



January 26, 2021

BY ELECTRONIC FILING

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

**RE: ISO New England Inc., Docket No. ER21-____-000;
Revisions to Obligations of Energy Efficiency Resources Under Pay for
Performance**

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act (“Section 205”),¹ ISO New England Inc. (the “ISO” or “ISO-NE”) hereby submits this transmittal letter and revisions to Market Rule 1² and the ISO New England Financial Assurance Policy³ to modify the treatment of Demand Capacity Resources composed of Energy Efficiency measures (referred to herein as “energy efficiency resources”) during Capacity Scarcity Conditions. As more fully described in this letter and in the attached testimony of Ryan McCarthy, Lead Analyst in the ISO’s Department of Market Development, (the “McCarthy Testimony”), these revisions remove energy efficiency resources from Pay for Performance obligations and settlement when Capacity Scarcity Conditions occur during hours in which energy efficiency resources report their performance to the ISO. With these revisions, energy efficiency resources are excluded from Pay for Performance obligations and settlement in all hours, while their capacity base payments are unaffected, resulting in a treatment of energy efficiency resources that is consistent with their system benefits.

¹ 16 U.S.C. § 824d (2012).

² Capitalized terms used but not defined herein are intended to have the meaning given to such terms in the ISO New England Inc. Transmission, Markets and Services Tariff (“Tariff”), the Second Restated NEPOOL Agreement, and the Participants Agreement. Market Rule 1 is Section III of the Tariff.

³ The ISO New England Financial Assurance Policy is Exhibit IA to Section I of the Tariff (“Financial Assurance Policy”).

I. DESCRIPTION OF THE ISO AND NEPOOL; COMMUNICATIONS

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

All correspondence and communications in this proceeding should be addressed to the undersigned as follows:

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II. STANDARD OF REVIEW

These changes are being submitted pursuant to Section 205, which “gives a utility the right to file rates and terms for services rendered with its assets.”⁴ Under Section 205, the Commission “plays ‘an essentially passive and reactive role’”⁵ whereby it “can reject [a filing] only if it finds that the changes proposed by the public utility are not ‘just and reasonable.’”⁶ 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.”⁷ The

⁴ *Atlantic City Elec. Co. v. FERC*, 295 F.3d 1, 9 (D.C. Cir. 2002).

⁵ *Id.* at 10 (quoting *City of Winfield v. FERC*, 744 F.2d 871, 876 (D.C. Cir. 1984)).

⁶ *Id.* at 9.

⁷ *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984).

changes proposed herein “need not be the only reasonable methodology, or even the most accurate.”⁸ As a result, even if an intervenor or the Commission develops an alternative proposal, the Commission must accept this Section 205 filing if it is just and reasonable.⁹

III. EXPLANATION OF THE RULE CHANGES

A. Background to the Rule Changes

The FCM is a long-term wholesale electricity market that ensures resource adequacy, locally and system-wide in New England. To purchase enough qualified resources to satisfy the region’s future electricity needs and allow enough time to construct new capacity resources, Forward Capacity Auctions (“FCAs”) are held each year approximately three years in advance of the year-long Capacity Commitment Period when resources must provide service for any Capacity Supply Obligation they obtained for the Capacity Commitment Period.

In 2014, the ISO proposed a revised FCM design known as Pay for Performance (“PFP”). PFP represented a significant evolution of the FCM as reflected in the extensive Tariff changes filed with and accepted by the Commission in a series of filings and orders in 2014 and early 2015.¹⁰ Through PFP, the ISO proposed to link capacity revenues to resource performance during real-time operating reserve deficiencies, known as Capacity Scarcity Conditions.¹¹

PFP revised the total potential revenue of capacity resources by adding a Capacity Performance Payment to the existing Capacity Base Payment. Under PFP, if a resource provides more than its share of energy and reserves during a Capacity Scarcity Condition,

⁸ *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995).

⁹ *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 Bethany*, 727 F.2d at 1136).

¹⁰ *See* Filings of Performance Incentives Market Rule Changes, FERC Docket Nos. ER14-1050-000 and ER14-1050-001 (filed January 17, 2014) (“PFP Filing”); Compliance Filing of Two-Settlement Forward Capacity Market Design, FERC Docket Nos. ER14-2419-000 (filed July 14, 2014); 30-Day Compliance Filing to Revise Tariff Section III.13.7, FERC Docket No. ER14-2419-002. *See also* Order on Tariff Filing and Instituting Section 206 Proceeding, 147 FERC ¶ 61,172 (issued May 30, 2014); Order on Compliance Filing, 149 FERC ¶ 61,009 (issued October 2, 2014); Letter Order Accepting Compliance Filing, FERC Docket No. ER14-2419-002 (issued January 15, 2015).

¹¹ *See* Section I.2.2 (defining Capacity Scarcity Condition as “a period during which performance is measured in the Forward Capacity Market, as described in Section III.13.7.2.1 of Market Rule 1.”); *see also* McCarthy Testimony at 3; *see also* Testimony of Matthew White on behalf of the ISO, Attachment I-1c to PFP Filing at 152-153.

it receives a positive Capacity Performance Payment; if it provides less than its share, it receives a negative Capacity Performance Payment.¹² Also as part of the PFP design, additional Financial Assurance requirements were implemented to account for the possibility that capacity resources could earn negative performance payments.¹³ These design features place performance risk on all FCM resources, such that suppliers bear both the risk and the rewards associated with the performance of their resources.

The PFP design proposed by the ISO was fuel-neutral, and was intended to provide equal compensation to suppliers providing the same service, regardless of what technology or fuel they used.¹⁴ Under that design, the ISO proposed that all resource types, including energy efficiency resources, should receive Capacity Performance Payments (either positive or negative) in all hours of the year. However, the Commission found that this design had an unduly discriminatory impact on energy efficiency resources. The Commission's reasoning was predicated on the fact that energy efficiency resources do not produce energy or reserves in real time. The Commission wrote that:

[e]nergy efficiency resources are not similarly situated to other capacity resources because they do not actively perform in real-time—they represent a pre-determined level of load reduction that is constant as a percentage of that resource's load—and therefore are not able to respond to the ISO-NE proposal's performance incentive. Therefore, we direct ISO-NE to submit as part of the compliance filing required within 45 days of the date of this order, Tariff revisions ensuring that energy efficiency resources' Capacity Performance Payments are calculated only for Capacity Scarcity Conditions during hours in which demand reduction values are calculated under the Tariff for that particular type of resource.¹⁵

In a subsequent Order Denying Rehearing, the Commission further underscored its rationale for its prescribed treatment of energy efficiency resources. It wrote that:

unlike all other types of resources, energy efficiency resources by design do not *actively* perform in real-time and, therefore, are not able to respond to real-time performance incentives. The Commission's acknowledgement

¹² See Section III.13.7.4.

¹³ See Revised Tariff Exhibit IA, Section VII.A.

¹⁴ See McCarthy Testimony at 4.

¹⁵ See Order on Tariff Filing and Instituting Section 206 Proceeding, 147 FERC ¶ 61,172 at P 89 (issued May 30, 2014) (“2014 PFP Order”).

that this fundamental difference warrants an exemption for energy efficiency resources does not undermine the Commission’s findings that the other types of resources are similarly situated to one another.¹⁶

On compliance, the ISO proposed rules that calculate Capacity Performance Payments for energy efficiency resources “only for Capacity Scarcity Conditions during hours in which demand reduction values are calculated under the Tariff.”¹⁷ These hours are also referred to as energy efficiency measure hours or reporting hours or, in the Tariff, as Demand Resource On-Peak Hours¹⁸ and Demand Resource Seasonal Peak Hours.¹⁹ Energy efficiency reporting hours account for approximately four percent of hours per year.

Since 2014, the ISO and stakeholders have considered a number of subsequent refinements to PFP. Most recently, the Commission accepted revisions to remove energy efficiency from PFP obligations and settlement outside of energy efficiency reporting hours.²⁰ Under these rules, which are currently effective, outside of reporting hours, energy efficiency resources do not receive Capacity Performance Payments (either positive or negative) and are not allocated any excess or deficiency in total Capacity Performance Payments.²¹ This means that energy efficiency resources are currently included in PFP in approximately four percent of total hours—in the other 96 percent, energy efficiency resources are entirely excluded from PFP obligations and settlement.²²

¹⁶ See Order Denying Rehearing, 153 FERC ¶ 61,223 at P 48 (issued November 19, 2015) (emphasis in original; internal citations omitted).

¹⁷ 2014 PFP Order at P 89. The Commission accepted the ISO’s compliance filing in Order on Compliance Filing, 149 FERC ¶ 61,009 at P 33 (issued October 2, 2014).

¹⁸ See Section I.2.2 (defining Demand Resource On-Peak Hours as hours ending 1400 through 1700, Monday through Friday on non-Demand Response Holidays during the months of June, July, and August and hours ending 1800 through 1900, Monday through Friday on non-Demand Response Holidays during the months of December and January).

¹⁹ See Section I.2.2 (defining Demand Resource Seasonal Peak Hours as those hours in which the actual, real-time hourly load, as measured using real-time telemetry (adjusted for transmission and distribution losses, and excluding load associated with Exports and Storage DARDs) for Monday through Friday on non-Demand Response Holidays, during the months of June, July, August, December, and January, as determined by the ISO, is equal to or greater than 90% of the most recent 50/50 system peak load forecast, as determined by the ISO, for the applicable summer or winter season).

²⁰ See *ISO New England, Inc. and New England Power Pool, Energy Efficiency Treatment During Capacity Scarcity Conditions*, FERC Docket No. ER20-1967-000; accepted by Letter Order issued July 21, 2020).

²¹ See McCarthy Testimony at 5-6.

²² See Memorandum from Henry Yoshimura on behalf of the ISO to the NEPOOL Markets Committee and NEPOOL Budget and Finance Subcommittee at note 1 (August 17, 2020).

B. The Instant Rule Changes

The instant rule changes exclude energy efficiency resources from PFP obligations and PFP settlement in the remaining four percent of hours, such that these resources will now be entirely excluded from PFP. Specifically, energy efficiency resources will no longer be subject to PFP obligations, will not receive positive or negative Capacity Performance Payments in any hour of the year, will not be allocated Capacity Performance Payment excess or deficiency in any hour of the year, and will not be required to post FCM Delivery Financial Assurance.²³

PFP is intended to provide resources with a strong incentive to perform by providing energy or reserves in real time, which decreases the severity of a Capacity Scarcity Condition or avoids it altogether. As the Commission has recognized, energy efficiency resources differ fundamentally from other resource types in that they do not produce energy or reserves in real time and therefore are not able to respond to real-time performance incentives.²⁴ This rationale, which the Commission found warranted an exemption for energy efficiency resources outside of reporting hours, applies equally to reporting hours. With these revisions, energy efficiency resources are excluded from PFP in all hours, limiting PFP obligations and settlement to those resources whose real-time performance is uncertain and treating energy efficiency resources in a manner that is consistent with their system benefits.²⁵

IV. MECHANICS OF THE TARIFF REVISIONS

A. Revisions to Market Rule 1

As discussed above, PFP links capacity revenues to resource performance during Capacity Scarcity Conditions through several mechanisms. A resource's performance during a Capacity Scarcity Condition is based on the total quantity of energy and reserves it provides in each interval of the Capacity Scarcity Condition. The total amount of real-time energy and reserves provided by a resource during a Capacity Scarcity

²³ See McCarthy Testimony at 5-6; see also Revised Tariff Exhibit IA, ISO New England Financial Assurance Policy, Section VII.A, FCM Delivery Assurance.

²⁴ See Order Denying Rehearing, 153 FERC ¶ 61,223 at P 48 (issued November 19, 2015) (“...energy efficiency resources by design do not actively perform in real-time and, therefore are not able to respond to real-time performance incentives. The Commission’s acknowledgement that this fundamental difference warrants an exemption for energy efficiency resources does not undermine the Commission’s findings that the other types of resources are similarly situated to one another”).

²⁵ See McCarthy Testimony at 6-7.

Condition is referred to as the resource's Actual Capacity Provided.²⁶ With these revisions, the language that currently establishes the Actual Capacity Provided for energy efficiency resources during Demand Resource On-Peak Hours and Demand Resource Seasonal Peak Hours is being deleted. As a result, the Actual Capacity Provided for energy efficiency resources will be zero in all hours.²⁷

In addition, the ISO is revising the calculation of the Capacity Balancing Ratio.²⁸ The Capacity Balancing Ratio is used to determine the share of the total system requirements each capacity resource is obligated to cover during a Capacity Scarcity Condition. It equals the system's total load and reserve requirement at the time of a Capacity Scarcity Condition divided by the total Capacity Supply Obligation megawatts of all capacity suppliers, with load represented by the total Actual Capacity Provided by all resources. The currently effective Tariff specifies that, outside of Demand Resource On-Peak Hours and Demand Resource Seasonal Peak Hours, the Actual Capacity Provided of energy efficiency resources is zero and their Capacity Supply Obligations are excluded from the Capacity Balancing Ratio. The instant revisions eliminate the references to Demand Resource On-Peak Hours and Demand Resource Seasonal Peak Hours in the Capacity Balancing Ratio calculation, with the result that energy efficiency resources are excluded from the Capacity Balancing Ratio in all hours.²⁹

In each 5-minute interval in which a Capacity Scarcity Condition occurs, the ISO determines a Capacity Performance Score for each resource by calculating the difference between the Actual Capacity Provided by the resource during the interval and the resource's share of the system's requirements during that interval.³⁰ The currently effective language stipulates that when a Capacity Scarcity Condition occurs outside of Demand Resource On-Peak Hours or Demand Resource Seasonal Peak Hours, the Actual Capacity Provided of energy efficiency measures shall be excluded from a resource's

²⁶ See Section III.13.7.2.2.

²⁷ See Revised Section III.13.7.2.2(c)(i) (removing the calculation of Actual Capacity Provided during Demand Resource On-Peak Hours or Demand Resource Seasonal Peak Hours for energy efficiency measures).

²⁸ See Section III.13.7.2.3.

²⁹ See Revised Section III.13.7.2.3(a) (eliminating distinct treatment of energy efficiency resources during Demand Resource On-Peak Hours and Demand Resource Seasonal Peak Hours in the Capacity Balancing Ratio calculation); Revised Section III.13.7.2.3(b) (reflecting the same changes to the Capacity Balancing Ratio during a Capacity Scarcity Condition that is result of a violation of the Ten-Minute Reserve Requirement); and Revised Section III.13.7.2.3(c) (reflecting the same changes to the Capacity Balancing Ratio during a Capacity Scarcity Condition that is a result of a violation of the Zonal Reserve Requirement).

³⁰ See Section III.13.7.2.4.

Capacity Performance Score. Because under the revisions the Actual Capacity Provided and Capacity Performance Score of energy efficiency resources will be zero in all hours, the carve out is no longer necessary. Accordingly, the carve out is being replaced with a reference to Section III.13.7.2.2(c)(i), which, as discussed above, establishes that the Actual Capacity Provided for energy efficiency resources is zero in all hours.³¹

The final revision to Market Rule 1 excludes energy efficiency resources from the allocation of any deficiency or excess in total Capacity Performance Payments.³²

B. Revisions to the Financial Assurance Policy³³

PFP Financial Assurance, known as FCM Delivery Financial Assurance, is described in the ISO New England Financial Assurance Policy.³⁴ The intent of FCM Delivery Financial Assurance is to ensure that resources that underperform during a PFP event have sufficient collateral on hand to cover any losses that might accrue during the event.³⁵ Because energy efficiency resources will be excluded from PFP obligations with these revisions, there is no need for these resources to provide additional collateral. Therefore, the revisions remove the requirement that Designated FCM Participants include FCM Delivery Financial Assurance in their calculation of FCM Financial Assurance Requirements for Capacity Supply Obligations associated with energy efficiency resources.³⁶ The revisions also remove language that excludes energy efficiency resources from the calculation of the FCM Delivery Financial Assurance during certain months. Because energy efficiency resources are now excluded from FCM Delivery Financial Assurance in all months, this language is no longer necessary.³⁷

³¹ See Revised Section III.13.7.2.4 (removing no longer applicable language excluding the Actual Capacity Provided of energy efficiency measures from the calculation of a resource's performance score only in Demand Resource On-Peak Hours and Demand Resource Seasonal Peak Hours and adding reference to Revised Section III.13.7.2.2(c)(i)).

³² See Revised Section III.13.7.4 (excluding any resource, or portion thereof, consisting of energy efficiency measures from subsection (a), which governs the allocation of a deficiency in total Capacity Performance Payments and from subsection (b), which governs the allocation of an excess in total Capacity Performance Payments).

³³ As explained *infra*, NEPOOL supported the revisions to the Financial Assurance Policy but could not join in this filing because it did not support the Market Rule 1 revisions. The ISO understands that NEPOOL will file comments in this proceeding to explain its position, including how NEPOOL came to support the Financial Assurance Policy changes.

³⁴ See Exhibit IA to Section I, Financial Assurance Policy, Section VII.A, FCM Delivery Assurance.

³⁵ See McCarthy Testimony at 7-8.

³⁶ See Exhibit IA to Section I, Financial Assurance Policy, Section VII.A, FCM Delivery Financial Assurance.

³⁷ *Id.*

V. STAKEHOLDER PROCESS

The Tariff revisions were considered through the complete NEPOOL Participant processes, but did not receive the support of the NEPOOL Participants Committee. At its September 9, 2020 teleconference meeting, the NEPOOL Markets Committee considered the Tariff revisions but the committee voted not to recommend that the NEPOOL Participants Committee support these revisions.³⁸ Subsequently, the Participants Committee considered the Tariff revisions at its October 2, 2020 teleconference meeting. With a 58.35% Vote in favor, the Participants Committee did not approve the Tariff revisions.³⁹

The related revisions to the Financial Assurance Policy were discussed at the August 10 and August 21, 2020 NEPOOL Budget and Finance Subcommittee teleconference meetings. No subcommittee member objected to the revisions that were ultimately forwarded to the Participants Committee. At its October 2, 2020 teleconference meeting, the NEPOOL Participants Committee approved revisions to Section VII.A of the ISO New England Financial Assurance Policy to exclude Capacity Supply Obligations associated with energy efficiency resources from the calculation of FCM Delivery Financial Assurance requirements, with a 79.47% Vote in favor.⁴⁰

VI. REQUESTED EFFECTIVE DATE

The ISO respectfully requests that the Commission accept the Tariff revisions as filed, without suspension or hearing, to be effective on April 1, 2021. However, for the reasons explained below, in the event the Commission does not accept this effective date, the ISO requests in the alternative an effective date of June 1, 2025.

These revisions are fully prospective, becoming effective on April 1, 2021. However, the ISO acknowledges that the Tariff language being filed today was not in effect for the associated Forward Capacity Auction nor for subsequent ones, and was not

³⁸ The motion failed to pass with a vote of 55.57% in favor. The individual Sector votes were Generation (13.92% in favor, 2.78% opposed, 0 abstentions), Transmission (16.70% in favor, 0.00% opposed, 0 abstentions), Supplier (16.70% in favor, 0.00% opposed, 2 abstentions), Publicly Owned Entity (0.00% in favor, 0.00% opposed, 49 abstentions), Alternative Resources (8.25% in favor, 8.25% opposed, 3 abstentions), and End User (0.00% in favor, 16.70% opposed, 0 abstentions).

³⁹ The motion failed with a 58.35% Vote in favor (Generation Sector – 16.70%; Transmission Sector – 16.70%; Supplier Sector – 16.70%; AR Sector – 8.25%; Publicly Owned Entity Sector – 0%; and End User Sector – 0%).

⁴⁰ The motion passed with a 79.47% Vote in favor (Generation Sector – 16.70%; Transmission Sector – 16.70%; Supplier Sector – 16.70%; AR Sector – 11.00%; Publicly Owned Entity Sector – 16.70%; and End User Sector – 1.67%).

in effect during the qualification process for the Forward Capacity Auction to be held on February 6, 2021. In similar cases, the Commission has applied a “balancing of equities” test, weighing the importance of the change (the significance of the problem to be fixed) against the harm to the settled expectations of participants of Forward Capacity Auctions conducted before the change becomes effective.⁴¹

The ISO believes that, in this case, there are good reasons to implement these revisions at this time. The changes filed herein revise the terms and conditions of the performance of energy efficiency resources for Capacity Scarcity Conditions during reporting hours. The Commission has previously found that the terms and conditions of performance and other obligations that are a part of forward capacity markets may be revised, even after a forward auction for a future delivery year is completed, if the changes are made prospectively.⁴² Because these revisions are made prospectively, with notice, they should be accepted effective April 1, 2021, as requested.

Moreover, implementation on April 1, 2021 would prevent an affected Market Participant from being further billed for FCM Delivery Financial Assurance. As energy efficiency resources do not provide energy or reserves in real time and do not create and cannot alleviate Capacity Scarcity Conditions, continuing to bill FCM Delivery Financial Assurance to energy efficiency resources brings no benefit to the region and only increases the costs for such resources. An effective date of April 1, 2021 avoids further billing of FCM Delivery Financial Assurance to these resources.

⁴¹ See Order Accepting Tariff Revisions, 165 FERC ¶ 61,088 at PP 24-28 (issued November 9, 2018) (“As the Commission has previously determined, there is a difference between upsetting the expectations of market participants and retroactive ratemaking. Where protestors have asserted that proposed Tariff revisions would disrupt settled expectations mid-course and harm market participants who relied on the existing Tariff in calculating prices and entering into contracts, the Commission has considered a “balancing of interests” or “balancing of equities” in determining the appropriate outcome. Thus, in certain circumstances, the Commission has accepted revisions where the benefits outweighed any settled expectations, and we do so here.” (citations omitted)). See also Order Accepting Tariff Revisions, 148 FERC ¶ 61,185 at P 29 (issued September 12, 2014); and Order on Proposed Tariff Revisions, 145 FERC ¶ 61,095 at PP 28-31 (issued November 1, 2013).

