the MCC can only *increase* the amount of FCM Delivery Financial
6 Assurance that a Market Participant must provide.

7
8 With the benefit of additional consideration, the ISO has concluded that it is not
9 appropriate to limit the MCC in this manner. It is needlessly restrictive to only
10 consider negative Monthly Capacity Payments in determining the amount of FCM
11 Delivery Financial Assurance. If a Market Participant is instead set to receive
12 positive Monthly Capacity Payments, it is appropriate that the financial assurance
13 calculation recognize such positive payments, and that they serve to reduce the
14 amount of FCM Delivery Financial Assurance that the Market Participant must
15 provide. For this reason, the definition of MCC is being revised to remove the
16 reference to “negative” Monthly Capacity Payments, such that it will instead
17 apply to both negative and positive Monthly Capacity Payments.

18

19 **Q: IF THE MCC AS REVISED CAN SERVE TO REDUCE THE AMOUNT**
20 **OF FCM DELIVERY FINANCIAL ASSURANCE, COULD THE FCM**
21 **DELIVERY FINANCIAL ASSURANCE AMOUNT BECOME**
22 **NEGATIVE?**

1 A: Yes. With this change, it is possible that a sufficient amount of positive Monthly
2 Capacity Payments could reduce the amount of FCM Delivery Financial
3 Assurance that a Market Participant must provide to zero, or even below zero.
4 This simply means that the Market Participant is set to receive payments equal to
5 or larger than the amount of collateral required pursuant to the other terms of the
6 FCM Delivery Financial Assurance calculation. The ISO believes that in such a
7 case, it is appropriate that such payments be permitted to offset the Market
8 Participant's other Financial Assurance Obligations (excluding FTR Financial
9 Assurance Requirements). Not doing so could lead to unnecessary over-
10 collateralization. To effectuate this change, a provision is being added stating that
11 if a participant's FCM Delivery Financial Assurance is negative (again, which can
12 result from accounting for positive Monthly Capacity Payments), the negative
13 portion will be used to reduce the participant's Financial Assurance Obligations
14 (excluding FTR Financial Assurance Requirements), but not to less than zero.

15

16 **Q: WHY WILL THIS POTENTIAL OFFSET NOT APPLY TO THE**
17 **MARKET PARTICIPANT'S FTR FINANCIAL ASSURANCE**
18 **REQUIREMENTS?**

19 A: This does not represent a change to current practice and is consistent with clear
20 Commission direction in Order No. 741 prohibiting the netting of credit
21 requirements between FTR and non-FTR activity.

22

1 **Q: ARE YOU MAKING ANY OTHER CHANGES TO THE FCM DELIVERY**
2 **FINANCIAL ASSURANCE PROVISIONS RELATED TO THESE MCC**
3 **CHANGES?**

4 A: Yes. The change to the MCC described above requires a couple of minor
5 conforming changes. First, because the MCC will account for both negative and
6 positive Monthly Capacity Payments, it is no longer accurate to refer to such
7 payments that have not yet been “paid” (which is specific to negative payments).
8 To better reflect the new structure, the revised language will instead refer to
9 Monthly Capacity Payments incurred in previous months, but not yet “billed.”
10
11 Second, in the revised FCM Delivery Financial Assurance formula, the MCC
12 value will be subtracted from the other terms rather than added to them. When the
13 MCC only accounted for negative Monthly Capacity Payments, and hence could
14 only be a charge, there was little ambiguity that the absolute value of the amount
15 of that charge must be added to the total amount of FCM Delivery Financial
16 Assurance to properly collateralize that charge. With the revised MCC accounting
17 for both positive and negative Monthly Capacity Payments, it is more important
18 to properly address whether the MCC is positive or negative. Subtracting the
19 MCC at the end of the formula accomplishes this. If the MCC is positive (as a
20 result of positive Monthly Capacity Payments), subtracting it from the other terms
21 of the FCM Delivery Financial Assurance will, appropriately, lower the total
22 amount of FCM Delivery Financial Assurance. If the MCC is negative (as a result
23 of negative Monthly Capacity Payments), subtracting it from the other terms of

1 the FCM Delivery Financial Assurance will increase the total amount of FCM
2 Delivery Financial Assurance.