⁴² See, e.g., *ISO New England Inc.*, 145 FERC ¶ 61,095, at PP 28, 31 (2013) (finding ISO-NE’s proposed effective date for what constitutes a shortage event complies with the rule against retroactive ratemaking and would not upset the expectations of market participants because the changes “apply only prospectively and after notice,” and that the proposed revision expanding the definition of a shortage event was more consistent with the original intent of the Forward Capacity Market and better reflected the meaning intended from the outset). See also *PJM Interconnection, L.L.C.*, 149 FERC ¶ 61,059, at P 18 (2014) (finding that PJM’s waiver of \$1,000 offer cap did not violate the filed rate doctrine because the revision affected only periods after the notice was filed); *PJM Interconnection, L.L.C.*, 147 FERC ¶ 61,103 (2014) (allowing PJM to revise the rules under which a demand response resource could be required to reduce its load when PJM initiates emergency procedures for future delivery years).

It is also notable that the rules governing the participation of energy efficiency resources in PFP were modified last summer,⁴³ rendering the current rules substantively different from the ones that energy efficiency resources relied upon when making decisions about participation in prior FCAs.

However, should the Commission determine that the equities do not support an April 1, 2021 effective date, the ISO in the alternative requests that the revisions be accepted effective June 1, 2025. June 1, 2025 is the start of the FCM Capacity Commitment Period associated with FCA 16. FCA 16 will be held in February of 2022 and capacity suppliers will participate in the FCA 16 qualification process starting in March of 2021.

VII. ADDITIONAL SUPPORTING INFORMATION

Section 35.13 of the Commission's regulations generally requires public utilities to file certain cost and other information related to an examination of traditional cost-of-service rates. However, the market rule changes do not modify a traditional "rate" and the ISO is not a traditional investor-owned utility. Therefore, to the extent necessary, the ISO requests waiver of Section 35.13 of the Commission's regulations.⁴⁴ Notwithstanding its request for waiver, the ISO submits the following additional information in substantial compliance with relevant provisions of Section 35.13 of the Commission's regulations:

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

- This transmittal letter;
- Testimony of Ryan McCarthy;
- Redlined Tariff sections effective April 1, 2021;
- Clean Tariff sections effective April 1, 2021;
- Alternative Redlined Tariff sections effective June 1, 2025;
- Alternative Clean Tariff sections effective June 1, 2025; and

⁴³ As mentioned previously, revisions to the rules governing the treatment of energy efficiency resources when Capacity Scarcity Conditions occur outside of reporting hours went into effect on August 1, 2020 (*see* Energy Efficiency Treatment During Capacity Scarcity Conditions, FERC Docket No. ER20-1967-000; Letter Order issued July 21).

⁴⁴ 18 C.F.R. § 35.13 (2018).

- List of governors and utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont to which a copy of this filing has been sent.

35.13(b)(2) – As set forth above, the ISO requests that the Tariff revisions filed herewith become effective on April 1, 2021, or in the alternative June 1, 2025.

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

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

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

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

35.13(b)(7) – The ISO has 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.

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

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

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

VIII. CONCLUSION

For the reasons set forth above, the ISO respectfully requests that the Commission accept the revisions filed here without condition or delay to become effective on April 1, 2021 or, in the alternative, on June 1, 2025, as described above.

Respectfully submitted,

ISO NEW ENGLAND INC.

By: /s/ Jennifer Wolfson

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EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

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ATTACHMENT 1 - SECURITY AGREEMENT

ATTACHMENT 2 - SAMPLE LETTER OF CREDIT

ATTACHMENT 3 – ISO NEW ENGLAND MINIMUM CRITERIA FOR MARKET PARTICIPATION
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ATTACHMENT 4 – ISO NEW ENGLAND ADDITIONAL ELIGIBILITY REQUIREMENTS
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ATTACHMENT 5 – ISO NEW ENGLAND CERTIFICATE REGARDING CHANGES TO
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ATTACHMENT 6 - MINIMUM CRITERIA FOR MARKET PARTICIPATION INFORMATION
DISCLOSURE FORM

EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

Overview

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

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

I. GROUPS REGARDED AS SINGLE MARKET PARTICIPANTS

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

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

II. MARKET PARTICIPANTS' REVIEW AND CREDIT LIMITS

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

A. Minimum Criteria for Market Participation

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

1. Information Disclosure

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

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

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

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

2. Risk Management

- (a) Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has: (i) either established or contracted for risk management procedures that are applicable to participation in the New England Markets; and (ii) has established or contracted for appropriate training of relevant personnel that is applicable to its participation in the New England Markets. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant 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, including, if requested by the ISO in its sole discretion, supporting documentation (which may include an organizational chart (or portion thereof) or equivalent information) that demonstrates the segregation of duties within such risk policies, procedures, and controls of the such customer or applicant, applicable to its participation in the FTR market relied upon by the Senior Officer of the applicant signing the certificate provided pursuant to Section II.A.2
 - (a). On an annual basis (by April 30 each year), each Designated FTR Participant with FTR transactions in any of the previous twelve months or in any currently open month

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

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

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

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

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

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

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

3. Communications

Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has either established or contracted to establish procedures to effectively communicate with and respond to the ISO with respect to matters relating to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy. Such procedures must ensure, at a minimum, that at least one person with the ability and authority to address matters related to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy on behalf of the customer or applicant, including the ability and authority to respond to requests for information and to arrange for additional financial assurance as necessary, is available from 9:00 a.m. to 5:00 p.m. Eastern Time on Business Days. Such procedures must also ensure that the ISO is kept informed about the current contact information (including phone numbers and e-mail addresses) for the person or people described above. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant 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 or any future transactions for a duration of one month or less except when FTRs for a month are being auctioned for the final time. Such a customer or applicant may enter into future transaction of a duration of one month or less in the FTR system in the case of FTRs for a month being auctioned for the final time. Any customer or applicant that fails to meet these capitalization requirements shall provide additional financial assurance in one of the forms described in Section X of the ISO New England Financial Assurance Policy equal to 25 percent of the customer's or applicant's FTR Financial Assurance Requirements. Any additional financial assurance provided pursuant to this Section II.A.4(b) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy.

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

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

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

5. Additional Eligibility Requirements

All customers and applicants shall at all times be:

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

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

total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy. The certificate must be signed on behalf of the customer by a Senior Officer of the customer 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.

6. Prior Uncured Defaults

In addition to, and not in limitation of Section IV of the ISO New England Financial Assurance Policy, an applicant who has a previous uncured payment default must cure such payment default by payment to the ISO of all outstanding and unpaid obligations, as well as meet all requirements for participation in the New England Markets contained in the ISO New England Financial Assurance Policy. For purposes of this Section II.A.6

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

B. Proof of Financial Viability for Applicants

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

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

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

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

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

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

C. Ongoing Review and Credit Ratings

1. Rated and Credit Qualifying Market Participants

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

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

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

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

2. Unrated Market Participants

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

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

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

3. Information Reporting Requirements for Market Participants

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

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

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

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

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

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

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

D. Market Credit Limits

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

1. Market Credit Limit for Non-Municipal Market Participants

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

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

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

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

Below BBB-

Below Baa3

0.00%

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

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

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

2. Market Credit Limit for Municipal Market Participants

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

E. Transmission Credit Limits

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

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

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

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

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

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

3. Transmission Credit Limit for Municipal Market Participants

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

F. Credit Limits for FTR-Only Customers

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

G. Total Credit Limit

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

III. MARKET PARTICIPANTS' REQUIREMENTS

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

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

A. Determination of Financial Assurance Obligations

For purposes of the ISO New England Financial Assurance Policy:

- (i) a Market Participant’s “Hourly Requirements” at any time will be the sum of (x) the Hourly Charges 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 2.50 (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 or participate in a substitution auction in the Forward Capacity Market, drawing down of financial assurance, rejection of Increment Offers and Decrement Bids, and rejection of bilateral transactions submitted to the ISO, shall not limit, in any way, the ISO's right to invoice or collect payment for any amounts owed (whether such amounts are due or becoming due) by such suspended Market Participant under the Tariff or the ISO's right to administratively submit a bid or offer of a Market Participant's Non-Commercial

Capacity in any Forward Capacity Auction or any reconfiguration auction or to make other adjustments under Market Rule 1.

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

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

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

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

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

If a Market Participant is suspended from the New England Markets in accordance with the provisions of the ISO New England Financial Assurance Policy or the ISO New England Billing Policy, then the provisions of this Section III.B shall control notwithstanding any other provision of the Tariff to the contrary. A suspended Market Participant shall have no ability so long as it is suspended (i) to be reflected in the ISO's settlement system, including any bilateral transactions, as either a purchaser or a seller of any products or services sold through the New England Markets (other than (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the Market Participants, (ii) to submit Demand Bids, Decrement Bids or Increment Offers in the New England Markets, (iii) to submit offers for Non-Commercial Capacity in any Forward Capacity Auction or reconfiguration auction or acquire Non-Commercial Capacity through a Capacity Supply Obligation Bilateral, or (iv) to submit supply offers or demand bids in any Forward Capacity Market substitution auction. Any transactions, including bilateral transactions with a suspended Market Participant (other than transactions for (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the other Market Participants and any Demand Bids, Decrement Bids, Increment Offers, and Export Transactions submitted by a suspended Market Participant shall be deemed to be terminated for purposes of the Day-Ahead Energy Market clearing and the ISO's settlement system. If a Market Participant has provided the financial assurance required for a Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, then that Capacity Supply Obligation Bilateral or Annual Reconfiguration

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

b. Load Assets

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

c. FTRs

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

d. Virtual Transactions

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

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

e. Bilateral Transactions

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

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

4. Serial Notice and Suspension Penalties

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

C. Additional Financial Assurance Requirements for Certain Municipal Market Participants

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

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

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

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

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

2. NMPTC Transmission Credit Limit

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

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

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

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

3. NMPTC Total Credit Limit

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Financial Assurance for ISO Charges

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

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

2. Financial Assurance for Transmission Charges

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

3. Notice of Failure to Satisfy NMPTC Financial Assurance Requirement

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

VI. ADDITIONAL PROVISIONS FOR FTR TRANSACTIONS

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

referred to in the ISO New England Financial Assurance Policy as the “FTR Financial Assurance Requirements”).

A. FTR Settlement Risk Financial Assurance

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

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

Once an FTR Auction’s results are final, a Designated FTR Participant must provide FTR Settlement Risk Financial Assurance based on awarded FTRs, equal to the MW value of each awarded FTR multiplied by the applicable proxy value for the FTR path (as described below) multiplied by the number of hours associated with the FTR. For purposes of this calculation, the ISO will net the MW values of a Designated FTR Participant’s awarded FTRs having the same or opposite path, same contract month, and same type (on-peak or off-peak). For purposes of this netting, annual FTRs may be converted into monthly positions.

The proxy value for each FTR path, which shall be calculated separately for on-peak and off-peak FTRs, will be based on the standard deviation observed in the difference between the average congestion components of the Locational Marginal Price in the Day-Ahead Energy Market at the path’s sink and source for the previous 36 months, with differing multipliers for annual and monthly FTRs and for prevailing flow and counter flow paths. These multipliers will be reviewed and approved by the NEPOOL Budget

and Finance Subcommittee and shall be posted on the ISO's website. Where there is insufficient data to perform these calculations for a node, zonal data will be used instead.

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

B. Unsettled FTR Financial Assurance

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

C. Settlement Financial Assurance

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

D. Consequences of Failure to Satisfy FTR Financial Assurance Requirements

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

VII. ADDITIONAL PROVISIONS FOR FORWARD CAPACITY MARKETS

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

A. FCM Delivery Financial Assurance

A Designated FCM Participant must include for the Capacity Supply Obligation of each resource in its portfolio other than the Capacity Supply Obligation associated with any

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

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

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 Net CONE associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded (adjusted as described in Section III.13.2.4) times the Non-Commercial Capacity qualified for such Forward Capacity Auction and the FCM Deposit.

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

Non-Commercial Capacity Financial Assurance Amount = (NCC x NCCFCA\$ x Multiplier) + NCC Trading FA

Where:

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

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the thirteenth Forward Capacity Auction, NCCFCA\$ = the Capacity Clearing Price from the first run of the auction-clearing process of the Forward Capacity Auction in which the Capacity Supply Obligation was awarded. For Capacity Supply Obligations acquired in the fourteenth Forward Capacity Auction and all Forward Capacity Auctions

thereafter, $NCCFA\$$ = the Net CONE associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded (adjusted as described in Section III.13.2.4).

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

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

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the twelfth Forward Capacity Auction, $NCC\ Trading\ FA = zero$. For Capacity Supply Obligations acquired in the thirteenth Forward Capacity Auction and all Forward Capacity Auctions thereafter, $NCC\ Trading\ FA$ shall be zero until the start of the applicable Capacity Commitment Period, at which time $NCC\ Trading\ FA =$ the total amount of NCC that has been shed (whether before or after the start of the Capacity Commitment Period) in any reconfiguration auctions or Capacity Supply Obligation Bilaterals or that is subject to a failure to cover charge pursuant to Section III.13.3.4(b) (but this total amount shall not be greater than NCC) multiplied by the difference (but not less than zero) between: (i) the weighted average price at which the Capacity Supply

Obligation was acquired in the Forward Capacity Auction (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs); and (ii) the weighted average price or failure to cover charge rate at which the Capacity Supply Obligation was shed or assessed, as applicable (except that for monthly Capacity Supply Obligation Bilaterals, the applicable monthly reconfiguration auction clearing price will be used instead of the Capacity Supply Obligation Bilateral price).

c. Non-Commercial Capacity Deferral

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

3. Return of Non-Commercial Capacity Financial Assurance

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

Once Non-Commercial Capacity associated with a Capacity Supply Obligation awarded in the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter

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

4. Credit Test Percentage Consequences for Provisional Members

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

C. 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 FCM Charge Rate for Capacity Commitment Periods beginning prior to June 1, 2022 for a Capacity Zone will be calculated using the same methodology described in Section III.13.7.5 of Market Rule 1 for deriving the Net Regional Clearing Price, with the exception that the FCM Charge Rate will include the balance of the CTR fund after the value of specifically allocated CTRs has been paid, as described in Section III.13.7.5.3.1 of Market Rule 1. For purposes of this calculation, the FCM Charge Rate for Capacity Commitment Periods beginning on or after to June 1, 2022 for a Capacity Zone will be calculated as the sum of the charge and adjustment rates specified in Section III.13.7.5.1.1 of Market Rule 1.

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.

4. Substitution Auctions

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

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

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

- c. If a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction and does not cure such default by the earlier of (i) the end of the appropriate cure period and (ii) 5 p.m. (Eastern Time) on the second Business

Day prior to the start of the Forward Capacity Auction, then the defaulting Designated FCM Participant shall be precluded from submitting a supply offer or demand bid that is subject to this Section VII.F.4.

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

VIII. [Reserved]

IX. THIRD-PARTY CREDIT PROTECTION

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

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

year. Each Credit Qualifying Rated Market Participant shall provide the ISO with such information as may be reasonably necessary for the ISO to obtain the Credit Coverage at the lowest possible cost.

X. ACCEPTABLE FORMS OF FINANCIAL ASSURANCE

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

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

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

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

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

B. Letter of Credit

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

1. Requirements for Banks

Each bank issuing a letter of credit that serves as 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 Chicago Mercantile Exchange ("CME") as an approved letter of credit bank; or (ii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of "A-" by S&P, or "A3" by Moody's or "A-" by Fitch so long as its letter of credit is confirmed by a bank that is recognized by CME as an approved letter of credit issuer as described in clause (i) above; or (iii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of "A-" by S&P, or "A3" by Moody's, or "A-" by Fitch and be approved by the ISO in its sole discretion (the ISO will promptly advise the NEPOOL Budget and Finance Subcommittee of any additional bank approved by it under this provision). Because the ratings described in clauses (ii) and (iii) are minimum ratings, a bank will not be considered to have satisfied the requirement of those clauses if any applicable rating from the Rating Agencies falls below the levels listed in those clauses. In addition, no Posting Entity may provide a letter of credit that has been issued or confirmed by a bank that is an Affiliate of that Market Participant. If a bank that is included on the List of Eligible Letter of Credit Issuers fails to satisfy any of the criteria set forth above, 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 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 (A) the ISO shall issue a notice described in subsection (i) above, (B) the bank will no longer be eligible to issue or confirm letters of credit in favor of the ISO, (C) any letters of credit issued or confirmed by such bank in favor of the ISO will not be renewed, and (D) any letters of credit issued or confirmed by such bank in favor of the ISO must be replaced with another acceptable form of financial assurance within five (5) Business Days from the date on which the ISO provides notice of such failure (the ISO may extend that cure period to twenty (20) Business Days in its sole discretion). Notwithstanding the foregoing, the ISO in its sole discretion may reinstate eligibility after not less than two years from the loss of eligibility, provided that the bank otherwise meets the conditions of this Section X.B.1.

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

2. Form of Letter of Credit

Attachment 2 provides a generally acceptable sample “clean” letter of credit, and all letters of credit provided by Posting Entities shall be in this form (with only minor, non-material changes), unless a variation therefrom is approved by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee and filed with the Commission. Notwithstanding the foregoing, Posting Entities that have provided a letter of credit in a form that was previously acceptable (e.g., under a prior version of Attachment 2) shall not be required to resubmit such letter of credit until the earlier of (a) the amendment or

expiration of such letter of credit, in which case Posting Entity shall be required to provide a Letter of Credit in the Form of Attachment 2, or (b) December 31, 2021. Any letter of credit provided for a new Posting Entity must have a minimum term of 120 days. All costs incurred by the ISO in collecting on a letter of credit provided under the ISO New England Financial Assurance Policy shall be paid, or reimbursed to the ISO, by the Posting Entity providing that letter of credit.

C. Special Provisions for Provisional Members

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

Policy described above) shall be at least \$2,500, and each Provisional Member will replenish that cash deposit to at least that \$2,500 level on December 31 of each year.

XI. MISCELLANEOUS PROVISIONS

A. Obligation to Report Material Adverse Changes

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

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

B. Weekly Payments

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

billing arrangement for Non-Hourly Charges and Transmission Charges will be terminated if it fails to demonstrate to the ISO's satisfaction in its sole discretion at any such six (6) month interval that compliance with the other provisions of the ISO New England Financial Assurance Policy will impose a substantial hardship on it. If the ISO agrees to implement a weekly billing schedule for Non-Hourly Charges and Transmission Charges for a Market Participant or Non-Market Participant Transmission Customer, the Market Participant or Non-Market Participant Transmission Customer shall be billed weekly for such Non-Hourly Charges and Transmission Charges in accordance with the ISO New England Billing Policy. The Market Participant or Non-Market Participant Transmission Customer shall pay with respect to each weekly Invoice for Non-Hourly Charges and Transmission Charges an administrative fee, determined by the ISO, to reimburse the ISO for the costs it incurs as a result of that Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement.

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

C. Use of Transaction Setoffs

In the event that a Market Participant or Non-Market Participant Transmission Customer has failed to satisfy its Financial Assurance Requirement hereunder, the ISO may retain payments due to such Market Participant or Non-Market Participant Transmission Customer, up to the amount of such Market Participant's or Non-Market Participant Transmission Customer's unsatisfied Financial Assurance Requirement, as a cash deposit securing such Market Participant's or Non-Market Participant Transmission Customer's

obligations to the ISO, NEPOOL, the Market Participants, the PTOs and the Non-Market Participant Transmission Customers, provided, however, that a Market Participant or Non-Market Participant Transmission Customer will not be deemed to have satisfied its Financial Assurance Requirement under the ISO New England Financial Assurance Policy because the ISO is retaining amounts due to it hereunder unless such Market Participant or Non-Market Participant Transmission Customer has satisfied all of the requirements of Section X with respect to such amounts.

D. Reimbursement of Costs

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

E. Notification of Default

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

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

F. Remedies Not Exclusive

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

G. Inquiries and Contests

A Market Participant or Non-Market Participant Transmission Customer may request a written explanation of the ISO's determination of its Market Credit Limit, Transmission Credit Limit, Financial Assurance Requirement or Transmission Obligations, including any change thereto, by submitting that request in writing to the ISO's Credit Department, either by email at CreditDepartment@iso-ne.com or by facsimile at (413) 540-4569. That request must include the Market Participant's customer identification number, the name of the Market Participant or Non-Market Participant Transmission Customer and the specific information for which the Market Participant or Non-Market Participant Transmission Customer would like an explanation and must be submitted by the designated credit contact for that Market Participant or Non-Market Participant Transmission Customer as on file with the ISO. In addition, since Financial Assurance Requirements are updated at least daily, any request for an explanation relating to the calculation of, or a change in, a Financial Assurance Requirement must be submitted on the same day as that calculation or change. The ISO's response to any request under this Section XI.G shall include an explanation of how the applicable calculation or determination was performed using the formulas and criteria in the ISO New England Financial Assurance Policy. A Market Participant or Non-Market Participant Transmission Customer may contest any calculation or determination by the ISO under the ISO New England Financial Assurance Policy using the dispute resolution provisions of Section I.6 of the Tariff.

H. Forward Contract/Swap Agreement

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

ATTACHMENT 1
SECURITY AGREEMENT

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

WITNESSETH:

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

1. Definitions.

a. In this Security Agreement:

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

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

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

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

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

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

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

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

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

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

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

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

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

[INSERT NAME]

By: _____

Name:

Title:

ISO NEW ENGLAND INC.

By: _____

Name:

Title:

ATTACHMENT 2
SAMPLE STANDBY LETTER OF CREDIT

[DATE PROVIDED]

IRREVOCABLE STANDBY LETTER OF CREDIT NO.

[EXPIRATION DATE]

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

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

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

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

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

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

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

THE FOLLOWING TERMS AND CONDITIONS APPLY:

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

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

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

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

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

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

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

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

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

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

IF TO THE BENEFICIARY OF THIS STANDBY LETTER OF CREDIT:

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

IF TO THE ACCOUNT PARTY:

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

IF TO ISSUER:

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

[signature]

[signature]

ATTACHMENT 3

ISO NEW ENGLAND MINIMUM CRITERIA FOR MARKET PARTICIPATION OFFICER
CERTIFICATION FORM

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the minimum criteria for market participation requirements set forth in Sections II.A.2 and II.A.3 of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Transmission, Markets and Services Tariff), 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 _____, 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 (and any supporting documentation, if applicable) applicable to the Certifying Entity’s participation in the FTR market.

OR

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

(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.

ATTACHMENT 6
MINIMUM CRITERIA FOR MARKET PARTICIPATION
INFORMATION DISCLOSURE FORM

Date: _____

Prepared by: _____

Customer/Applicant:¹ _____

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

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

2. List all material litigation (criminal or civil) against Certifying Entity or any of the Certifying Entity’s Principals, Personnel,³ or Predecessors,⁴ arising out of participation in any wholesale or retail energy market (domestic or international) or trading exchanges in the past ten (10) years:
(Enter N/A if not applicable)

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

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

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

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

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

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

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

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

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

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

Certifying Entity: _____

By: _____
(Signature)

Print Name: _____

Title: _____

Date: _____

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

III.13.7. Performance, Payments and Charges in the FCM.

Revenue in the Forward Capacity Market for resources providing capacity shall be composed of Capacity Base Payments as described in Section III.13.7.1 and Capacity Performance Payments as described in Section III.13.7.2, adjusted as described in Section III.13.7.3 and Section III.13.7.4. Market Participants with a Capacity Load Obligation will be subject to charges as described in Section III.13.7.5.

In the event of a change in the Lead Market Participant for a resource that has a Capacity Supply Obligation, the Capacity Supply Obligation shall remain associated with the resource and the new Lead Market Participant for the resource shall be bound by all provisions of this Section III.13 arising from such Capacity Supply Obligation. The Lead Market Participant for the resource at the start of an Obligation Month shall be responsible for all payments and charges associated with that resource in that Obligation Month.

III.13.7.1. Capacity Base Payments.

Resources acquiring or shedding a Capacity Supply Obligation for the Obligation Month shall receive a Capacity Base Payment for the Obligation Month reflecting the payments and charges described in Section III.13.7.1.1, as adjusted to account for peak energy rents as described in Section III.13.7.1.2.

III.13.7.1.1. Monthly Payments and Charges Reflecting Capacity Supply Obligations.

Each resource that has: (i) cleared in a Forward Capacity Auction, except for the portion of resources designated as Self-Supplied FCA Resources; (ii) cleared in a reconfiguration auction; or (iii) entered into a Capacity Supply Obligation Bilateral shall be entitled to a monthly payment or charge during the Capacity Commitment Period based on the following amounts:

(a) **Forward Capacity Auction.** For a resource whose offer has cleared in a Forward Capacity Auction, the monthly capacity payment shall equal the product of its cleared capacity and the Capacity Clearing Price in the Capacity Zone in which the resource is located as adjusted by applicable indexing for resources with additional Capacity Commitment Period elections pursuant to Section III.13.1.1.2.2.4 in the manner described below. For a resource that has elected to have the Capacity Clearing Price and the Capacity Supply Obligation apply for more than one Capacity Commitment Period, payments associated with the Capacity Supply Obligation and Capacity Clearing Price (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) shall continue to apply after the Capacity Commitment Period associated

with the Forward Capacity Auction in which the offer clears, for up to six additional and consecutive Capacity Commitment Periods, in whole Capacity Commitment Period increments only.

(b) **Reconfiguration Auctions.** For a resource whose offer or bid has cleared in an annual or monthly reconfiguration auction, the monthly capacity payment or charge shall be equal to the product of its cleared capacity and the appropriate reconfiguration auction clearing price in the Capacity Zone in which the resource cleared.

(c) **Capacity Supply Obligation Bilaterals.** For resources that have acquired or shed a Capacity Supply Obligation through a Capacity Supply Obligation Bilateral, the monthly capacity payment or charge shall be equal to the product of the Capacity Supply Obligation being assumed or shed and price associated with the Capacity Supply Obligation Bilateral.

(d) **Substitution Auctions.** For a resource whose offer or bid has cleared in a substitution auction, the monthly capacity payment or charge shall be equal to the product of its cleared capacity and the substitution auction clearing price. Notwithstanding the foregoing, the monthly capacity charge for a demand bid cleared at a substitution auction clearing price above its bid price shall be calculated using its bid price.

III.13.7.1.2 Peak Energy Rents.

For Capacity Commitment Periods beginning prior to June 1, 2019, Capacity Base Payments to resources with Capacity Supply Obligations, except for (1) On-Peak Demand Resources, (2) Seasonal Peak Demand Resources, and (3) New Generating Capacity Resources that have cleared in the Forward Capacity Auction and have completed construction but due to a planned transmission facility (e.g., a radial interconnection) not being in service are not able to achieve FCM Commercial Operation, shall be decreased by Peak Energy Rents (“PER”) calculated in each Capacity Zone, as determined pursuant to Section III.13.2.3.4 in the Forward Capacity Auction, as provided below. The PER calculation shall utilize hourly integrated Real-Time LMPs. For each Capacity Zone in the Forward Capacity Auction, as determined pursuant to Section III.13.2.3.4, PER shall be computed based on the load-weighted Real-Time LMPs for each Capacity Zone, using the Real-Time Hub Price for the Rest-of-Pool Capacity Zone. Self-Supplied FCA Resources shall not be subject to a PER adjustment on the portion of the resource that is self-supplied.

III.13.7.1.2.1 Hourly PER Calculations.

(a) For hours with a positive difference between the hourly Real-Time energy price and a strike price, the ISO shall compute PER for each hour ("Hourly PER") equal to this positive difference in accordance with one of the following formulas, which include scaling adjustments for system load and availability:

For hours within the period beginning September 30, 2016 through May 31, 2018:

$$\text{Hourly PER}(\$/\text{kW}) = [(\text{LMP} - \text{Adjusted Hourly PER Strike Price}) * [\text{Scaling Factor}] * [\text{Availability Factor}]$$

Where:

$$\text{Adjusted Hourly PER Strike Price} = \text{Strike Price} + \text{Hourly PER Adjustment}$$

$$\text{Hourly PER Adjustment} = \text{average of Five-Minute PER Strike Price Adjustment values}$$

$$\text{Five-Minute PER Strike Price Adjustment} = \text{MAX} (\text{Thirty-Minute Operating Reserve clearing price} - \$500/\text{MWh}, 0) + \text{MAX} (\text{Ten-Minute Non-Spinning Reserve clearing price} - \text{Thirty-Minute Operating Reserve clearing price} - \$850/\text{MWh}, 0).$$

Strike Price = as defined below

Scaling Factor = as defined below

Availability Factor = as defined below

For all other hours:

$$\text{Hourly PER}(\$/\text{kW}) = [\text{LMP} - \text{Strike Price}] * [\text{Scaling Factor}] * [\text{Availability Factor}]$$

Where:

Strike Price = the heat rate x fuel cost of the PER Proxy Unit described below.

Scaling Factor = the ratio of actual hourly integrated system load (calculated as the sum of Real-Time Load Obligations for the system as calculated in the settlement of the Real-Time Energy Market and adjusted for losses and including imports delivered in the Real-Time Energy Market)

and the 50/50 predicted peak system load reduced appropriately for Demand Capacity Resources, used in the most recent calculation of the Installed Capacity Requirement for that Capacity Commitment Period, capped at an hourly ratio of 1.0.

Availability Factor = 0.95.

(b) PER Proxy Unit characteristics shall be as follows:

(i) The PER Proxy Unit shall be indexed to the marginal fuel, which shall be the higher of the following, as determined on a daily basis: ultra low-sulfur No. 2 oil measured at New York Harbor plus a seven percent markup for transportation; or day-ahead gas measured at the AGT-CG (Non-G) hub;

(ii) The PER Proxy Unit shall be assumed to have no start-up, ramp rate or minimum run time constraints;

(iii) The PER Proxy Unit shall have a 22,000 Btu/kWh heat rate. This assumption shall be periodically reviewed after the first Capacity Commitment Period by the ISO to ensure that the heat rate continues to reflect a level slightly higher than the marginal generating unit in the region that would be dispatched as the system enters a scarcity condition. Any changes to the heat rate of the PER Proxy Unit shall be considered in the stakeholder process in consultation with the state utility regulatory agencies, shall be filed pursuant to Section 205 of the Federal Power Act, and shall be applied prospectively to the settlement of future Forward Capacity Auctions.

III.13.7.1.2.2. Monthly PER Application.

The Hourly PER shall be summed for each calendar month to determine the total PER for that month ("Monthly PER"). The ISO shall then calculate the Average Monthly PER earned by the proxy unit. The Average Monthly PER shall be equal to the average of the Monthly PER values for the 12 months prior to the Obligation Month. The PER deduction for each resource shall be calculated as the Average Monthly PER multiplied by the resource's Capacity Supply Obligation for the Obligation Month (less any Capacity Supply Obligation MW from any portion of a Self-Supplied FCA Resource); provided, however, that in no case shall a resource's PER deduction for an Obligation Month be less than zero or greater than the product of the resource's Capacity Supply Obligation and the relevant Forward Capacity Auction Capacity Clearing Price.

III.13.7.1.3. Export Capacity.

If there are any Export Bids or Administrative Export De-List Bids from resources located in an export-constrained Capacity Zone or in the Rest-of-Pool Capacity Zone that have cleared in the Forward Capacity Auction and if the resource is exporting capacity at an export interface that is connected to an import-constrained Capacity Zone or the Rest-of-Pool Capacity Zone that is different than the Capacity Zone in which the resource is located, then charges and credits are applied as follows (for the following calculation, the Capacity Clearing Price will be the value prior to PER adjustments).

Charge Amount to Resource Exporting = [Capacity Clearing Price_{location of the interface} - Capacity Clearing Price_{location of the resource}] x Cleared MWs of Export Bid or Administrative Export De-List Bid]

Credit Amount to Capacity Load Obligations in the Capacity Zone where the export interface is located = [Capacity Clearing Price_{location of the interface} - Capacity Clearing Price_{location of the resource}] x Cleared MWs of Export Bid or Administrative Export De-list Bid]

Credits and charges to load in the applicable Capacity Zones, as set forth above, shall be allocated in proportion to each LSE's Capacity Load Obligation as calculated in Section III.13.7.5.2.

III.13.7.1.4. [Reserved.]

III.13.7.2 Capacity Performance Payments.

III.13.7.2.1 Definition of Capacity Scarcity Condition.

A Capacity Scarcity Condition shall exist in a Capacity Zone for any five-minute interval in which the Real-Time Reserve Clearing Price for that entire Capacity Zone is set based on the Reserve Constraint Penalty Factor pricing for: (i) the Minimum Total Reserve Requirement; (ii) the Ten-Minute Reserve Requirement; or (iii) the Zonal Reserve Requirement, each as described in Section III.2.7A(c); provided, however, that a Capacity Scarcity Condition shall not exist if the Reserve Constraint Penalty Factor pricing results only because of resource ramping limitations that are not binding on the energy dispatch.

III.13.7.2.2 Calculation of Actual Capacity Provided During a Capacity Scarcity Condition.

For each five-minute interval in which a Capacity Scarcity Condition exists, the ISO shall calculate the Actual Capacity Provided by each resource, whether or not it has a Capacity Supply Obligation, in any Capacity Zone that is subject to the Capacity Scarcity Condition. For resources not having a Capacity Supply Obligation (including External Transactions), the Actual Capacity Provided shall be calculated using the provision below applicable to the resource type. Notwithstanding the specific provisions of this Section III.13.7.2.2, no resource shall have an Actual Capacity Provided that is less than zero.

(a) A Generating Capacity Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the sum of the resource's output during the interval plus the resource's Reserve Quantity For Settlement during the interval; provided, however, that if the resource's output was limited during the Capacity Scarcity Condition as a result of a transmission system limitation, then the resource's Actual Capacity Provided may not be greater than the sum of the resource's Desired Dispatch Point during the interval, plus the resource's Reserve Quantity For Settlement during the interval. Where the resource is associated with one or more External Transaction sales submitted in accordance with Section III.1.10.7(f), the resource will have its hourly Actual Capacity Provided reduced by the hourly integrated delivered MW for the External Transaction sale or sales.

(b) An Import Capacity Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the net energy delivered during the interval in which the Capacity Scarcity Condition occurred. Where a single Market Participant owns more than one Import Capacity Resource, then the difference between the total net energy delivered from those resources and the total of the Capacity Supply Obligations of those resources shall be allocated to those resources pro rata.

(c) An On-Peak Demand Resource or Seasonal Peak Demand Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the sum of the Actual Capacity Provided for each of its components, as determined below, where the MWhs of reduction, other than MWhs associated with Net Supply, are increased by average avoided peak transmission and distribution losses.

- (i) For Energy Efficiency measures, ~~if the Capacity Scarcity Condition occurs during Demand Resource On-Peak Hours or Demand Resource Seasonal Peak Hours, as applicable, then the Actual Capacity Provided shall be equal to the applicable reported monthly performance value; if the Capacity Scarcity Condition occurs in an interval outside of Demand Resource On-Peak Hours or Demand Resource Seasonal Peak Hours, as applicable, then~~ the Actual Capacity Provided shall be zero.

- (ii) For Distributed Generation measures submitting meter data for the full 24 hour calendar day during which the Capacity Scarcity Condition occurs, the Actual Capacity Provided shall be equal to the submitted meter data, adjusted as necessary for the five-minute interval in which the Capacity Scarcity Condition occurs.
 - (iii) For Load Management measures submitting meter data for the full 24 hour calendar day during which the Capacity Scarcity Condition occurs, the Actual Capacity Provided shall be equal to the submitted demand reduction data, adjusted as necessary for the five-minute interval in which the Capacity Scarcity Condition occurs.
 - (iv) Notwithstanding any other provision of this Section III.13.7.2.2(c), for any On-Peak Demand Resource or Seasonal Peak Demand Resource that fails to provide the data necessary for the ISO to determine the Actual Capacity Provided as described in this Section III.13.7.2.2(c), the Actual Capacity Provided shall be zero.
- (d) An Active Demand Capacity Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the sum of the Actual Capacity Provided by its constituent Demand Response Resources during the Capacity Scarcity Condition.
- (i) A Demand Response Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be: (1) the sum of the Real-Time demand reduction of its constituent Demand Response Assets (provided, however, that if the Demand Response Resource was limited during the Capacity Scarcity Condition as a result of a transmission system limitation, then the sum of the Real-Time demand reduction of its constituent Demand Response Assets may not be greater than its Desired Dispatch Point during the interval), plus (2) the Demand Response Resource's Reserve Quantity For Settlement, where the MW quantity, other than the MW quantity associated with Net Supply, is increased by average avoided peak transmission and distribution losses; provided, however, that a Demand Response Resource's Actual Capacity Provided shall not be less than zero.
 - (ii) The Real-Time demand reduction of a Demand Response Asset shall be calculated as described in Section III.8.4, except that: (1) in the case of a Demand Response Asset that is on a forced or scheduled curtailment as described in Section III.8.3, a Real-Time

demand reduction shall also be calculated for intervals in which the associated Demand Response Resource does not receive a non-zero Dispatch Instruction; (2) in the case of a Demand Response Asset that is on a forced or scheduled curtailment as described in Section III.8.3, the minuend in the calculation described in Section III.8.4 shall be the unadjusted Demand Response Baseline of the Demand Response Asset; and (3) the resulting MWhs of reduction, other than the MWhs associated with Net Supply, shall be increased by average avoided peak transmission and distribution losses.

III.13.7.2.3 Capacity Balancing Ratio.

For each five-minute interval in which a Capacity Scarcity Condition exists, the ISO shall calculate a Capacity Balancing Ratio using the following formula:

$$(\text{Load} + \text{Reserve Requirement}) / \text{Total Capacity Supply Obligation}$$

(a) If the Capacity Scarcity Condition is a result of a violation of the Minimum Total Reserve Requirement such that the associated system-wide Reserve Constraint Penalty Factor pricing applies, then the terms used in the formula above shall be calculated as follows:

Load = the total amount of Actual Capacity Provided (excluding applicable Real-Time Reserve Designations) from all resources in the New England Control Area during the interval; ~~(with provided, however, that if the interval occurs outside of Demand Resource On Peak Hours or Demand Resource Seasonal Peak Hours, then~~ the Actual Capacity Provided of ~~any applicable~~ Energy Efficiency measures ~~shall be being~~ zero, as specified in Section III.13.7.2.2(c)(i).

Reserve Requirement = the Minimum Total Reserve Requirement during the interval.

Total Capacity Supply Obligation = the total amount of Capacity Supply Obligations in the New England Control Area during the interval; ~~provided, however, that if the interval occurs outside of Demand Resource On Peak Hours or Demand Resource Seasonal Peak Hours, then, excluding~~ the Capacity Supply Obligations associated with ~~any applicable~~ Energy Efficiency measures ~~shall be excluded from the total amount of Capacity Supply Obligations.~~

(b) If the Capacity Scarcity Condition is a result of a violation of the Ten-Minute Reserve Requirement such that the associated system-wide Reserve Constraint Penalty Factor pricing applies, then the terms used in the formula above shall be calculated as follows:

Load = the total amount of Actual Capacity Provided (excluding applicable Real-Time Reserve Designations) from all resources in the New England Control Area during the interval; ~~(with provided, however, that if the interval occurs outside of Demand Resource On Peak Hours or Demand Resource Seasonal Peak Hours, then~~ the Actual Capacity Provided of ~~any applicable~~ Energy Efficiency measures ~~shall be being~~ zero, as specified in Section III.13.7.2.2(c)(i)).

Reserve Requirement = the Ten-Minute Reserve Requirement during the interval.

Total Capacity Supply Obligation = the total amount of Capacity Supply Obligations in the New England Control Area during the interval; ~~provided, however, that if the interval occurs outside of Demand Resource On Peak Hours or Demand Resource Seasonal Peak Hours, then, excluding~~ the Capacity Supply Obligations associated with ~~any applicable~~ Energy Efficiency measures ~~shall be excluded from the total amount of Capacity Supply Obligations.~~

(c) If the Capacity Scarcity Condition is a result of a violation of the Zonal Reserve Requirement such that the associated Reserve Constraint Penalty Factor pricing applies, then the terms used in the formula above shall be calculated as follows:

Load = the total amount of Actual Capacity Provided (excluding applicable Real-Time Reserve Designations) from all resources in the Capacity Zone during the interval plus the net amount of energy imported into the Capacity Zone from outside the New England Control Area during the interval (but not less than zero); ~~(with provided, however, that if the interval occurs outside of Demand Resource On Peak Hours or Demand Resource Seasonal Peak Hours, then~~ the Actual Capacity Provided of ~~any applicable~~ Energy Efficiency measures ~~shall being~~ zero, as specified in Section III.13.7.2.2(c)(i)).

Reserve Requirement = the Zonal Reserve Requirement minus any reserve support coming into the Capacity Zone over the internal transmission interface.

Total Capacity Supply Obligation = the total amount of Capacity Supply Obligations in the Capacity Zone during the interval; ~~provided however, that if the interval occurs outside of Demand Resource On~~

~~Peak Hours or Demand Resource Seasonal Peak Hours, excluding then the Capacity Supply Obligations associated with any applicable Energy Efficiency measures shall be excluded from the total amount of Capacity Supply Obligations.~~

(d) The following provisions shall be used to determine the applicable Capacity Balancing Ratio where more than one of the conditions described in subsections (a), (b), and (c) apply in a Capacity Zone.

(i) In any Capacity Zone subject to Reserve Constraint Penalty Factor pricing associated with both the Minimum Total Reserve Requirement and the Ten-Minute Reserve Requirement, but not the Zonal Reserve Requirement, the Capacity Balancing Ratio shall be calculated as described in Section III.13.7.2.3(a) for resources in that Capacity Zone.

(ii) In any Capacity Zone subject to Reserve Constraint Penalty Factor pricing associated with both the Ten-Minute Reserve Requirement and the Zonal Reserve Requirement, but not the Minimum Total Reserve Requirement, the Capacity Balancing Ratio for resources in that Capacity Zone shall be the higher of the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(b) and the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(c).

(iii) In any Capacity Zone subject to Reserve Constraint Penalty Factor pricing associated with the Minimum Total Reserve Requirement and the Zonal Reserve Requirement (regardless of whether the Capacity Zone is also subject to Reserve Constraint Penalty Factor pricing associated with the Ten-Minute Reserve Requirement), the Capacity Balancing Ratio for resources in that Capacity Zone shall be the higher of the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(a) and the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(c).

III.13.7.2.4 Capacity Performance Score.

Each resource, whether or not it has a Capacity Supply Obligation, will be assigned a Capacity Performance Score for each five-minute interval in which a Capacity Scarcity Condition exists in the Capacity Zone in which the resource is located. A resource's Capacity Performance Score for the interval shall equal the resource's Actual Capacity Provided during the interval (with the Actual Capacity Provided of Energy Efficiency measures being zero, as specified in Section III.13.7.2.2(c)(i)) minus the product of the resource's Capacity Supply Obligation (which for this purpose shall not be less than zero)

and the applicable Capacity Balancing Ratio; provided, however, that for an On-Peak Demand Resource or a Seasonal Peak Demand Resource, ~~if the Capacity Scarcity Condition occurs in an interval outside of Demand Resource On-Peak Hours or Demand Resource Seasonal Peak Hours, as applicable, then the Actual Capacity Provided and~~ Capacity Supply Obligation associated with any applicable Energy Efficiency measures shall be excluded from the calculation of the resource's Capacity Performance Score. The resulting Capacity Performance Score may be positive, zero, or negative.

III.13.7.2.5 Capacity Performance Payment Rate.