3

4 **Q: PLEASE EXPLAIN THE CHANGES BEING MADE TO OTHER**
5 **COMPONENTS OF THE FCM DELIVERY FINANCIAL ASSURANCE**
6 **FORMULA TO IMPROVE THE COLLATERALIZATION OF ENERGY**
7 **EFFICIENCY RESOURCES.**

8 A: In the Commission’s May 30, 2014 order, the Commission largely accepted the
9 ISO’s PFP design but did require some changes, including changes to ensure that
10 “energy efficiency resources’ Capacity Performance Payments are calculated only
11 for Capacity Scarcity Conditions during hours in which demand reduction values
12 are calculated under the Tariff for that particular type of resource.” In July 2014,
13 the ISO filed Tariff changes to address this directive by clarifying that an energy
14 efficiency resource will only be subject to Capacity Performance Payments during
15 Demand Resource On-Peak Hours or Demand Resource Seasonal Peak Hours
16 (depending on whether the energy efficiency resource has selected to be treated as
17 an On-Peak Demand Resource or a Seasonal Peak Demand Resource).

18

19 The ISO did not make associated changes to the FAP at that time, but with the
20 benefit of additional consideration, has determined that such changes are
21 warranted. Because Demand Resource On-Peak Hours and Demand Resource
22 Seasonal Peak Hours only occur in the months of June, July, August, December,
23 and January, energy efficiency resources will not be subject to negative Capacity

1 Performance Payments in months other than June – August and December and
2 January. In other words, it will be impossible for an energy efficiency resource to
3 receive a negative Capacity Performance Payment under the PFP design for seven
4 months of the year, and there is no need to collateralize such payments during
5 those months. Accordingly, modifications are needed to the FCM Delivery
6 Financial Assurance calculation to properly reflect this.

7

8 **Q: PLEASE EXPLAIN THE ENERGY EFFICIENCY REVISIONS**

9 A: These modifications will require updates to the delivery financial assurance MW
10 (“DFAMW”), potential exposure (“PE”), and capacity weighted average
11 performance (“CWAP”) variables in the FCM Delivery Financial Assurance
12 calculation. In each of these variables, language is being added that says “during
13 February through May and September through November” the “Capacity Supply
14 Obligation associated with any Energy Efficiency measures” will be excluded
15 from the calculation of that variable. Adding this exclusion will ensure that
16 energy efficiency resources will not be required to post collateral in months that
17 they cannot incur negative Capacity Performance Payments.

18

19 **Q: ARE YOU MAKING ANY CHANGES TO THE FINANCIAL**
20 **ASSURANCE POLICY OTHER THAN THE MCC AND ENERGY**
21 **EFFICIENCY-RELATED CHANGES DESCRIBED ABOVE?**

22 A: Yes, the changes to the FAP filed here also include some additional clean-up and
23 conforming changes. First, to prevent potential double-collateralization of certain

1 capacity charges that might be captured in both the MCC calculation and the
2 calculation of financial assurance related to transfers of Capacity Supply
3 Obligations in reconfiguration auctions, the latter provisions (in Section VII.F.1)
4 are being revised such that they only apply in months not covered by the MCC.
5 Second, during presentations of the MCC revisions discussed above, stakeholders
6 indicated that some of the language in the FCM Delivery Financial Assurance
7 provisions regarding timing is confusing, and so the revisions here clarify when
8 estimated (as opposed to actual) MCC values will be used and when FCM
9 Delivery Financial Assurance must be included in a participant's financial
10 assurance. Finally, an internal cross-reference clean-up change is being made in
11 the description of the PE component of FCM Delivery Financial Assurance to
12 properly reference a section in Market Rule 1, and the title of Section X.A in the
13 FAP table of contents is being updated to match the text of the FAP.

1 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

2 A: Yes.

3

4 I declare under penalty of perjury that the foregoing is true and correct.

5 Executed on March 1, 2018.

6

7

8  Robert Henry, Director of Enterprise Risk Management

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