For the three Capacity Commitment Periods beginning June 1, 2018 and ending May 31, 2021, the Capacity Performance Payment Rate shall be \$2000/MWh. For the three Capacity Commitment Periods beginning June 1, 2021 and ending May 31, 2024, the Capacity Performance Payment Rate shall be \$3500/MWh. For the Capacity Commitment Period beginning on June 1, 2024 and ending on May 31, 2025, the Capacity Performance Payment Rate shall be \$5455/MWh. For the Capacity Commitment Period beginning on June 1, 2025 and ending on May 31, 2026 and thereafter, the Capacity Performance Payment Rate shall be \$8782/MWh. The ISO shall review the Capacity Performance Payment Rate in the stakeholder process as needed and shall file with the Commission a new Capacity Performance Payment Rate if and as appropriate.

III.13.7.2.6 Calculation of Capacity Performance Payments.

For each resource, whether or not it has a Capacity Supply Obligation, the ISO shall calculate a Capacity Performance Payment for each five-minute interval in which a Capacity Scarcity Condition exists in the Capacity Zone in which the resource is located. A resource's Capacity Performance Payment for an interval shall equal the resource's Capacity Performance Score for the interval multiplied by the Capacity Performance Payment Rate. The resulting Capacity Performance Payment for an interval may be positive or negative.

III.13.7.3 Monthly Capacity Payment and Capacity Stop-Loss Mechanism.

Each resource's Monthly Capacity Payment for an Obligation Month, which may be positive or negative, shall be the sum of the resource's Capacity Base Payment for the Obligation Month plus the sum of the resource's Capacity Performance Payments for all five-minute intervals in the Obligation Month, except as provided in Section III.13.7.3.1 and Section III.13.7.3.2 below.

III.13.7.3.1 Monthly Stop-Loss.

If the sum of the resource's Capacity Performance Payments (excluding any Capacity Performance Payments associated with Actual Capacity Provided above the resource's Capacity Supply Obligation in any interval) for all five-minute intervals in the Obligation Month is negative, the amount subtracted from the resource's Capacity Base Payment for the Obligation Month will be limited to an amount equal to the product of the applicable Forward Capacity Auction Starting Price multiplied by the resource's Capacity Supply Obligation for the Obligation Month (or, 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, the amount subtracted from the resource's Capacity Base Payment for the Obligation Month will be limited to an amount equal to the product of the applicable Capacity Clearing Price (indexed for inflation) multiplied by the resource's Capacity Supply Obligation for the Obligation Month).

III.13.7.3.2 Annual Stop-Loss.

(a) For each Obligation Month, the ISO shall calculate a stop-loss amount equal to:

$$\text{MaxCSO} \times [3 \text{ months} \times (\text{FCACP} - \text{FCASP}) - (12 \text{ months} \times \text{FCACP})]$$

Where:

MaxCSO = the resource's highest monthly Capacity Supply Obligation in the Capacity Commitment Period to date.

FCACP = the Capacity Clearing Price for the relevant Forward Capacity Auction.

FCASP = the Forward Capacity Auction Starting Price for the relevant Forward Capacity Auction.

(b) For each Obligation Month, the ISO shall calculate each resource's cumulative Capacity Performance Payments as the sum of the resource's Capacity Performance Payments for all months in the Capacity Commitment Period to date, with those monthly amounts limited as described in Section III.13.7.3.1.

(c) If the sum of the resource's Capacity Performance Payments (excluding any Capacity Performance Payments associated with Actual Capacity Provided above the resource's Capacity Supply

Obligation in any interval) for all five-minute intervals in the Obligation Month is negative, the amount subtracted from the resource's Capacity Base Payment for the Obligation Month will be limited to an amount equal to the difference between the stop-loss amount calculated as described in Section III.13.7.3.2(a) and the resource's cumulative Capacity Performance Payments as described in Section III.13.7.3.2(b).

III.13.7.4 Allocation of Deficient or Excess Capacity Performance Payments.

For each type of Capacity Scarcity Condition as described in Section III.13.7.2.1 and for each Capacity Zone, the ISO shall allocate deficient or excess Capacity Performance Payments as described in subsections (a) and (b) below. Where more than one type of Capacity Scarcity Condition applies, then the provisions below shall be applied in proportion to the duration of each type of Capacity Scarcity Condition.

(a) If the sum of all Capacity Performance Payments to all resources subject to the Capacity Scarcity Condition in the Capacity Zone in an Obligation Month is positive, the deficiency will be charged to resources in proportion to each such resource's Capacity Supply Obligation for the Obligation Month, excluding any resources subject to the stop-loss mechanism described in Section III.13.7.3 for the Obligation Month and excluding any resource, or portion thereof, consisting of Energy Efficiency measures. If the charge described in this Section III.13.7.4(a) causes a resource to reach the stop-loss limit described in Section III.13.7.3, then the stop-loss cap described in Section III.13.7.3 will be applied to that resource, and the remaining deficiency will be further allocated to other resources in the same manner as described in this Section III.13.7.4(a).

(b) If the sum of all Capacity Performance Payments to all resources subject to the Capacity Scarcity Condition in the Capacity Zone in an Obligation Month is negative, the excess will be credited to all such resources (excluding any resource, or portion thereof, consisting of Energy Efficiency measures) in proportion to each resource's Capacity Supply Obligation for the Obligation Month. For a resource subject to the stop-loss mechanism described in Section III.13.7.3 for the Obligation Month, any such credit shall be reduced (though not to less than zero) by the amount not charged to the resource as a result of the application of the stop-loss mechanism described in Section III.13.7.3, and the remaining excess will be further allocated to other resources in the same manner as described in this Section III.13.7.4(b)

III.13.7.5. Charges to Market Participants with Capacity Load Obligations.

III.13.7.5.1. Calculation of Capacity Charges Prior to June 1, 2022.

The provisions in this subsection apply to charges associated with Capacity Commitment Periods beginning prior to June 1, 2022. A load serving entity with a Capacity Load Obligation as of the end of the Obligation Month shall be subject to a charge equal to the product of: (a) its Capacity Load Obligation in the Capacity Zone; and (b) the applicable Net Regional Clearing Price. The Net Regional Clearing Price is defined as the sum of the total payments as defined in Section III.13.7 paid to resources with Capacity Supply Obligations in the Capacity Zone (excluding any capacity payments and charges made for Capacity Supply Obligation Bilaterals and excluding any Capacity Performance Payments), less PER adjustments for resources in the zone as defined in Section III.13.7.1.2, and including any applicable export charges or credits as determined pursuant to Section III.13.7.1.3 divided by the sum of all Capacity Supply Obligations (excluding (i) the quantity of capacity subject to Capacity Supply Obligation Bilaterals and (ii) the quantity of capacity clearing as Self-Supplied FCA Resources) assumed by resources in the zone. A load serving entity satisfying its Capacity Load Obligation by a Self-Supplied FCA Resource shall not receive a credit for any PER payment for its Capacity Load Obligation so satisfied. A load serving entity with a Capacity Load Obligation as of the end of the Obligation Month may also receive a failure to cover credit equal to the product of: (a) its Capacity Load Obligation in the Capacity Zone, and; (b) the sum of all failure to cover charges in the Capacity Zone calculated pursuant to Section III.13.3.4(b), divided by total Capacity Load Obligation in the Capacity Zone.

III.13.7.5.1.1. Calculation of Capacity Charges On and After June 1, 2022.

The provisions in this subsection apply to charges associated with Capacity Commitment Periods beginning on or after June 1, 2022. For purposes of this Section III.13.7.5.1.1, Capacity Zone costs calculated for a Capacity Zone that contains a nested Capacity Zone shall exclude the Capacity Zone costs of the nested Capacity Zone. A Market Participant with a Capacity Load Obligation as of the end of the Obligation Month shall be subject to the following charges and adjustments:

III.13.7.5.1.1.1 Forward Capacity Auction Charge.

The FCA charge, for each Capacity Zone, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Capacity Zone FCA Costs divided by Zonal Capacity Obligation.

Where

Capacity Zone FCA Costs, for each Capacity Zone, are the Total FCA Costs multiplied by the Zonal Peak Load Allocator and divided by the Total Peak Load Allocator.

Total FCA Costs are the sum of, for all Capacity Zones, (i) Capacity Supply Obligations in each zone (the total obligation awarded to or shed by resources in the Forward Capacity Auction process for the Obligation Month in the zone, excluding any obligations awarded to Intermittent Power Resources that are the basis for the Intermittent Power Resource Capacity Adjustment specified in Section III.13.7.5.1.1.6 and excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A) multiplied by the applicable clearing price from the auction in which the obligation was awarded to (or shed by) the resource, and (ii) the difference between the bid price and the substitution auction clearing price that was not included in the capacity charge pursuant to the second sentence of Section III.13.7.1.1(d). Capacity Supply Obligations awarded to Proxy De-List Bids in the primary auction, or shed by demand bids entered into the substitution auction on behalf of a Proxy De-List Bid, are excluded from Total FCA Costs.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal Capacity Clearing Price.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

III.13.7.5.1.1.2 Annual Reconfiguration Auction Charge.

The total annual reconfiguration auction charge, for each Capacity Zone and each associated annual reconfiguration auction, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Capacity Zone Annual Reconfiguration Auction Costs divided by Zonal Capacity Obligation.

Where

Capacity Zone Annual Reconfiguration Auction Costs, for each Capacity Zone, are the Total Annual Reconfiguration Costs multiplied by the Zonal Peak Load Allocator and divided by the Total Peak Load Allocator.

Total Annual Reconfiguration Auction Costs are the sum, for all Capacity Zones and each associated annual reconfiguration auction, of the product of the Capacity Supply Obligations acquired through the annual reconfiguration auction in each zone (adjusted for any obligations procured in the annual reconfiguration auction that are subsequently terminated pursuant to Section III.13.3.4A) and the zonal annual reconfiguration auction clearing price, minus the sum, for all Capacity Zones, of the product of the amount of any Capacity Supply Obligation shed

through the annual reconfiguration auction in each zone and the applicable annual reconfiguration auction clearing price.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal annual reconfiguration auction clearing price.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

III.13.7.5.1.1.3. Monthly Reconfiguration Auction Charge.

The monthly reconfiguration auction charge is: (a) total Capacity Load Obligation for all Capacity Zones; multiplied by (b) Total Monthly Reconfiguration Auction Costs divided by Total Zonal Capacity Obligation.

Where

Total Monthly Reconfiguration Auction Costs are the sum of, for all Capacity Zones, the product of Capacity Supply Obligations acquired through the monthly reconfiguration auction in each zone and the applicable monthly reconfiguration auction clearing price, minus the sum of, for all Capacity Zones, any Capacity Supply Obligations shed through the monthly reconfiguration auction in each zone and the applicable monthly reconfiguration auction clearing price.

Total Zonal Capacity Obligation is the total of the Zonal Capacity Obligation in all Capacity Zones.

III.13.7.5.1.1.4. HQICC Capacity Charge.

The HQICC capacity charge is: (a) total Capacity Load Obligation for all Capacity Zones; multiplied by (b) Total HQICC Credits divided by Total Capacity Load Obligation.

Where

Total HQICC credits are the product of HQICCs multiplied by the sum of the values calculated in Sections III.13.7.5.1.1.1(b), III.13.7.5.1.1.2(b), III.13.7.5.1.1.3(b), III.13.7.5.1.1.6(b), III.13.7.5.1.1.7(b), III.13.7.5.1.1.8(b), and III.13.7.5.1.1.9(b) in the Capacity Zone in which the HQ Phase I/II external node is located.

Total Capacity Load Obligation is the total Capacity Load Obligation in all Capacity Zones.

III.13.7.5.1.1.5. Self-Supply Adjustment.

The self-supply adjustment is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) the Self-Supply Variance divided by Total Capacity Load Obligation.

Where

Self-Supply Variance is the difference between foregone capacity payments and avoided capacity charges associated with designated self-supply quantities.

Foregone capacity payments to Self-Supplied FCA Resources are the sum, for all Capacity Zones, of the product of the zonal Capacity Supply Obligation (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A) designated as self-supply, multiplied by the applicable clearing price from the auction in which the obligation was awarded.

Avoided capacity charges are the sum, for all Capacity Zones, of the product of any designated self-supply quantities multiplied by the sum of the values calculated in Sections III.13.7.5.1.1.1(b), III.13.7.5.1.1.2(b), III.13.7.5.1.1.3(b), III.13.7.5.1.1.6(b), III.13.7.5.1.1.7(b), III.13.7.5.1.1.8(b), and III.13.7.5.1.1.9(b) in the Capacity Zone associated with the designated self-supply quantity.

Total Capacity Load Obligation is the total Capacity Load Obligation in all Capacity Zones.

III.13.7.5.1.1.6. Intermittent Power Resource Capacity Adjustment.

The Intermittent Power Resource capacity adjustment in a winter season for the Obligation Months from October through May is: (a) total Capacity Load Obligation for all Capacity Zones; multiplied by (b) the Intermittent Power Resource Seasonal Variance divided by Total Zonal Capacity Obligation.

Where

Intermittent Power Resource Seasonal Variance is the difference between the FCA payments for Intermittent Power Resource in the Obligation Month and the base FCA payments for Intermittent Power Resources.

FCA payments to Intermittent Power Resources are the sum, for all Capacity Zones, of the product of the Capacity Supply Obligations awarded to or shed by Intermittent Power Resources in the Forward Capacity Auction process for the Obligation Month pursuant to Section III.13.2.7.6 or Section III.13.2.8.1.1 (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the applicable clearing price from the auction in which the obligation was awarded.

Base FCA payments for Intermittent Power Resources are the sum, for all Capacity Zones, of the product of the FCA Qualified Capacity procured from or shed by Intermittent Power Resources in the Forward Capacity Auction process (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the applicable clearing price from the auction in which the obligation was awarded.

Total Zonal Capacity Obligation is the total Capacity Load Obligation in all Capacity Zones.

III.13.7.5.1.1.7. Multi-Year Rate Election Adjustment.

For multi-year rate elections made in the primary Forward Capacity Auction for Capacity Commitment Periods beginning on or after June 1, 2022, the multi-year rate election adjustment, for each Capacity Zone, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Zonal Multi-Year Rate Election Costs divided by Zonal Capacity Obligation.

Where

Zonal Multi-Year Rate Election Costs is the sum, for each resource with a multi-year rate election in the Obligation Month, of the amount of Capacity Supply Obligation designated to receive the multi-year rate (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the difference in the applicable zonal Capacity Clearing Price for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) and the applicable zonal Capacity Clearing Price for the current Capacity Commitment Period, multiplied by the Zonal Peak Load Allocator for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation and divided by the Total Peak Load Allocator for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal Capacity Clearing Price.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

For multi-year rate elections made in the primary Forward Capacity Auction for Capacity Commitment Periods beginning prior to June 1, 2022, the multi-year rate election adjustment, for each Capacity Zone, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Zonal Multi-Year Rate Election Costs divided by Zonal Capacity Obligation.

Where

Zonal Multi-Year Rate Election Costs is the sum in each Capacity Zone, for each resource with a multi-year rate election in the Obligation Month, of the amount of Capacity Supply Obligation designated to receive the multi-year rate (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the difference in the applicable zonal Capacity Clearing Price for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) and the applicable zonal Capacity Clearing Price for the current Capacity Commitment Period.

III.13.7.5.1.1.8 CTR Transmission Upgrade Charge.

The CTR transmission upgrade charge is: (a) the Capacity Load Obligation in the Capacity Zones to which the applicable interface limits the transfer of capacity, multiplied by (b) Zonal CTR Transmission Upgrade Cost divided by Zonal Capacity Obligation.

Where

Zonal CTR Transmission Upgrade Cost for each Capacity Zone to which the interface limits the transfer of capacity is the amount calculated pursuant to Section III.13.7.5.4.4 (f), multiplied by the Zonal Capacity Obligation and divided by the sum of the Zonal Capacity Obligation for all Capacity Zones to which the interface limits the transfer of capacity.

III.13.7.5.1.1.9 CTR Pool-Planned Unit Charge.

The CTR Pool-Planned Unit charge is: (a) the Capacity Load Obligation in the Capacity Zone less the amount of any CTRs specifically allocated pursuant to Section III.13.7.5.4.5, multiplied by (b) CTR Pool-Planned Unit Cost divided by Total Zonal Capacity Obligation less the amount of any CTRs specifically allocated pursuant to Section III.13.7.5.4.5.

Where

The CTR Pool-Planned Unit Cost for each Capacity Zone is the sum of the amounts calculated pursuant to Section III.13.7.5.4.5 (b).

Total Zonal Capacity Obligation is the total of the Zonal Capacity Obligation in all Capacity Zones.

III.13.7.5.1.1.10. Failure to Cover Charge Adjustment.

The failure to cover charge adjustment, for each Capacity Zone, is (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Zonal Failure to Cover Charges divided by Zonal Capacity Obligation.

Where:

Zonal Failure to Cover Charges are the product of: (1) the sum, for all Capacity Zones, of the failure to cover charges calculated pursuant to Section III.13.3.4(b), and; (2) the Zonal Peak Load Allocator and divided by the Total Peak Load Allocator.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal annual reconfiguration auction clearing price as determined pursuant to Section III.13.3.4.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

III.13.7.5.2. Calculation of Capacity Load Obligation and Zonal Capacity Obligation.

The ISO shall assign each Market Participant a share of the Zonal Capacity Obligation prior to the commencement of each Obligation Month for each Capacity Zone established in the Forward Capacity Auction pursuant to Section III.13.2.3.4. The Zonal Capacity Obligation of a Capacity Zone that contains a nested Capacity Zone shall exclude the Zonal Capacity Obligation of the nested Capacity Zone.

Zonal Capacity Obligation for each month and Capacity Zone shall equal the product of: (i) the total of the system-wide Capacity Supply Obligations (excluding the quantity of capacity subject to Capacity

Supply Obligation Bilaterals for Capacity Commitment Periods beginning prior to June 1, 2022 and excluding any additional obligations awarded to Intermittent Power Resources pursuant to Section III.13.2.7.6 that exceed the FCA Qualified Capacity procured in the Forward Capacity Auction for Capacity Commitment Periods beginning on or after June 1, 2022) plus HQICCs; and (ii) the ratio of the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year two years prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning prior to June 1, 2022) and from the calendar year one year prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning on or after June 1, 2022) to the system-wide sum of all load serving entities' annual coincident contributions to the system-wide annual peak load from the calendar year two years prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning prior to June 1, 2022) and from the calendar year one year prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning on or after June 1, 2022).

The following loads are assigned a peak contribution of zero for the purposes of assigning obligations and tracking load shifts: load associated with the receipt of electricity from the grid by Storage DARDs for later injection of electricity back to the grid; Station service load that is modeled as a discrete Load Asset and the Resource is complying with the maintenance scheduling procedures of the ISO; load that is modeled as a discrete Load Asset and is exclusively related to an Alternative Technology Regulation Resource following AGC Dispatch Instructions; and transmission losses associated with delivery of energy over the Control Area tie lines.

A Market Participant's share of Zonal Capacity Obligation for each month and Capacity Zone shall equal the product of: (i) the Capacity Zone's Zonal Capacity Obligation as calculated above and (ii) the ratio of the sum of the load serving entity's annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capacity Commitment Period to the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capacity Commitment Period.

A Market Participant's Capacity Load Obligation shall be its share of Zonal Capacity Obligation for each month and Capacity Zone, adjusted as appropriate to account for any relevant Capacity Load Obligation Bilaterals, HQICCs, and Self-Supplied FCA Resource designations. A Capacity Load Obligation can be a positive or negative value.

A Market Participant's share of Zonal Capacity Obligation will not be reconstituted to include the demand reduction of a Demand Capacity Resource or Demand Response Resource.

III.13.7.5.2.1. Charges Associated with Dispatchable Asset Related Demands.

Dispatchable Asset Related Demand resources will not receive Forward Capacity Market payments, but instead each Dispatchable Asset Related Demand resource will receive an adjustment to its share of the associated Coincident Peak Contribution based on the ability of the Dispatchable Asset Related Demand resource to reduce consumption. The adjustment to a load serving entity's Coincident Peak Contribution resulting from Dispatchable Asset Related Demand resource reduction in consumption shall be based on the Nominated Consumption Limit submitted for the Dispatchable Asset Related Demand resource. The Nominated Consumption Limit value of each Dispatchable Asset Related Demand resource is subject to adjustment as further described in the ISO New England Manuals, including adjustments based on the results of Nominated Consumption Limit audits performed in accordance with the ISO New England Manuals.

III.13.7.5.3. Excess Revenues.

(a) For Capacity Commitment Periods beginning prior to June 1, 2022, revenues collected from load serving entities in excess of revenues paid by the ISO to resources shall be paid by the ISO to the holders of Capacity Transfer Rights, as detailed in Section III.13.7.5.3.

(b) Any payment associated with a Capacity Supply Obligation Bilateral that was to accrue to a Capacity Acquiring Resource for a Capacity Supply Obligation that is terminated pursuant to Section III.13.3.4A shall instead be allocated to Market Participants based on their pro rata share of all Capacity Load Obligations in the Capacity Zone in which the terminated resource is located.

III.13.7.5.4. Capacity Transfer Rights.

III.13.7.5.4.1. Definition and Payments to Holders of Capacity Transfer Rights.

This subsection applies to Capacity Commitment Periods beginning prior to June 1, 2022.

Capacity Transfer Rights are calculated for each internal interface associated with a Capacity Zone established in the Forward Capacity Auction (as determined pursuant to Section III.13.2.3.4). Based upon results of the Forward Capacity Auction and reconfiguration auctions, the total CTR fund will be calculated as the difference between the charges to load serving entities with Capacity Load Obligations

and the payments to Capacity Resources as follows: The system-wide sum of the product of each Capacity Zone's Net Regional Clearing Price and absolute value of each Capacity Zone's Capacity Load Obligations, as calculated in Section III.13.7.5.1, minus the sum of the monthly capacity payments to Capacity Resources within each zone, as adjusted for PER.

Each Capacity Zone established in the Forward Capacity Auction (as determined pursuant to Section III.13.2.3.4) will be assigned its portion of the CTR fund.

For CTRs resulting from an export constrained zone, the assignment will be calculated as the product of: (i) the Net Regional Clearing Price for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Net Regional Clearing Price for the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the difference between the absolute value of the total Capacity Supply Obligations obtained in the exporting Capacity Zone, adjusted for Capacity Supply Obligations associated with Self-Supplied FCA Resources, and the absolute value of the total Capacity Load Obligations in the exporting Capacity Zone.

For CTRs resulting from an import constrained zone, the assignment will be calculated as the product of: (i) the Net Regional Clearing Price for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Net Regional Clearing Price for the absolute value of the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the difference between absolute value of the total Capacity Load Obligations in the importing Capacity Zone and the total Capacity Supply Obligations obtained in the importing Capacity Zone, adjusted for Capacity Supply Obligations associated with Self-Supplied FCA Resources.

III.13.7.5.4.2. Allocation of Capacity Transfer Rights.

This subsection applies to Capacity Commitment Periods beginning prior to June 1, 2022.

For Capacity Zones established in the Forward Capacity Auction as determined pursuant to Section III.13.2.3.4, the CTR fund shall be allocated among load serving entities using their Capacity Load Obligation (net of HQICCs) described in Section III.13.7.5.1. Market Participants with CTRs specifically allocated under Section III.13.7.5.3.6 will have their specifically allocated CTR MWs netted from their Capacity Load Obligation used to establish their share of the CTR fund.

(a) **Connecticut Import Interface.** The allocation of the CTR fund associated with the Connecticut Import Interface shall be made to load serving entities based on their Capacity Load Obligation in the Connecticut Capacity Zone.

(b) **NEMA/Boston Import Interface.** Except as provided in Section III.13.7.5.3.6 of Market Rule 1, the allocation of the CTR fund associated with the NEMA/Boston Import Interface shall be made to load serving entities based on their Capacity Load Obligation in the NEMA/Boston Capacity Zone.

III.13.7.5.4.3. Allocations of CTRs Resulting From Revised Capacity Zones.

This subsection applies to Capacity Commitment Periods beginning prior to June 1, 2022.

The portion of the CTR fund associated with revised definitions of Capacity Zones shall be fully allocated to load serving entities after deducting the value of applicable CTRs that have been specifically allocated. Allocations of the CTR fund among load serving entities will be made using their Capacity Load Obligations (net of HQICCs) as described in Section III.13.7.5.3.1. Market Participants with CTRs specifically allocated under Section III.13.7.5.3.6 will have their specifically allocated CTR MWs netted from the Capacity Load Obligation used to establish their share of the CTR fund.

(a) **Import Constraints.** The allocation of the CTR fund associated with newly defined import-constrained Capacity Zones restricting the transfer of capacity into a single adjacent import-constrained Capacity Zone shall be allocated to load serving entities with Capacity Load Obligations in that import-constrained Capacity Zone.

(b) **Export Constraints.** The allocation of the CTR fund associated with newly defined export-constrained Capacity Zones shall be allocated to load serving entities with Capacity Load Obligations on the import-constrained side of the interface.

III.13.7.5.4.4. Specifically Allocated CTRs Associated with Transmission Upgrades.

(a) A Market Participant that pays for transmission upgrades not funded through the Pool PTF Rate and which increase transfer capability across existing or potential Capacity Zone interfaces may request a specifically allocated CTR in an amount equal to the number of CTRs supported by that increase in transfer capability.

- (b) The allocation of additional CTRs created through generator interconnections completed after February 1, 2009 shall be made in accordance with the provisions of the ISO generator interconnection or planning standards. In the event the ISO interconnection or planning standards do not address this issue, the CTRs created shall be allocated in the same manner as described in Section III.13.7.5.4.2.
- (c) Specifically allocated CTRs shall expire when the Market Participant ceases to pay to support the transmission upgrades.
- (d) CTRs resulting from transmission upgrades funded through the Pool PTF Rate shall not be specifically allocated but shall be allocated in the same manner as described in Section III.13.7.5.4.2.
- (e) **Maine Export Interface.** Casco Bay shall receive specifically allocated CTRs of 325 MW across the Maine export interface for as long as Casco Bay continues to pay to support the transmission upgrades.
- (f) The value of CTRs specifically allocated pursuant to this Section shall be calculated as the product of: (i) the Capacity Clearing Price to which the applicable interface limits the transfer of capacity minus the Capacity Clearing Price from which the applicable interface limits the transfer of capacity; and (ii) the MW quantity of the specifically allocated CTRs across the applicable interface.

III.13.7.5.4.5. Specifically Allocated CTRs for Pool-Planned Units.

- (a) In import-constrained Capacity Zones, in recognition of longstanding life of unit contracts, the municipal utility entitlement holder of a resource constructed as Pool-Planned Units shall receive an initial allocation of CTRs equal to the most recent seasonal claimed capability of the ownership entitlements in such unit, adjusted for any designated self-supply quantities as described in Section III.13.1.6.2. Municipal utility entitlements are set as shown in the table below and are not transferrable.

Millstone 3		Seabrook	Stonybrook GT 1A	Stonybrook GT 1B	Stonybrook GT 1C	Stonybrook 2A	Stonybrook 2B	Wyman 4	Summer	Winter
									(MW)	(MW)
Nominal Summer (MW)	1155.001	1244.275	104.000	100.000	104.000	67.400	65.300	586.725		
Nominal Winter (MW)	1155.481	1244.275	119.000	116.000	119.000	87.400	85.300	608.575		
Danvers	0.2627%	1.1124%	8.4569%	8.4569%	8.4569%	11.5551%	11.5551%	0.0000%	58.26	63.73
Georgetown	0.0208%	0.0956%	0.7356%	0.7356%	0.7356%	1.0144%	1.0144%	0.0000%	5.04	5.55
Ipswich	0.0608%	0.1066%	0.2934%	0.2934%	0.2934%	0.0000%	0.0000%	0.0000%	2.93	2.37
Marblehead	0.1544%	0.1351%	2.6840%	2.6840%	2.6840%	1.5980%	1.5980%	0.2793%	15.49	15.64
Middleton	0.0440%	0.3282%	0.8776%	0.8776%	0.8776%	1.8916%	1.8916%	0.1012%	10.40	11.07
Peabody	0.2969%	1.1300%	13.0520%	13.0520%	13.0520%	0.0000%	0.0000%	0.0000%	57.69	60.26
Reading	0.4041%	0.6351%	14.4530%	14.4530%	14.4530%	19.5163%	19.5163%	0.0000%	82.98	92.77
Wakefield	0.2055%	0.3870%	3.9929%	3.9929%	3.9929%	6.3791%	6.3791%	0.4398%	30.53	32.64
Ashburnham	0.0307%	0.0652%	0.6922%	0.6922%	0.6922%	0.9285%	0.9285%	0.0000%	4.53	5.22
Boylston	0.0264%	0.0849%	0.5933%	0.5933%	0.5933%	0.9120%	0.9120%	0.0522%	4.71	5.35
Braintree	0.0000%	0.6134%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	7.63	7.63
Groton	0.0254%	0.1288%	0.8034%	0.8034%	0.8034%	1.0832%	1.0832%	0.0000%	5.81	6.61
Hingham	0.1007%	0.4740%	3.9815%	3.9815%	3.9815%	5.3307%	5.3307%	0.0000%	26.40	30.36
Holden	0.0726%	0.3971%	2.2670%	2.2670%	2.2670%	3.1984%	3.1984%	0.0000%	17.01	19.33
Holyoke	0.3194%	0.3096%	0.0000%	0.0000%	0.0000%	2.8342%	2.8342%	0.6882%	15.34	16.63

Hudson	0.1056%	1.6745%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.3395%	24.05	24.12
Hull	0.0380%	0.1650%	1.4848%	1.4848%	1.4848%	2.1793%	2.1793%	0.1262%	10.70	12.28
Littleton	0.0536%	0.1093%	1.5115%	1.5115%	1.5115%	3.0607%	3.0607%	0.1666%	11.67	13.63
Mansfield	0.1581%	0.7902%	5.0951%	5.0951%	5.0951%	7.2217%	7.2217%	0.0000%	36.93	42.17
Middleborough	0.1128%	0.5034%	2.0657%	2.0657%	2.0657%	4.9518%	4.9518%	0.1667%	21.48	24.45
North Attleborough	0.1744%	0.3781%	3.2277%	3.2277%	3.2277%	5.9838%	5.9838%	0.1666%	25.58	29.49
Pascoag	0.0000%	0.1068%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	1.33	1.33
Paxton	0.0326%	0.0808%	0.6860%	0.6860%	0.6860%	0.9979%	0.9979%	0.0000%	4.82	5.53
Shrewsbury	0.2323%	0.5756%	3.9105%	3.9105%	3.9105%	0.0000%	0.0000%	0.4168%	24.33	26.23
South Hadley	0.5755%	0.3412%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	10.89	10.90
Sterling	0.0294%	0.2044%	0.7336%	0.7336%	0.7336%	1.1014%	1.1014%	0.0000%	6.60	7.38
Taunton	0.0000%	0.1003%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	1.25	1.25
Templeton	0.0700%	0.1926%	1.3941%	1.3941%	1.3941%	2.3894%	2.3894%	0.0000%	10.67	12.27
Vermont Public Power Supply Authority	0.0000%	0.0000%	2.2008%	2.2008%	2.2008%	0.0000%	0.0000%	0.0330%	6.97	7.99
West Boylston	0.0792%	0.1814%	1.2829%	1.2829%	1.2829%	2.3041%	2.3041%	0.0000%	10.18	11.69
Westfield	1.1131%	0.3645%	9.0452%	9.0452%	9.0452%	13.5684%	13.5684%	0.7257%	67.51	77.27

This allocation of CTRs shall expire on December 31, 2040. If a resource listed in the table above retires prior to December 31, 2040, however, its allocation of CTRs shall expire upon retirement. In the event that the NEMA zone either becomes or is forecast to become a separate zone for Forward Capacity Auction purposes, National Grid agrees to discuss with Massachusetts Municipal Wholesale Electric Company (“MMWEC”) and Wellesley Municipal Light Plant, Reading Municipal Light Plant and Concord Municipal Light Plant (“WRC”) any proposal by National Grid to develop cost effective transmission improvements that would mitigate or alleviate the import constraints and to work cooperatively and in good faith with MMWEC and WRC regarding any such proposal. MMWEC and WRC agree to support any proposals advanced by National Grid in the regional system planning process to construct any such transmission improvements, provided that MMWEC and WRC determine that the proposed improvements are cost effective (without regard to CTRs) and will mitigate or alleviate the import constraints.

(b) The value of CTRs specifically allocated pursuant to this Section shall be calculated as the product of: (i) the Capacity Clearing Price for the Capacity Zone where the load of the municipal utility entitlement holder is located minus the Capacity Clearing Price for the Capacity Zone in which the Pool-Planned Unit is located, and; (ii) the MW quantity of the specifically allocated CTRs.

III.13.7.5.5. Forward Capacity Market Net Charge Amount.

The Forward Capacity Market net charge amount for each Market Participant as of the end of the Obligation Month shall be equal to the sum of: (a) its Capacity Load Obligation charges; (b) its revenues from any applicable specifically allocated CTRs; (c) its share of the CTR fund (for Capacity Commitment Periods beginning prior to June 1, 2022); and (d) any applicable export charges.

EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

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EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

Overview

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

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

I. GROUPS REGARDED AS SINGLE MARKET PARTICIPANTS

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

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

II. MARKET PARTICIPANTS' REVIEW AND CREDIT LIMITS

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

A. Minimum Criteria for Market Participation

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

1. Information Disclosure

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

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

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

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

2. Risk Management

- (a) Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has: (i) either established or contracted for risk management procedures that are applicable to participation in the New England Markets; and (ii) has established or contracted for appropriate training of relevant personnel that is applicable to its participation in the New England Markets. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant 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, including, if requested by the ISO in its sole discretion, supporting documentation (which may include an organizational chart (or portion thereof) or equivalent information) that demonstrates the segregation of duties within such risk policies, procedures, and controls of the such customer or applicant, applicable to its participation in the FTR market relied upon by the Senior Officer of the applicant signing the certificate provided pursuant to Section II.A.2 (a). On an annual basis (by April 30 each year), each Designated FTR Participant with FTR transactions in any of the previous twelve months or in any currently open month

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

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

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

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

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

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

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

3. Communications

Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has either established or contracted to establish procedures to effectively communicate with and respond to the ISO with respect to matters relating to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy. Such procedures must ensure, at a minimum, that at least one person with the ability and authority to address matters related to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy on behalf of the customer or applicant, including the ability and authority to respond to requests for information and to arrange for additional financial assurance as necessary, is available from 9:00 a.m. to 5:00 p.m. Eastern Time on Business Days. Such procedures must also ensure that the ISO is kept informed about the current contact information (including phone numbers and e-mail addresses) for the person or people described above. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant 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 or any future transactions for a duration of one month or less except when FTRs for a month are being auctioned for the final time. Such a customer or applicant may enter into future transaction of a duration of one month or less in the FTR system in the case of FTRs for a month being auctioned for the final time. Any customer or applicant that fails to meet these capitalization requirements shall provide additional financial assurance in one of the forms described in Section X of the ISO New England Financial Assurance Policy equal to 25 percent of the customer's or applicant's FTR Financial Assurance Requirements. Any additional financial assurance provided pursuant to this Section II.A.4(b) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy.

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

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

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

5. Additional Eligibility Requirements

All customers and applicants shall at all times be:

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

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

total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy. The certificate must be signed on behalf of the customer by a Senior Officer of the customer 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.

6. Prior Uncured Defaults

In addition to, and not in limitation of Section IV of the ISO New England Financial Assurance Policy, an applicant who has a previous uncured payment default must cure such payment default by payment to the ISO of all outstanding and unpaid obligations, as well as meet all requirements for participation in the New England Markets contained in the ISO New England Financial Assurance Policy. For purposes of this Section II.A.6

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

B. Proof of Financial Viability for Applicants

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

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

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

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

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

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

C. Ongoing Review and Credit Ratings

1. Rated and Credit Qualifying Market Participants

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

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

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

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

2. Unrated Market Participants

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

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

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

3. Information Reporting Requirements for Market Participants

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

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

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

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

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

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

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

D. Market Credit Limits

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

1. Market Credit Limit for Non-Municipal Market Participants

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

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

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

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

Below BBB-

Below Baa3

0.00%

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

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

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

2. Market Credit Limit for Municipal Market Participants

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

E. Transmission Credit Limits

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

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

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

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

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

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

3. Transmission Credit Limit for Municipal Market Participants

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

F. Credit Limits for FTR-Only Customers

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

G. Total Credit Limit

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

III. MARKET PARTICIPANTS' REQUIREMENTS

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

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

A. Determination of Financial Assurance Obligations

For purposes of the ISO New England Financial Assurance Policy:

- (i) a Market Participant’s “Hourly Requirements” at any time will be the sum of (x) the Hourly Charges 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 2.50 (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 or participate in a substitution auction in the Forward Capacity Market, drawing down of financial assurance, rejection of Increment Offers and Decrement Bids, and rejection of bilateral transactions submitted to the ISO, shall not limit, in any way, the ISO's right to invoice or collect payment for any amounts owed (whether such amounts are due or becoming due) by such suspended Market Participant under the Tariff or the ISO's right to administratively submit a bid or offer of a Market Participant's Non-Commercial

Capacity in any Forward Capacity Auction or any reconfiguration auction or to make other adjustments under Market Rule 1.

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

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

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

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

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

If a Market Participant is suspended from the New England Markets in accordance with the provisions of the ISO New England Financial Assurance Policy or the ISO New England Billing Policy, then the provisions of this Section III.B shall control notwithstanding any other provision of the Tariff to the contrary. A suspended Market Participant shall have no ability so long as it is suspended (i) to be reflected in the ISO's settlement system, including any bilateral transactions, as either a purchaser or a seller of any products or services sold through the New England Markets (other than (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the Market Participants, (ii) to submit Demand Bids, Decrement Bids or Increment Offers in the New England Markets, (iii) to submit offers for Non-Commercial Capacity in any Forward Capacity Auction or reconfiguration auction or acquire Non-Commercial Capacity through a Capacity Supply Obligation Bilateral, or (iv) to submit supply offers or demand bids in any Forward Capacity Market substitution auction. Any transactions, including bilateral transactions with a suspended Market Participant (other than transactions for (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the other Market Participants and any Demand Bids, Decrement Bids, Increment Offers, and Export Transactions submitted by a suspended Market Participant shall be deemed to be terminated for purposes of the Day-Ahead Energy Market clearing and the ISO's settlement system. If a Market Participant has provided the financial assurance required for a Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, then that Capacity Supply Obligation Bilateral or Annual Reconfiguration

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

b. Load Assets

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

c. FTRs

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

d. Virtual Transactions

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

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

e. Bilateral Transactions

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

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

4. Serial Notice and Suspension Penalties

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

C. Additional Financial Assurance Requirements for Certain Municipal Market Participants

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

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

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

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

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

2. NMPTC Transmission Credit Limit

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

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

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

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

3. NMPTC Total Credit Limit

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Financial Assurance for ISO Charges

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

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

2. Financial Assurance for Transmission Charges

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

3. Notice of Failure to Satisfy NMPTC Financial Assurance Requirement

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

VI. ADDITIONAL PROVISIONS FOR FTR TRANSACTIONS

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

referred to in the ISO New England Financial Assurance Policy as the “FTR Financial Assurance Requirements”).

A. FTR Settlement Risk Financial Assurance

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

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

Once an FTR Auction’s results are final, a Designated FTR Participant must provide FTR Settlement Risk Financial Assurance based on awarded FTRs, equal to the MW value of each awarded FTR multiplied by the applicable proxy value for the FTR path (as described below) multiplied by the number of hours associated with the FTR. For purposes of this calculation, the ISO will net the MW values of a Designated FTR Participant’s awarded FTRs having the same or opposite path, same contract month, and same type (on-peak or off-peak). For purposes of this netting, annual FTRs may be converted into monthly positions.

The proxy value for each FTR path, which shall be calculated separately for on-peak and off-peak FTRs, will be based on the standard deviation observed in the difference between the average congestion components of the Locational Marginal Price in the Day-Ahead Energy Market at the path’s sink and source for the previous 36 months, with differing multipliers for annual and monthly FTRs and for prevailing flow and counter flow paths. These multipliers will be reviewed and approved by the NEPOOL Budget

and Finance Subcommittee and shall be posted on the ISO's website. Where there is insufficient data to perform these calculations for a node, zonal data will be used instead.

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

B. Unsettled FTR Financial Assurance

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

C. Settlement Financial Assurance

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

D. Consequences of Failure to Satisfy FTR Financial Assurance Requirements

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

VII. ADDITIONAL PROVISIONS FOR FORWARD CAPACITY MARKETS

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

A. FCM Delivery Financial Assurance

A Designated FCM Participant must include, for the Capacity Supply Obligation of each resource in its portfolio other than the Capacity Supply Obligation associated with any

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

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

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. If the calculated DFAMW is less than zero, then the DFAMW will be set equal to zero.

PE (potential exposure) is a monthly value calculated for the Designated FCM Participant's portfolio as the difference between the Capacity Supply Obligation weighted average Forward Capacity Auction Starting Price and the Capacity Supply Obligation weighted average capacity price for the portfolio, excluding the Capacity Supply Obligation of any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1. The Forward Capacity Auction Starting Price shall correspond to that used in the Forward Capacity Auction corresponding to the instant 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 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 Net CONE associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded (adjusted as described in Section III.13.2.4) times the Non-Commercial Capacity qualified for such Forward Capacity Auction and the FCM Deposit.

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

Non-Commercial Capacity Financial Assurance Amount = (NCC x NCCFCA\$ x Multiplier) + NCC Trading FA

Where:

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

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

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

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

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

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the twelfth Forward Capacity Auction, NCC Trading FA = zero. For Capacity Supply Obligations acquired in the thirteenth Forward Capacity Auction and all Forward Capacity Auctions thereafter, NCC Trading FA shall be zero until the start of the applicable Capacity Commitment Period, at which time NCC Trading FA = the total amount of NCC that has been shed (whether before or after the start of the Capacity Commitment Period) in any reconfiguration auctions or Capacity Supply Obligation Bilaterals or that is subject to a failure to cover charge pursuant to Section III.13.3.4(b) (but this total amount shall not be greater than NCC) multiplied by the difference (but not less than zero) between: (i) the weighted average price at which the Capacity Supply Obligation was acquired in the Forward Capacity Auction (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs); and (ii) the weighted average price or failure to cover charge rate at which the Capacity Supply Obligation was shed or assessed, as applicable (except that for monthly Capacity Supply Obligation Bilaterals, the applicable monthly reconfiguration auction clearing price will be used instead of the Capacity Supply Obligation Bilateral price).

c. Non-Commercial Capacity Deferral

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

3. Return of Non-Commercial Capacity Financial Assurance

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

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

4. Credit Test Percentage Consequences for Provisional Members

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

C. 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 FCM Charge Rate for Capacity Commitment Periods beginning prior to June 1, 2022 for a Capacity Zone will be calculated using the same methodology described in Section III.13.7.5 of Market Rule 1 for deriving the Net Regional Clearing Price, with the exception that the FCM Charge Rate will include the balance of the CTR fund after the value of specifically allocated CTRs has been paid, as described in Section III.13.7.5.3.1 of Market Rule 1. For purposes of this calculation, the FCM Charge Rate for Capacity Commitment Periods beginning on or after to June 1, 2022 for a Capacity Zone will be calculated as the sum of the charge and adjustment rates specified in Section III.13.7.5.1.1 of Market Rule 1.

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.

4. Substitution Auctions

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

- a. For any supply offer with at least one price-quantity pair priced less than zero must include in the calculation of its FCM Financial Assurance Requirements, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction, amounts calculated as described in

Section VII.F.1 above. For purposes of these calculations, the maximum charge that would result from clearing any price-quantity pairs priced less than zero for each month of the Capacity Commitment Period associated with the Forward Capacity Auction shall be included in the amount calculated as described in Section VII.F.1(b) above, the net FCM revenue for all other months in the defined periods shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations in the Forward Capacity Market, and any accrued Capacity Performance Payments on positions currently or previously held are excluded.

- b. A Designated FCM Participant (i) that submits a demand bid into a substitution auction for a resource that is subject to a multi-year rate pursuant to Section III.13.1.3.5.4 or Section III.13.1.1.2.2.4, (ii) for which the maximum charge that would result from clearing the capacity subject to the multi-year rate election would exceed the revenue the Designated FCM Participant will receive for the relevant Capacity Commitment Period under its multi-year rate election for the resource, (iii) must include in the calculation of its FCM Financial Assurance Requirements, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction, amounts calculated as described in Section VII.F.1 above. For purposes of these calculations, the maximum charge that would result from clearing the capacity subject to the multi-year rate election shall be included in the amount calculated as described in Section VII.F.1(b) above, the net FCM revenue for all other months in the defined periods shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations in the Forward Capacity Market, and any accrued Capacity Performance Payments on positions currently or previously held are excluded.
- c. If a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction and does not cure such default by the earlier of (i) the end of the appropriate cure period and (ii) 5 p.m. (Eastern Time) on the second Business Day prior to the start of the Forward Capacity Auction, then the defaulting Designated FCM Participant shall be precluded from submitting a supply offer or demand bid that is subject to this Section VII.F.4.

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

VIII. [Reserved]

IX. THIRD-PARTY CREDIT PROTECTION

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

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

X. ACCEPTABLE FORMS OF FINANCIAL ASSURANCE

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

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

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

If the amount of collateral maintained in the shareholder account is below the required level (including by reason of losses on investments), the Posting Entity shall immediately replenish or increase the amount to the required level. The collateral will be held in an account maintained in the name of the Posting Entity and invested in the investment selected by that Posting Entity from a menu of investment options listed at the time on

the ISO's website, which menu will be approved by the NEPOOL Budget and Finance Subcommittee, with discounts applied to the investments in certain of such options if and as determined by the NEPOOL Budget and Finance Subcommittee. If a Posting Entity does not select an investment for its collateral, that collateral will be invested in the "default" investment option selected by the ISO and approved by the NEPOOL Budget and Finance Subcommittee from time to time. Any dividends and distribution on such investment will accrue to the benefit of the Posting Entity. The ISO may sell or otherwise liquidate such investments at its discretion to meet the Posting Entity's obligations to the ISO. In no event will the ISO or NEPOOL or any NEPOOL Participant have any liability with respect to the investment of collateral under this Section X.A.

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

B. Letter of Credit

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

1. Requirements for Banks

Each bank issuing a letter of credit that serves as 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 Chicago Mercantile Exchange (“CME”) as an approved letter of credit bank; or (ii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of “A-” by S&P, or “A3” by Moody’s or “A-” by Fitch so long as its letter of credit is confirmed by a bank that is recognized by CME as an approved letter of credit issuer as described in clause (i) above; or (iii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of “A-” by S&P, or “A3” by Moody’s, or “A-” by Fitch and be approved by the ISO in its sole discretion (the ISO will promptly advise the NEPOOL Budget and Finance Subcommittee of any additional bank approved by it under this provision). Because the ratings described in clauses (ii) and (iii) are minimum ratings, a bank will not be considered to have satisfied the requirement of those clauses if any applicable rating from the Rating Agencies falls below the levels listed in those clauses. In addition, no Posting Entity may provide a letter of credit that has been issued or confirmed by a bank that is an Affiliate of that Market Participant. If a bank that is included on the List of Eligible Letter of Credit Issuers fails to satisfy any of the criteria set forth above, 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 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 (A) the ISO shall issue a notice described in subsection (i) above, (B) the bank will no longer be eligible to issue or confirm letters of credit in favor of the ISO, (C) any letters of credit issued or confirmed by such bank in favor of the ISO will not be renewed, and (D) any letters of credit issued or confirmed by such bank in favor of the ISO must be replaced with another acceptable form of financial assurance within five (5) Business Days from the date on which the ISO provides notice of such failure (the ISO may extend that cure period to twenty (20) Business Days in its sole discretion). Notwithstanding the foregoing, the ISO in its sole discretion may reinstate eligibility after not less than two years from the loss of eligibility, provided that the bank otherwise meets the conditions of this Section X.B.1.

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

2. Form of Letter of Credit

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

New England Financial Assurance Policy shall be paid, or reimbursed to the ISO, by the Posting Entity providing that letter of credit.

C. Special Provisions for Provisional Members

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

XI. MISCELLANEOUS PROVISIONS

A. Obligation to Report Material Adverse Changes

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

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

B. Weekly Payments

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

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

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

C. Use of Transaction Setoffs

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

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

D. Reimbursement of Costs

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

E. Notification of Default

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

F. Remedies Not Exclusive

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

G. Inquiries and Contests

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

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

H. Forward Contract/Swap Agreement

All FTR transactions constitute "forward contracts" and/or "swap agreements" within the meaning of the United States Bankruptcy Code (the "Bankruptcy Code"), and the ISO shall be deemed to be a "forward contract merchant" and/or "swap participant" within the

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

ATTACHMENT 1
SECURITY AGREEMENT

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

WITNESSETH:

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

1. Definitions.

a. In this Security Agreement:

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

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

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

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

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

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

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

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

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

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

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

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

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

[INSERT NAME]

By: _____

Name:

Title:

ISO NEW ENGLAND INC.

By: _____

Name:

Title:

ATTACHMENT 2
SAMPLE STANDBY LETTER OF CREDIT

[DATE PROVIDED]

IRREVOCABLE STANDBY LETTER OF CREDIT NO.

[EXPIRATION DATE]

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

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

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

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

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

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

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

THE FOLLOWING TERMS AND CONDITIONS APPLY:

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

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

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

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

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

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

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

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

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

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

IF TO THE BENEFICIARY OF THIS STANDBY LETTER OF CREDIT:

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

IF TO THE ACCOUNT PARTY:

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

IF TO ISSUER:

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

[signature]

[signature]

ATTACHMENT 3

ISO NEW ENGLAND MINIMUM CRITERIA FOR MARKET PARTICIPATION OFFICER
CERTIFICATION FORM

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the minimum criteria for market participation requirements set forth in Sections II.A.2 and II.A.3 of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Transmission, Markets and Services Tariff), 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 _____, 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 (and any supporting documentation, if applicable) applicable to the Certifying Entity’s participation in the FTR market.

OR

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

(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.

ATTACHMENT 6
MINIMUM CRITERIA FOR MARKET PARTICIPATION
INFORMATION DISCLOSURE FORM

Date: _____

Prepared by: _____

Customer/Applicant:¹ _____

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

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

2. List all material litigation (criminal or civil) against Certifying Entity or any of the Certifying Entity’s Principals, Personnel,³ or Predecessors,⁴ arising out of participation in any wholesale or retail energy market (domestic or international) or trading exchanges in the past ten (10) years:
(Enter N/A if not applicable)

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

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

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

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

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

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

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

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

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

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

Certifying Entity: _____

By: _____
(Signature)

Print Name: _____

Title: _____

Date: _____

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

III.13.7. Performance, Payments and Charges in the FCM.

Revenue in the Forward Capacity Market for resources providing capacity shall be composed of Capacity Base Payments as described in Section III.13.7.1 and Capacity Performance Payments as described in Section III.13.7.2, adjusted as described in Section III.13.7.3 and Section III.13.7.4. Market Participants with a Capacity Load Obligation will be subject to charges as described in Section III.13.7.5.

In the event of a change in the Lead Market Participant for a resource that has a Capacity Supply Obligation, the Capacity Supply Obligation shall remain associated with the resource and the new Lead Market Participant for the resource shall be bound by all provisions of this Section III.13 arising from such Capacity Supply Obligation. The Lead Market Participant for the resource at the start of an Obligation Month shall be responsible for all payments and charges associated with that resource in that Obligation Month.

III.13.7.1. Capacity Base Payments.

Resources acquiring or shedding a Capacity Supply Obligation for the Obligation Month shall receive a Capacity Base Payment for the Obligation Month reflecting the payments and charges described in Section III.13.7.1.1, as adjusted to account for peak energy rents as described in Section III.13.7.1.2.

III.13.7.1.1. Monthly Payments and Charges Reflecting Capacity Supply Obligations.

Each resource that has: (i) cleared in a Forward Capacity Auction, except for the portion of resources designated as Self-Supplied FCA Resources; (ii) cleared in a reconfiguration auction; or (iii) entered into a Capacity Supply Obligation Bilateral shall be entitled to a monthly payment or charge during the Capacity Commitment Period based on the following amounts:

(a) **Forward Capacity Auction.** For a resource whose offer has cleared in a Forward Capacity Auction, the monthly capacity payment shall equal the product of its cleared capacity and the Capacity Clearing Price in the Capacity Zone in which the resource is located as adjusted by applicable indexing for resources with additional Capacity Commitment Period elections pursuant to Section III.13.1.1.2.2.4 in the manner described below. For a resource that has elected to have the Capacity Clearing Price and the Capacity Supply Obligation apply for more than one Capacity Commitment Period, payments associated with the Capacity Supply Obligation and Capacity Clearing Price (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) shall continue to apply after the Capacity Commitment Period associated

with the Forward Capacity Auction in which the offer clears, for up to six additional and consecutive Capacity Commitment Periods, in whole Capacity Commitment Period increments only.

(b) **Reconfiguration Auctions.** For a resource whose offer or bid has cleared in an annual or monthly reconfiguration auction, the monthly capacity payment or charge shall be equal to the product of its cleared capacity and the appropriate reconfiguration auction clearing price in the Capacity Zone in which the resource cleared.

(c) **Capacity Supply Obligation Bilaterals.** For resources that have acquired or shed a Capacity Supply Obligation through a Capacity Supply Obligation Bilateral, the monthly capacity payment or charge shall be equal to the product of the Capacity Supply Obligation being assumed or shed and price associated with the Capacity Supply Obligation Bilateral.

(d) **Substitution Auctions.** For a resource whose offer or bid has cleared in a substitution auction, the monthly capacity payment or charge shall be equal to the product of its cleared capacity and the substitution auction clearing price. Notwithstanding the foregoing, the monthly capacity charge for a demand bid cleared at a substitution auction clearing price above its bid price shall be calculated using its bid price.

III.13.7.1.2 Peak Energy Rents.

For Capacity Commitment Periods beginning prior to June 1, 2019, Capacity Base Payments to resources with Capacity Supply Obligations, except for (1) On-Peak Demand Resources, (2) Seasonal Peak Demand Resources, and (3) New Generating Capacity Resources that have cleared in the Forward Capacity Auction and have completed construction but due to a planned transmission facility (e.g., a radial interconnection) not being in service are not able to achieve FCM Commercial Operation, shall be decreased by Peak Energy Rents (“PER”) calculated in each Capacity Zone, as determined pursuant to Section III.13.2.3.4 in the Forward Capacity Auction, as provided below. The PER calculation shall utilize hourly integrated Real-Time LMPs. For each Capacity Zone in the Forward Capacity Auction, as determined pursuant to Section III.13.2.3.4, PER shall be computed based on the load-weighted Real-Time LMPs for each Capacity Zone, using the Real-Time Hub Price for the Rest-of-Pool Capacity Zone. Self-Supplied FCA Resources shall not be subject to a PER adjustment on the portion of the resource that is self-supplied.

III.13.7.1.2.1 Hourly PER Calculations.

(a) For hours with a positive difference between the hourly Real-Time energy price and a strike price, the ISO shall compute PER for each hour ("Hourly PER") equal to this positive difference in accordance with one of the following formulas, which include scaling adjustments for system load and availability:

For hours within the period beginning September 30, 2016 through May 31, 2018:

$$\text{Hourly PER}(\$/\text{kW}) = [(\text{LMP} - \text{Adjusted Hourly PER Strike Price}) * [\text{Scaling Factor}] * [\text{Availability Factor}]$$

Where:

$$\text{Adjusted Hourly PER Strike Price} = \text{Strike Price} + \text{Hourly PER Adjustment}$$

$$\text{Hourly PER Adjustment} = \text{average of Five-Minute PER Strike Price Adjustment values}$$

$$\text{Five-Minute PER Strike Price Adjustment} = \text{MAX} (\text{Thirty-Minute Operating Reserve clearing price} - \$500/\text{MWh}, 0) + \text{MAX} (\text{Ten-Minute Non-Spinning Reserve clearing price} - \text{Thirty-Minute Operating Reserve clearing price} - \$850/\text{MWh}, 0).$$

Strike Price = as defined below

Scaling Factor = as defined below

Availability Factor = as defined below

For all other hours:

$$\text{Hourly PER}(\$/\text{kW}) = [\text{LMP} - \text{Strike Price}] * [\text{Scaling Factor}] * [\text{Availability Factor}]$$

Where:

Strike Price = the heat rate x fuel cost of the PER Proxy Unit described below.

Scaling Factor = the ratio of actual hourly integrated system load (calculated as the sum of Real-Time Load Obligations for the system as calculated in the settlement of the Real-Time Energy Market and adjusted for losses and including imports delivered in the Real-Time Energy Market)

and the 50/50 predicted peak system load reduced appropriately for Demand Capacity Resources, used in the most recent calculation of the Installed Capacity Requirement for that Capacity Commitment Period, capped at an hourly ratio of 1.0.

Availability Factor = 0.95.

(b) PER Proxy Unit characteristics shall be as follows:

(i) The PER Proxy Unit shall be indexed to the marginal fuel, which shall be the higher of the following, as determined on a daily basis: ultra low-sulfur No. 2 oil measured at New York Harbor plus a seven percent markup for transportation; or day-ahead gas measured at the AGT-CG (Non-G) hub;

(ii) The PER Proxy Unit shall be assumed to have no start-up, ramp rate or minimum run time constraints;

(iii) The PER Proxy Unit shall have a 22,000 Btu/kWh heat rate. This assumption shall be periodically reviewed after the first Capacity Commitment Period by the ISO to ensure that the heat rate continues to reflect a level slightly higher than the marginal generating unit in the region that would be dispatched as the system enters a scarcity condition. Any changes to the heat rate of the PER Proxy Unit shall be considered in the stakeholder process in consultation with the state utility regulatory agencies, shall be filed pursuant to Section 205 of the Federal Power Act, and shall be applied prospectively to the settlement of future Forward Capacity Auctions.

III.13.7.1.2.2. Monthly PER Application.

The Hourly PER shall be summed for each calendar month to determine the total PER for that month ("Monthly PER"). The ISO shall then calculate the Average Monthly PER earned by the proxy unit. The Average Monthly PER shall be equal to the average of the Monthly PER values for the 12 months prior to the Obligation Month. The PER deduction for each resource shall be calculated as the Average Monthly PER multiplied by the resource's Capacity Supply Obligation for the Obligation Month (less any Capacity Supply Obligation MW from any portion of a Self-Supplied FCA Resource); provided, however, that in no case shall a resource's PER deduction for an Obligation Month be less than zero or greater than the product of the resource's Capacity Supply Obligation and the relevant Forward Capacity Auction Capacity Clearing Price.

III.13.7.1.3. Export Capacity.

If there are any Export Bids or Administrative Export De-List Bids from resources located in an export-constrained Capacity Zone or in the Rest-of-Pool Capacity Zone that have cleared in the Forward Capacity Auction and if the resource is exporting capacity at an export interface that is connected to an import-constrained Capacity Zone or the Rest-of-Pool Capacity Zone that is different than the Capacity Zone in which the resource is located, then charges and credits are applied as follows (for the following calculation, the Capacity Clearing Price will be the value prior to PER adjustments).

Charge Amount to Resource Exporting = [Capacity Clearing Price_{location of the interface} - Capacity Clearing Price_{location of the resource}] x Cleared MWs of Export Bid or Administrative Export De-List Bid]

Credit Amount to Capacity Load Obligations in the Capacity Zone where the export interface is located = [Capacity Clearing Price_{location of the interface} - Capacity Clearing Price_{location of the resource}] x Cleared MWs of Export Bid or Administrative Export De-list Bid]

Credits and charges to load in the applicable Capacity Zones, as set forth above, shall be allocated in proportion to each LSE's Capacity Load Obligation as calculated in Section III.13.7.5.2.

III.13.7.1.4. [Reserved.]

III.13.7.2 Capacity Performance Payments.

III.13.7.2.1 Definition of Capacity Scarcity Condition.

A Capacity Scarcity Condition shall exist in a Capacity Zone for any five-minute interval in which the Real-Time Reserve Clearing Price for that entire Capacity Zone is set based on the Reserve Constraint Penalty Factor pricing for: (i) the Minimum Total Reserve Requirement; (ii) the Ten-Minute Reserve Requirement; or (iii) the Zonal Reserve Requirement, each as described in Section III.2.7A(c); provided, however, that a Capacity Scarcity Condition shall not exist if the Reserve Constraint Penalty Factor pricing results only because of resource ramping limitations that are not binding on the energy dispatch.

III.13.7.2.2 Calculation of Actual Capacity Provided During a Capacity Scarcity Condition.

For each five-minute interval in which a Capacity Scarcity Condition exists, the ISO shall calculate the Actual Capacity Provided by each resource, whether or not it has a Capacity Supply Obligation, in any Capacity Zone that is subject to the Capacity Scarcity Condition. For resources not having a Capacity Supply Obligation (including External Transactions), the Actual Capacity Provided shall be calculated using the provision below applicable to the resource type. Notwithstanding the specific provisions of this Section III.13.7.2.2, no resource shall have an Actual Capacity Provided that is less than zero.

(a) A Generating Capacity Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the sum of the resource's output during the interval plus the resource's Reserve Quantity For Settlement during the interval; provided, however, that if the resource's output was limited during the Capacity Scarcity Condition as a result of a transmission system limitation, then the resource's Actual Capacity Provided may not be greater than the sum of the resource's Desired Dispatch Point during the interval, plus the resource's Reserve Quantity For Settlement during the interval. Where the resource is associated with one or more External Transaction sales submitted in accordance with Section III.1.10.7(f), the resource will have its hourly Actual Capacity Provided reduced by the hourly integrated delivered MW for the External Transaction sale or sales.

(b) An Import Capacity Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the net energy delivered during the interval in which the Capacity Scarcity Condition occurred. Where a single Market Participant owns more than one Import Capacity Resource, then the difference between the total net energy delivered from those resources and the total of the Capacity Supply Obligations of those resources shall be allocated to those resources pro rata.

(c) An On-Peak Demand Resource or Seasonal Peak Demand Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the sum of the Actual Capacity Provided for each of its components, as determined below, where the MWs of reduction, other than MWs associated with Net Supply, are increased by average avoided peak transmission and distribution losses.

(i) For Energy Efficiency measures, the Actual Capacity Provided shall be zero.

(ii) For Distributed Generation measures submitting meter data for the full 24 hour calendar day during which the Capacity Scarcity Condition occurs, the Actual Capacity Provided shall be equal to the submitted meter data, adjusted as necessary for the five-minute interval in which the Capacity Scarcity Condition occurs.

- (iii) For Load Management measures submitting meter data for the full 24 hour calendar day during which the Capacity Scarcity Condition occurs, the Actual Capacity Provided shall be equal to the submitted demand reduction data, adjusted as necessary for the five-minute interval in which the Capacity Scarcity Condition occurs.
 - (iv) Notwithstanding any other provision of this Section III.13.7.2.2(c), for any On-Peak Demand Resource or Seasonal Peak Demand Resource that fails to provide the data necessary for the ISO to determine the Actual Capacity Provided as described in this Section III.13.7.2.2(c), the Actual Capacity Provided shall be zero.
- (d) An Active Demand Capacity Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the sum of the Actual Capacity Provided by its constituent Demand Response Resources during the Capacity Scarcity Condition.
- (i) A Demand Response Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be: (1) the sum of the Real-Time demand reduction of its constituent Demand Response Assets (provided, however, that if the Demand Response Resource was limited during the Capacity Scarcity Condition as a result of a transmission system limitation, then the sum of the Real-Time demand reduction of its constituent Demand Response Assets may not be greater than its Desired Dispatch Point during the interval), plus (2) the Demand Response Resource's Reserve Quantity For Settlement, where the MW quantity, other than the MW quantity associated with Net Supply, is increased by average avoided peak transmission and distribution losses; provided, however, that a Demand Response Resource's Actual Capacity Provided shall not be less than zero.
 - (ii) The Real-Time demand reduction of a Demand Response Asset shall be calculated as described in Section III.8.4, except that: (1) in the case of a Demand Response Asset that is on a forced or scheduled curtailment as described in Section III.8.3, a Real-Time demand reduction shall also be calculated for intervals in which the associated Demand Response Resource does not receive a non-zero Dispatch Instruction; (2) in the case of a Demand Response Asset that is on a forced or scheduled curtailment as described in Section III.8.3, the minuend in the calculation described in Section III.8.4 shall be the unadjusted Demand Response Baseline of the Demand Response Asset; and (3) the

resulting MWhs of reduction, other than the MWhs associated with Net Supply, shall be increased by average avoided peak transmission and distribution losses.

III.13.7.2.3 Capacity Balancing Ratio.

For each five-minute interval in which a Capacity Scarcity Condition exists, the ISO shall calculate a Capacity Balancing Ratio using the following formula:

$$(\text{Load} + \text{Reserve Requirement}) / \text{Total Capacity Supply Obligation}$$

(a) If the Capacity Scarcity Condition is a result of a violation of the Minimum Total Reserve Requirement such that the associated system-wide Reserve Constraint Penalty Factor pricing applies, then the terms used in the formula above shall be calculated as follows:

Load = the total amount of Actual Capacity Provided (excluding applicable Real-Time Reserve Designations) from all resources in the New England Control Area during the interval (with the Actual Capacity Provided of Energy Efficiency measures being zero, as specified in Section III.13.7.2.2(c)(i)).

Reserve Requirement = the Minimum Total Reserve Requirement during the interval.

Total Capacity Supply Obligation = the total amount of Capacity Supply Obligations in the New England Control Area during the interval, excluding the Capacity Supply Obligations associated with Energy Efficiency measures.

(b) If the Capacity Scarcity Condition is a result of a violation of the Ten-Minute Reserve Requirement such that the associated system-wide Reserve Constraint Penalty Factor pricing applies, then the terms used in the formula above shall be calculated as follows:

Load = the total amount of Actual Capacity Provided (excluding applicable Real-Time Reserve Designations) from all resources in the New England Control Area during the interval (with the Actual Capacity Provided of Energy Efficiency measures being zero, as specified in Section III.13.7.2.2(c)(i)).

Reserve Requirement = the Ten-Minute Reserve Requirement during the interval.

Total Capacity Supply Obligation = the total amount of Capacity Supply Obligations in the New England Control Area during the interval, excluding the Capacity Supply Obligations associated with Energy Efficiency measures.

(c) If the Capacity Scarcity Condition is a result of a violation of the Zonal Reserve Requirement such that the associated Reserve Constraint Penalty Factor pricing applies, then the terms used in the formula above shall be calculated as follows:

Load = the total amount of Actual Capacity Provided (excluding applicable Real-Time Reserve Designations) from all resources in the Capacity Zone during the interval plus the net amount of energy imported into the Capacity Zone from outside the New England Control Area during the interval (but not less than zero) (with the Actual Capacity Provided of Energy Efficiency measures being zero, as specified in Section III.13.7.2.2(c)(i)).

Reserve Requirement = the Zonal Reserve Requirement minus any reserve support coming into the Capacity Zone over the internal transmission interface.

Total Capacity Supply Obligation = the total amount of Capacity Supply Obligations in the Capacity Zone during the interval, excluding then the Capacity Supply Obligations associated with Energy Efficiency measures.

(d) The following provisions shall be used to determine the applicable Capacity Balancing Ratio where more than one of the conditions described in subsections (a), (b), and (c) apply in a Capacity Zone.

(i) In any Capacity Zone subject to Reserve Constraint Penalty Factor pricing associated with both the Minimum Total Reserve Requirement and the Ten-Minute Reserve Requirement, but not the Zonal Reserve Requirement, the Capacity Balancing Ratio shall be calculated as described in Section III.13.7.2.3(a) for resources in that Capacity Zone.

(ii) In any Capacity Zone subject to Reserve Constraint Penalty Factor pricing associated with both the Ten-Minute Reserve Requirement and the Zonal Reserve Requirement, but not the Minimum Total Reserve Requirement, the Capacity Balancing Ratio for resources in that Capacity Zone shall be the higher of the Capacity Balancing Ratio calculated as described in

Section III.13.7.2.3(b) and the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(c).

(iii) In any Capacity Zone subject to Reserve Constraint Penalty Factor pricing associated with the Minimum Total Reserve Requirement and the Zonal Reserve Requirement (regardless of whether the Capacity Zone is also subject to Reserve Constraint Penalty Factor pricing associated with the Ten-Minute Reserve Requirement), the Capacity Balancing Ratio for resources in that Capacity Zone shall be the higher of the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(a) and the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(c).

III.13.7.2.4 Capacity Performance Score.

Each resource, whether or not it has a Capacity Supply Obligation, will be assigned a Capacity Performance Score for each five-minute interval in which a Capacity Scarcity Condition exists in the Capacity Zone in which the resource is located. A resource's Capacity Performance Score for the interval shall equal the resource's Actual Capacity Provided during the interval (with the Actual Capacity Provided of Energy Efficiency measures being zero, as specified in Section III.13.7.2.2(c)(i)) minus the product of the resource's Capacity Supply Obligation (which for this purpose shall not be less than zero) and the applicable Capacity Balancing Ratio; provided, however, that for an On-Peak Demand Resource or a Seasonal Peak Demand Resource, the Capacity Supply Obligation associated with any Energy Efficiency measures shall be excluded from the calculation of the resource's Capacity Performance Score. The resulting Capacity Performance Score may be positive, zero, or negative.

III.13.7.2.5 Capacity Performance Payment Rate.

For the three Capacity Commitment Periods beginning June 1, 2018 and ending May 31, 2021, the Capacity Performance Payment Rate shall be \$2000/MWh. For the three Capacity Commitment Periods beginning June 1, 2021 and ending May 31, 2024, the Capacity Performance Payment Rate shall be \$3500/MWh. For the Capacity Commitment Period beginning on June 1, 2024 and ending on May 31, 2025, the Capacity Performance Payment Rate shall be \$5455/MWh. For the Capacity Commitment Period beginning on June 1, 2025 and ending on May 31, 2026 and thereafter, the Capacity Performance Payment Rate shall be \$8782/MWh. The ISO shall review the Capacity Performance Payment Rate in the stakeholder process as needed and shall file with the Commission a new Capacity Performance Payment Rate if and as appropriate.

III.13.7.2.6 Calculation of Capacity Performance Payments.

For each resource, whether or not it has a Capacity Supply Obligation, the ISO shall calculate a Capacity Performance Payment for each five-minute interval in which a Capacity Scarcity Condition exists in the Capacity Zone in which the resource is located. A resource's Capacity Performance Payment for an interval shall equal the resource's Capacity Performance Score for the interval multiplied by the Capacity Performance Payment Rate. The resulting Capacity Performance Payment for an interval may be positive or negative.

III.13.7.3 Monthly Capacity Payment and Capacity Stop-Loss Mechanism.

Each resource's Monthly Capacity Payment for an Obligation Month, which may be positive or negative, shall be the sum of the resource's Capacity Base Payment for the Obligation Month plus the sum of the resource's Capacity Performance Payments for all five-minute intervals in the Obligation Month, except as provided in Section III.13.7.3.1 and Section III.13.7.3.2 below.

III.13.7.3.1 Monthly Stop-Loss.

If the sum of the resource's Capacity Performance Payments (excluding any Capacity Performance Payments associated with Actual Capacity Provided above the resource's Capacity Supply Obligation in any interval) for all five-minute intervals in the Obligation Month is negative, the amount subtracted from the resource's Capacity Base Payment for the Obligation Month will be limited to an amount equal to the product of the applicable Forward Capacity Auction Starting Price multiplied by the resource's Capacity Supply Obligation for the Obligation Month (or, 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, the amount subtracted from the resource's Capacity Base Payment for the Obligation Month will be limited to an amount equal to the product of the applicable Capacity Clearing Price (indexed for inflation) multiplied by the resource's Capacity Supply Obligation for the Obligation Month).

III.13.7.3.2 Annual Stop-Loss.

(a) For each Obligation Month, the ISO shall calculate a stop-loss amount equal to:

$$\text{MaxCSO} \times [3 \text{ months} \times (\text{FCAcp} - \text{FCAsp}) - (12 \text{ months} \times \text{FCAcp})]$$

Where:

MaxCSO = the resource's highest monthly Capacity Supply Obligation in the Capacity Commitment Period to date.

FCACP = the Capacity Clearing Price for the relevant Forward Capacity Auction.

FCASP = the Forward Capacity Auction Starting Price for the relevant Forward Capacity Auction.

(b) For each Obligation Month, the ISO shall calculate each resource's cumulative Capacity Performance Payments as the sum of the resource's Capacity Performance Payments for all months in the Capacity Commitment Period to date, with those monthly amounts limited as described in Section III.13.7.3.1.

(c) If the sum of the resource's Capacity Performance Payments (excluding any Capacity Performance Payments associated with Actual Capacity Provided above the resource's Capacity Supply Obligation in any interval) for all five-minute intervals in the Obligation Month is negative, the amount subtracted from the resource's Capacity Base Payment for the Obligation Month will be limited to an amount equal to the difference between the stop-loss amount calculated as described in Section III.13.7.3.2(a) and the resource's cumulative Capacity Performance Payments as described in Section III.13.7.3.2(b).

III.13.7.4 Allocation of Deficient or Excess Capacity Performance Payments.

For each type of Capacity Scarcity Condition as described in Section III.13.7.2.1 and for each Capacity Zone, the ISO shall allocate deficient or excess Capacity Performance Payments as described in subsections (a) and (b) below. Where more than one type of Capacity Scarcity Condition applies, then the provisions below shall be applied in proportion to the duration of each type of Capacity Scarcity Condition.

(a) If the sum of all Capacity Performance Payments to all resources subject to the Capacity Scarcity Condition in the Capacity Zone in an Obligation Month is positive, the deficiency will be charged to resources in proportion to each such resource's Capacity Supply Obligation for the Obligation Month, excluding any resources subject to the stop-loss mechanism described in Section III.13.7.3 for the Obligation Month and excluding any resource, or portion thereof, consisting of Energy Efficiency measures. If the charge described in this Section III.13.7.4(a) causes a resource to reach the stop-loss limit

described in Section III.13.7.3, then the stop-loss cap described in Section III.13.7.3 will be applied to that resource, and the remaining deficiency will be further allocated to other resources in the same manner as described in this Section III.13.7.4(a).

(b) If the sum of all Capacity Performance Payments to all resources subject to the Capacity Scarcity Condition in the Capacity Zone in an Obligation Month is negative, the excess will be credited to all such resources (excluding any resource, or portion thereof, consisting of Energy Efficiency measures) in proportion to each resource's Capacity Supply Obligation for the Obligation Month. For a resource subject to the stop-loss mechanism described in Section III.13.7.3 for the Obligation Month, any such credit shall be reduced (though not to less than zero) by the amount not charged to the resource as a result of the application of the stop-loss mechanism described in Section III.13.7.3, and the remaining excess will be further allocated to other resources in the same manner as described in this Section III.13.7.4(b)

III.13.7.5. Charges to Market Participants with Capacity Load Obligations.

III.13.7.5.1. Calculation of Capacity Charges Prior to June 1, 2022.

The provisions in this subsection apply to charges associated with Capacity Commitment Periods beginning prior to June 1, 2022. A load serving entity with a Capacity Load Obligation as of the end of the Obligation Month shall be subject to a charge equal to the product of: (a) its Capacity Load Obligation in the Capacity Zone; and (b) the applicable Net Regional Clearing Price. The Net Regional Clearing Price is defined as the sum of the total payments as defined in Section III.13.7 paid to resources with Capacity Supply Obligations in the Capacity Zone (excluding any capacity payments and charges made for Capacity Supply Obligation Bilaterals and excluding any Capacity Performance Payments), less PER adjustments for resources in the zone as defined in Section III.13.7.1.2, and including any applicable export charges or credits as determined pursuant to Section III.13.7.1.3 divided by the sum of all Capacity Supply Obligations (excluding (i) the quantity of capacity subject to Capacity Supply Obligation Bilaterals and (ii) the quantity of capacity clearing as Self-Supplied FCA Resources) assumed by resources in the zone. A load serving entity satisfying its Capacity Load Obligation by a Self-Supplied FCA Resource shall not receive a credit for any PER payment for its Capacity Load Obligation so satisfied. A load serving entity with a Capacity Load Obligation as of the end of the Obligation Month may also receive a failure to cover credit equal to the product of: (a) its Capacity Load Obligation in the Capacity Zone, and; (b) the sum of all failure to cover charges in the Capacity Zone calculated pursuant to Section III.13.3.4(b), divided by total Capacity Load Obligation in the Capacity Zone.

III.13.7.5.1.1. Calculation of Capacity Charges On and After June 1, 2022.

The provisions in this subsection apply to charges associated with Capacity Commitment Periods beginning on or after June 1, 2022. For purposes of this Section III.13.7.5.1.1, Capacity Zone costs calculated for a Capacity Zone that contains a nested Capacity Zone shall exclude the Capacity Zone costs of the nested Capacity Zone. A Market Participant with a Capacity Load Obligation as of the end of the Obligation Month shall be subject to the following charges and adjustments:

III.13.7.5.1.1.1 Forward Capacity Auction Charge.

The FCA charge, for each Capacity Zone, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Capacity Zone FCA Costs divided by Zonal Capacity Obligation.

Where

Capacity Zone FCA Costs, for each Capacity Zone, are the Total FCA Costs multiplied by the Zonal Peak Load Allocator and divided by the Total Peak Load Allocator.

Total FCA Costs are the sum of, for all Capacity Zones, (i) Capacity Supply Obligations in each zone (the total obligation awarded to or shed by resources in the Forward Capacity Auction process for the Obligation Month in the zone, excluding any obligations awarded to Intermittent Power Resources that are the basis for the Intermittent Power Resource Capacity Adjustment specified in Section III.13.7.5.1.1.6 and excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A) multiplied by the applicable clearing price from the auction in which the obligation was awarded to (or shed by) the resource, and (ii) the difference between the bid price and the substitution auction clearing price that was not included in the capacity charge pursuant to the second sentence of Section III.13.7.1.1(d). Capacity Supply Obligations awarded to Proxy De-List Bids in the primary auction, or shed by demand bids entered into the substitution auction on behalf of a Proxy De-List Bid, are excluded from Total FCA Costs.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal Capacity Clearing Price.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

III.13.7.5.1.1.2 Annual Reconfiguration Auction Charge.

The total annual reconfiguration auction charge, for each Capacity Zone and each associated annual reconfiguration auction, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Capacity Zone Annual Reconfiguration Auction Costs divided by Zonal Capacity Obligation.

Where

Capacity Zone Annual Reconfiguration Auction Costs, for each Capacity Zone, are the Total Annual Reconfiguration Costs multiplied by the Zonal Peak Load Allocator and divided by the Total Peak Load Allocator.

Total Annual Reconfiguration Auction Costs are the sum, for all Capacity Zones and each associated annual reconfiguration auction, of the product of the Capacity Supply Obligations acquired through the annual reconfiguration auction in each zone (adjusted for any obligations procured in the annual reconfiguration auction that are subsequently terminated pursuant to Section III.13.3.4A) and the zonal annual reconfiguration auction clearing price, minus the sum, for all Capacity Zones, of the product of the amount of any Capacity Supply Obligation shed through the annual reconfiguration auction in each zone and the applicable annual reconfiguration auction clearing price.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal annual reconfiguration auction clearing price.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

III.13.7.5.1.1.3. Monthly Reconfiguration Auction Charge.

The monthly reconfiguration auction charge is: (a) total Capacity Load Obligation for all Capacity Zones; multiplied by (b) Total Monthly Reconfiguration Auction Costs divided by Total Zonal Capacity Obligation.

Where

Total Monthly Reconfiguration Auction Costs are the sum of, for all Capacity Zones, the product of Capacity Supply Obligations acquired through the monthly reconfiguration auction in each zone and the applicable monthly reconfiguration auction clearing price, minus the sum of, for all Capacity Zones, any Capacity Supply Obligations shed through the monthly reconfiguration auction in each zone and the applicable monthly reconfiguration auction clearing price.

Total Zonal Capacity Obligation is the total of the Zonal Capacity Obligation in all Capacity Zones.

III.13.7.5.1.1.4. HQICC Capacity Charge.

The HQICC capacity charge is: (a) total Capacity Load Obligation for all Capacity Zones; multiplied by (b) Total HQICC Credits divided by Total Capacity Load Obligation.

Where

Total HQICC credits are the product of HQICCs multiplied by the sum of the values calculated in Sections III.13.7.5.1.1.1(b), III.13.7.5.1.1.2(b), III.13.7.5.1.1.3(b), III.13.7.5.1.1.6(b), III.13.7.5.1.1.7(b), III.13.7.5.1.1.8(b), and III.13.7.5.1.1.9(b) in the Capacity Zone in which the HQ Phase I/II external node is located.

Total Capacity Load Obligation is the total Capacity Load Obligation in all Capacity Zones.

III.13.7.5.1.1.5. Self-Supply Adjustment.

The self-supply adjustment is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) the Self-Supply Variance divided by Total Capacity Load Obligation.

Where

Self-Supply Variance is the difference between foregone capacity payments and avoided capacity charges associated with designated self-supply quantities.

Foregone capacity payments to Self-Supplied FCA Resources are the sum, for all Capacity Zones, of the product of the zonal Capacity Supply Obligation (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A) designated as self-supply, multiplied by the applicable clearing price from the auction in which the obligation was awarded.

Avoided capacity charges are the sum, for all Capacity Zones, of the product of any designated self-supply quantities multiplied by the sum of the values calculated in Sections III.13.7.5.1.1.1(b), III.13.7.5.1.1.2(b), III.13.7.5.1.1.3(b), III.13.7.5.1.1.6(b),

III.13.7.5.1.1.7(b), III.13.7.5.1.1.8(b), and III.13.7.5.1.1.9(b) in the Capacity Zone associated with the designated self-supply quantity.

Total Capacity Load Obligation is the total Capacity Load Obligation in all Capacity Zones.

III.13.7.5.1.1.6. Intermittent Power Resource Capacity Adjustment.

The Intermittent Power Resource capacity adjustment in a winter season for the Obligation Months from October through May is: (a) total Capacity Load Obligation for all Capacity Zones; multiplied by (b) the Intermittent Power Resource Seasonal Variance divided by Total Zonal Capacity Obligation.

Where

Intermittent Power Resource Seasonal Variance is the difference between the FCA payments for Intermittent Power Resource in the Obligation Month and the base FCA payments for Intermittent Power Resources.

FCA payments to Intermittent Power Resources are the sum, for all Capacity Zones, of the product of the Capacity Supply Obligations awarded to or shed by Intermittent Power Resources in the Forward Capacity Auction process for the Obligation Month pursuant to Section III.13.2.7.6 or Section III.13.2.8.1.1 (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the applicable clearing price from the auction in which the obligation was awarded.

Base FCA payments for Intermittent Power Resources are the sum, for all Capacity Zones, of the product of the FCA Qualified Capacity procured from or shed by Intermittent Power Resources in the Forward Capacity Auction process (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the applicable clearing price from the auction in which the obligation was awarded.

Total Zonal Capacity Obligation is the total Capacity Load Obligation in all Capacity Zones.

III.13.7.5.1.1.7. Multi-Year Rate Election Adjustment.

For multi-year rate elections made in the primary Forward Capacity Auction for Capacity Commitment Periods beginning on or after June 1, 2022, the multi-year rate election adjustment, for each Capacity

Zone, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Zonal Multi-Year Rate Election Costs divided by Zonal Capacity Obligation.

Where

Zonal Multi-Year Rate Election Costs is the sum, for each resource with a multi-year rate election in the Obligation Month, of the amount of Capacity Supply Obligation designated to receive the multi-year rate (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the difference in the applicable zonal Capacity Clearing Price for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) and the applicable zonal Capacity Clearing Price for the current Capacity Commitment Period, multiplied by the Zonal Peak Load Allocator for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation and divided by the Total Peak Load Allocator for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal Capacity Clearing Price.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

For multi-year rate elections made in the primary Forward Capacity Auction for Capacity Commitment Periods beginning prior to June 1, 2022, the multi-year rate election adjustment, for each Capacity Zone, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Zonal Multi-Year Rate Election Costs divided by Zonal Capacity Obligation.

Where

Zonal Multi-Year Rate Election Costs is the sum in each Capacity Zone, for each resource with a multi-year rate election in the Obligation Month, of the amount of Capacity Supply Obligation designated to receive the multi-year rate (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the difference in the applicable zonal Capacity Clearing Price for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the

year preceding the Capacity Commitment Period) and the applicable zonal Capacity Clearing Price for the current Capacity Commitment Period.

III.13.7.5.1.1.8 CTR Transmission Upgrade Charge.

The CTR transmission upgrade charge is: (a) the Capacity Load Obligation in the Capacity Zones to which the applicable interface limits the transfer of capacity, multiplied by (b) Zonal CTR Transmission Upgrade Cost divided by Zonal Capacity Obligation.

Where

Zonal CTR Transmission Upgrade Cost for each Capacity Zone to which the interface limits the transfer of capacity is the amount calculated pursuant to Section III.13.7.5.4.4 (f), multiplied by the Zonal Capacity Obligation and divided by the sum of the Zonal Capacity Obligation for all Capacity Zones to which the interface limits the transfer of capacity.

III.13.7.5.1.1.9 CTR Pool-Planned Unit Charge.

The CTR Pool-Planned Unit charge is: (a) the Capacity Load Obligation in the Capacity Zone less the amount of any CTRs specifically allocated pursuant to Section III.13.7.5.4.5, multiplied by (b) CTR Pool-Planned Unit Cost divided by Total Zonal Capacity Obligation less the amount of any CTRs specifically allocated pursuant to Section III.13.7.5.4.5.

Where

The CTR Pool-Planned Unit Cost for each Capacity Zone is the sum of the amounts calculated pursuant to Section III.13.7.5.4.5 (b).

Total Zonal Capacity Obligation is the total of the Zonal Capacity Obligation in all Capacity Zones.

III.13.7.5.1.1.10. Failure to Cover Charge Adjustment.

The failure to cover charge adjustment, for each Capacity Zone, is (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Zonal Failure to Cover Charges divided by Zonal Capacity Obligation.

Where:

Zonal Failure to Cover Charges are the product of: (1) the sum, for all Capacity Zones, of the failure to cover charges calculated pursuant to Section III.13.3.4(b), and; (2) the Zonal Peak Load Allocator and divided by the Total Peak Load Allocator.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal annual reconfiguration auction clearing price as determined pursuant to Section III.13.3.4.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

III.13.7.5.2. Calculation of Capacity Load Obligation and Zonal Capacity Obligation.

The ISO shall assign each Market Participant a share of the Zonal Capacity Obligation prior to the commencement of each Obligation Month for each Capacity Zone established in the Forward Capacity Auction pursuant to Section III.13.2.3.4. The Zonal Capacity Obligation of a Capacity Zone that contains a nested Capacity Zone shall exclude the Zonal Capacity Obligation of the nested Capacity Zone.

Zonal Capacity Obligation for each month and Capacity Zone shall equal the product of: (i) the total of the system-wide Capacity Supply Obligations (excluding the quantity of capacity subject to Capacity Supply Obligation Bilaterals for Capacity Commitment Periods beginning prior to June 1, 2022 and excluding any additional obligations awarded to Intermittent Power Resources pursuant to Section III.13.2.7.6 that exceed the FCA Qualified Capacity procured in the Forward Capacity Auction for Capacity Commitment Periods beginning on or after June 1, 2022) plus HQICCs; and (ii) the ratio of the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year two years prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning prior to June 1, 2022) and from the calendar year one year prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning on or after June 1, 2022) to the system-wide sum of all load serving entities' annual coincident contributions to the system-wide annual peak load from the calendar year two years prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning prior to June 1, 2022) and from the calendar year one year prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning on or after June 1, 2022).

The following loads are assigned a peak contribution of zero for the purposes of assigning obligations and tracking load shifts: load associated with the receipt of electricity from the grid by Storage DARDs for later injection of electricity back to the grid; Station service load that is modeled as a discrete Load Asset and the Resource is complying with the maintenance scheduling procedures of the ISO; load that is

modeled as a discrete Load Asset and is exclusively related to an Alternative Technology Regulation Resource following AGC Dispatch Instructions; and transmission losses associated with delivery of energy over the Control Area tie lines.

A Market Participant's share of Zonal Capacity Obligation for each month and Capacity Zone shall equal the product of: (i) the Capacity Zone's Zonal Capacity Obligation as calculated above and (ii) the ratio of the sum of the load serving entity's annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capacity Commitment Period to the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capacity Commitment Period.

A Market Participant's Capacity Load Obligation shall be its share of Zonal Capacity Obligation for each month and Capacity Zone, adjusted as appropriate to account for any relevant Capacity Load Obligation Bilaterals, HQICCs, and Self-Supplied FCA Resource designations. A Capacity Load Obligation can be a positive or negative value.

A Market Participant's share of Zonal Capacity Obligation will not be reconstituted to include the demand reduction of a Demand Capacity Resource or Demand Response Resource.

III.13.7.5.2.1. Charges Associated with Dispatchable Asset Related Demands.

Dispatchable Asset Related Demand resources will not receive Forward Capacity Market payments, but instead each Dispatchable Asset Related Demand resource will receive an adjustment to its share of the associated Coincident Peak Contribution based on the ability of the Dispatchable Asset Related Demand resource to reduce consumption. The adjustment to a load serving entity's Coincident Peak Contribution resulting from Dispatchable Asset Related Demand resource reduction in consumption shall be based on the Nominated Consumption Limit submitted for the Dispatchable Asset Related Demand resource.

The Nominated Consumption Limit value of each Dispatchable Asset Related Demand resource is subject to adjustment as further described in the ISO New England Manuals, including adjustments based on the results of Nominated Consumption Limit audits performed in accordance with the ISO New England Manuals.

III.13.7.5.3. Excess Revenues.

(a) For Capacity Commitment Periods beginning prior to June 1, 2022, revenues collected from load serving entities in excess of revenues paid by the ISO to resources shall be paid by the ISO to the holders of Capacity Transfer Rights, as detailed in Section III.13.7.5.3.

(b) Any payment associated with a Capacity Supply Obligation Bilateral that was to accrue to a Capacity Acquiring Resource for a Capacity Supply Obligation that is terminated pursuant to Section III.13.3.4A shall instead be allocated to Market Participants based on their pro rata share of all Capacity Load Obligations in the Capacity Zone in which the terminated resource is located.

III.13.7.5.4. Capacity Transfer Rights.

III.13.7.5.4.1. Definition and Payments to Holders of Capacity Transfer Rights.

This subsection applies to Capacity Commitment Periods beginning prior to June 1, 2022.

Capacity Transfer Rights are calculated for each internal interface associated with a Capacity Zone established in the Forward Capacity Auction (as determined pursuant to Section III.13.2.3.4). Based upon results of the Forward Capacity Auction and reconfiguration auctions, the total CTR fund will be calculated as the difference between the charges to load serving entities with Capacity Load Obligations and the payments to Capacity Resources as follows: The system-wide sum of the product of each Capacity Zone's Net Regional Clearing Price and absolute value of each Capacity Zone's Capacity Load Obligations, as calculated in Section III.13.7.5.1, minus the sum of the monthly capacity payments to Capacity Resources within each zone, as adjusted for PER.

Each Capacity Zone established in the Forward Capacity Auction (as determined pursuant to Section III.13.2.3.4) will be assigned its portion of the CTR fund.

For CTRs resulting from an export constrained zone, the assignment will be calculated as the product of: (i) the Net Regional Clearing Price for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Net Regional Clearing Price for the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the difference between the absolute value of the total Capacity Supply Obligations obtained in the exporting Capacity Zone, adjusted for Capacity Supply Obligations associated with Self-Supplied FCA Resources, and the absolute value of the total Capacity Load Obligations in the exporting Capacity Zone.

For CTRs resulting from an import constrained zone, the assignment will be calculated as the product of: (i) the Net Regional Clearing Price for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Net Regional Clearing Price for the absolute value of the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the difference between absolute value of the total Capacity Load Obligations in the importing Capacity Zone and the total Capacity Supply Obligations obtained in the importing Capacity Zone, adjusted for Capacity Supply Obligations associated with Self-Supplied FCA Resources.

III.13.7.5.4.2. Allocation of Capacity Transfer Rights.

This subsection applies to Capacity Commitment Periods beginning prior to June 1, 2022.

For Capacity Zones established in the Forward Capacity Auction as determined pursuant to Section III.13.2.3.4, the CTR fund shall be allocated among load serving entities using their Capacity Load Obligation (net of HQICCs) described in Section III.13.7.5.1. Market Participants with CTRs specifically allocated under Section III.13.7.5.3.6 will have their specifically allocated CTR MWs netted from their Capacity Load Obligation used to establish their share of the CTR fund.

(a) **Connecticut Import Interface.** The allocation of the CTR fund associated with the Connecticut Import Interface shall be made to load serving entities based on their Capacity Load Obligation in the Connecticut Capacity Zone.

(b) **NEMA/Boston Import Interface.** Except as provided in Section III.13.7.5.3.6 of Market Rule 1, the allocation of the CTR fund associated with the NEMA/Boston Import Interface shall be made to load serving entities based on their Capacity Load Obligation in the NEMA/Boston Capacity Zone.

III.13.7.5.4.3. Allocations of CTRs Resulting From Revised Capacity Zones.

This subsection applies to Capacity Commitment Periods beginning prior to June 1, 2022.

The portion of the CTR fund associated with revised definitions of Capacity Zones shall be fully allocated to load serving entities after deducting the value of applicable CTRs that have been specifically allocated. Allocations of the CTR fund among load serving entities will be made using their Capacity Load Obligations (net of HQICCs) as described in Section III.13.7.5.3.1. Market Participants with CTRs specifically allocated under Section III.13.7.5.3.6 will have their specifically allocated CTR MWs netted from the Capacity Load Obligation used to establish their share of the CTR fund.

(a) **Import Constraints.** The allocation of the CTR fund associated with newly defined import-constrained Capacity Zones restricting the transfer of capacity into a single adjacent import-constrained Capacity Zone shall be allocated to load serving entities with Capacity Load Obligations in that import-constrained Capacity Zone.

(b) **Export Constraints.** The allocation of the CTR fund associated with newly defined export-constrained Capacity Zones shall be allocated to load serving entities with Capacity Load Obligations on the import-constrained side of the interface.

III.13.7.5.4.4. Specifically Allocated CTRs Associated with Transmission Upgrades.

(a) A Market Participant that pays for transmission upgrades not funded through the Pool PTF Rate and which increase transfer capability across existing or potential Capacity Zone interfaces may request a specifically allocated CTR in an amount equal to the number of CTRs supported by that increase in transfer capability.

(b) The allocation of additional CTRs created through generator interconnections completed after February 1, 2009 shall be made in accordance with the provisions of the ISO generator interconnection or planning standards. In the event the ISO interconnection or planning standards do not address this issue, the CTRs created shall be allocated in the same manner as described in Section III.13.7.5.4.2.

(c) Specifically allocated CTRs shall expire when the Market Participant ceases to pay to support the transmission upgrades.

(d) CTRs resulting from transmission upgrades funded through the Pool PTF Rate shall not be specifically allocated but shall be allocated in the same manner as described in Section III.13.7.5.4.2.

(e) **Maine Export Interface.** Casco Bay shall receive specifically allocated CTRs of 325 MW across the Maine export interface for as long as Casco Bay continues to pay to support the transmission upgrades.

(f) The value of CTRs specifically allocated pursuant to this Section shall be calculated as the product of: (i) the Capacity Clearing Price to which the applicable interface limits the transfer of capacity

minus the Capacity Clearing Price from which the applicable interface limits the transfer of capacity; and
(ii) the MW quantity of the specifically allocated CTRs across the applicable interface.

III.13.7.5.4.5. Specifically Allocated CTRs for Pool-Planned Units.

(a) In import-constrained Capacity Zones, in recognition of longstanding life of unit contracts, the municipal utility entitlement holder of a resource constructed as Pool-Planned Units shall receive an initial allocation of CTRs equal to the most recent seasonal claimed capability of the ownership entitlements in such unit, adjusted for any designated self-supply quantities as described in Section III.13.1.6.2. Municipal utility entitlements are set as shown in the table below and are not transferrable.

Millstone 3		Seabrook	Stonybrook GT 1A	Stonybrook GT 1B	Stonybrook GT 1C	Stonybrook 2A	Stonybrook 2B	Wyman 4	Summer	Winter
									(MW)	(MW)
Nominal Summer (MW)	1155.001	1244.275	104.000	100.000	104.000	67.400	65.300	586.725		
Nominal Winter (MW)	1155.481	1244.275	119.000	116.000	119.000	87.400	85.300	608.575		
Danvers	0.2627%	1.1124%	8.4569%	8.4569%	8.4569%	11.5551%	11.5551%	0.0000%	58.26	63.73
Georgetown	0.0208%	0.0956%	0.7356%	0.7356%	0.7356%	1.0144%	1.0144%	0.0000%	5.04	5.55
Ipswich	0.0608%	0.1066%	0.2934%	0.2934%	0.2934%	0.0000%	0.0000%	0.0000%	2.93	2.37
Marblehead	0.1544%	0.1351%	2.6840%	2.6840%	2.6840%	1.5980%	1.5980%	0.2793%	15.49	15.64
Middleton	0.0440%	0.3282%	0.8776%	0.8776%	0.8776%	1.8916%	1.8916%	0.1012%	10.40	11.07
Peabody	0.2969%	1.1300%	13.0520%	13.0520%	13.0520%	0.0000%	0.0000%	0.0000%	57.69	60.26
Reading	0.4041%	0.6351%	14.4530%	14.4530%	14.4530%	19.5163%	19.5163%	0.0000%	82.98	92.77
Wakefield	0.2055%	0.3870%	3.9929%	3.9929%	3.9929%	6.3791%	6.3791%	0.4398%	30.53	32.64
Ashburnham	0.0307%	0.0652%	0.6922%	0.6922%	0.6922%	0.9285%	0.9285%	0.0000%	4.53	5.22
Boylston	0.0264%	0.0849%	0.5933%	0.5933%	0.5933%	0.9120%	0.9120%	0.0522%	4.71	5.35
Braintree	0.0000%	0.6134%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	7.63	7.63
Groton	0.0254%	0.1288%	0.8034%	0.8034%	0.8034%	1.0832%	1.0832%	0.0000%	5.81	6.61
Hingham	0.1007%	0.4740%	3.9815%	3.9815%	3.9815%	5.3307%	5.3307%	0.0000%	26.40	30.36
Holden	0.0726%	0.3971%	2.2670%	2.2670%	2.2670%	3.1984%	3.1984%	0.0000%	17.01	19.33
Holyoke	0.3194%	0.3096%	0.0000%	0.0000%	0.0000%	2.8342%	2.8342%	0.6882%	15.34	16.63

Hudson	0.1056%	1.6745%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.3395%	24.05	24.12
Hull	0.0380%	0.1650%	1.4848%	1.4848%	1.4848%	2.1793%	2.1793%	0.1262%	10.70	12.28
Littleton	0.0536%	0.1093%	1.5115%	1.5115%	1.5115%	3.0607%	3.0607%	0.1666%	11.67	13.63
Mansfield	0.1581%	0.7902%	5.0951%	5.0951%	5.0951%	7.2217%	7.2217%	0.0000%	36.93	42.17
Middleborough	0.1128%	0.5034%	2.0657%	2.0657%	2.0657%	4.9518%	4.9518%	0.1667%	21.48	24.45
North Attleborough	0.1744%	0.3781%	3.2277%	3.2277%	3.2277%	5.9838%	5.9838%	0.1666%	25.58	29.49
Pascoag	0.0000%	0.1068%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	1.33	1.33
Paxton	0.0326%	0.0808%	0.6860%	0.6860%	0.6860%	0.9979%	0.9979%	0.0000%	4.82	5.53
Shrewsbury	0.2323%	0.5756%	3.9105%	3.9105%	3.9105%	0.0000%	0.0000%	0.4168%	24.33	26.23
South Hadley	0.5755%	0.3412%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	10.89	10.90
Sterling	0.0294%	0.2044%	0.7336%	0.7336%	0.7336%	1.1014%	1.1014%	0.0000%	6.60	7.38
Taunton	0.0000%	0.1003%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	1.25	1.25
Templeton	0.0700%	0.1926%	1.3941%	1.3941%	1.3941%	2.3894%	2.3894%	0.0000%	10.67	12.27
Vermont Public Power Supply Authority	0.0000%	0.0000%	2.2008%	2.2008%	2.2008%	0.0000%	0.0000%	0.0330%	6.97	7.99
West Boylston	0.0792%	0.1814%	1.2829%	1.2829%	1.2829%	2.3041%	2.3041%	0.0000%	10.18	11.69
Westfield	1.1131%	0.3645%	9.0452%	9.0452%	9.0452%	13.5684%	13.5684%	0.7257%	67.51	77.27

This allocation of CTRs shall expire on December 31, 2040. If a resource listed in the table above retires prior to December 31, 2040, however, its allocation of CTRs shall expire upon retirement. In the event that the NEMA zone either becomes or is forecast to become a separate zone for Forward Capacity Auction purposes, National Grid agrees to discuss with Massachusetts Municipal Wholesale Electric Company (“MMWEC”) and Wellesley Municipal Light Plant, Reading Municipal Light Plant and Concord Municipal Light Plant (“WRC”) any proposal by National Grid to develop cost effective transmission improvements that would mitigate or alleviate the import constraints and to work cooperatively and in good faith with MMWEC and WRC regarding any such proposal. MMWEC and WRC agree to support any proposals advanced by National Grid in the regional system planning process to construct any such transmission improvements, provided that MMWEC and WRC determine that the proposed improvements are cost effective (without regard to CTRs) and will mitigate or alleviate the import constraints.

(b) The value of CTRs specifically allocated pursuant to this Section shall be calculated as the product of: (i) the Capacity Clearing Price for the Capacity Zone where the load of the municipal utility entitlement holder is located minus the Capacity Clearing Price for the Capacity Zone in which the Pool-Planned Unit is located, and; (ii) the MW quantity of the specifically allocated CTRs.

III.13.7.5.5. Forward Capacity Market Net Charge Amount.

The Forward Capacity Market net charge amount for each Market Participant as of the end of the Obligation Month shall be equal to the sum of: (a) its Capacity Load Obligation charges; (b) its revenues from any applicable specifically allocated CTRs; (c) its share of the CTR fund (for Capacity Commitment Periods beginning prior to June 1, 2022); and (d) any applicable export charges.

EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

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ATTACHMENT 6 - MINIMUM CRITERIA FOR MARKET PARTICIPATION INFORMATION
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EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

Overview

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

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

I. GROUPS REGARDED AS SINGLE MARKET PARTICIPANTS

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

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

II. MARKET PARTICIPANTS' REVIEW AND CREDIT LIMITS

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

A. Minimum Criteria for Market Participation

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

1. Information Disclosure

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

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

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

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

2. Risk Management

- (a) Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has: (i) either established or contracted for risk management procedures that are applicable to participation in the New England Markets; and (ii) has established or contracted for appropriate training of relevant personnel that is applicable to its participation in the New England Markets. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant 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, including, if requested by the ISO in its sole discretion, supporting documentation (which may include an organizational chart (or portion thereof) or equivalent information) that demonstrates the segregation of duties within such risk policies, procedures, and controls of the such customer or applicant, applicable to its participation in the FTR market relied upon by the Senior Officer of the applicant signing the certificate provided pursuant to Section II.A.2
 - (a). On an annual basis (by April 30 each year), each Designated FTR Participant with FTR transactions in any of the previous twelve months or in any currently open month

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

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

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

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

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

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

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

3. Communications

Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has either established or contracted to establish procedures to effectively communicate with and respond to the ISO with respect to matters relating to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy. Such procedures must ensure, at a minimum, that at least one person with the ability and authority to address matters related to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy on behalf of the customer or applicant, including the ability and authority to respond to requests for information and to arrange for additional financial assurance as necessary, is available from 9:00 a.m. to 5:00 p.m. Eastern Time on Business Days. Such procedures must also ensure that the ISO is kept informed about the current contact information (including phone numbers and e-mail addresses) for the person or people described above. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant 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 or any future transactions for a duration of one month or less except when FTRs for a month are being auctioned for the final time. Such a customer or applicant may enter into future transaction of a duration of one month or less in the FTR system in the case of FTRs for a month being auctioned for the final time. Any customer or applicant that fails to meet these capitalization requirements shall provide additional financial assurance in one of the forms described in Section X of the ISO New England Financial Assurance Policy equal to 25 percent of the customer's or applicant's FTR Financial Assurance Requirements. Any additional financial assurance provided pursuant to this Section II.A.4(b) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy.

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

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

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

5. Additional Eligibility Requirements

All customers and applicants shall at all times be:

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

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

total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy. The certificate must be signed on behalf of the customer by a Senior Officer of the customer 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.

6. Prior Uncured Defaults

In addition to, and not in limitation of Section IV of the ISO New England Financial Assurance Policy, an applicant who has a previous uncured payment default must cure such payment default by payment to the ISO of all outstanding and unpaid obligations, as well as meet all requirements for participation in the New England Markets contained in the ISO New England Financial Assurance Policy. For purposes of this Section II.A.6

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

B. Proof of Financial Viability for Applicants

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

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

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

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

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

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

C. Ongoing Review and Credit Ratings

1. Rated and Credit Qualifying Market Participants

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

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

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

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

2. Unrated Market Participants

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

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

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

3. Information Reporting Requirements for Market Participants

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

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

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

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

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

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

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

D. Market Credit Limits

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

1. Market Credit Limit for Non-Municipal Market Participants

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

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

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

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

Below BBB-

Below Baa3

0.00%

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

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

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

2. Market Credit Limit for Municipal Market Participants

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

E. Transmission Credit Limits

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

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

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

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

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

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

3. Transmission Credit Limit for Municipal Market Participants

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

F. Credit Limits for FTR-Only Customers

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

G. Total Credit Limit

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

III. MARKET PARTICIPANTS' REQUIREMENTS

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

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

A. Determination of Financial Assurance Obligations

For purposes of the ISO New England Financial Assurance Policy:

- (i) a Market Participant’s “Hourly Requirements” at any time will be the sum of (x) the Hourly Charges 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 2.50 (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 or participate in a substitution auction in the Forward Capacity Market, drawing down of financial assurance, rejection of Increment Offers and Decrement Bids, and rejection of bilateral transactions submitted to the ISO, shall not limit, in any way, the ISO's right to invoice or collect payment for any amounts owed (whether such amounts are due or becoming due) by such suspended Market Participant under the Tariff or the ISO's right to administratively submit a bid or offer of a Market Participant's Non-Commercial

Capacity in any Forward Capacity Auction or any reconfiguration auction or to make other adjustments under Market Rule 1.

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

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

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

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

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

If a Market Participant is suspended from the New England Markets in accordance with the provisions of the ISO New England Financial Assurance Policy or the ISO New England Billing Policy, then the provisions of this Section III.B shall control notwithstanding any other provision of the Tariff to the contrary. A suspended Market Participant shall have no ability so long as it is suspended (i) to be reflected in the ISO's settlement system, including any bilateral transactions, as either a purchaser or a seller of any products or services sold through the New England Markets (other than (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the Market Participants, (ii) to submit Demand Bids, Decrement Bids or Increment Offers in the New England Markets, (iii) to submit offers for Non-Commercial Capacity in any Forward Capacity Auction or reconfiguration auction or acquire Non-Commercial Capacity through a Capacity Supply Obligation Bilateral, or (iv) to submit supply offers or demand bids in any Forward Capacity Market substitution auction. Any transactions, including bilateral transactions with a suspended Market Participant (other than transactions for (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the other Market Participants and any Demand Bids, Decrement Bids, Increment Offers, and Export Transactions submitted by a suspended Market Participant shall be deemed to be terminated for purposes of the Day-Ahead Energy Market clearing and the ISO's settlement system. If a Market Participant has provided the financial assurance required for a Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, then that Capacity Supply Obligation Bilateral or Annual Reconfiguration

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

b. Load Assets

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

c. FTRs

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

d. Virtual Transactions

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

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

e. Bilateral Transactions

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

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

4. Serial Notice and Suspension Penalties

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

C. Additional Financial Assurance Requirements for Certain Municipal Market Participants

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

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

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

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

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

2. NMPTC Transmission Credit Limit

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

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

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

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

3. NMPTC Total Credit Limit

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Financial Assurance for ISO Charges

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

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

2. Financial Assurance for Transmission Charges

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

3. Notice of Failure to Satisfy NMPTC Financial Assurance Requirement

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

VI. ADDITIONAL PROVISIONS FOR FTR TRANSACTIONS

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

referred to in the ISO New England Financial Assurance Policy as the “FTR Financial Assurance Requirements”).

A. FTR Settlement Risk Financial Assurance

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

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

Once an FTR Auction’s results are final, a Designated FTR Participant must provide FTR Settlement Risk Financial Assurance based on awarded FTRs, equal to the MW value of each awarded FTR multiplied by the applicable proxy value for the FTR path (as described below) multiplied by the number of hours associated with the FTR. For purposes of this calculation, the ISO will net the MW values of a Designated FTR Participant’s awarded FTRs having the same or opposite path, same contract month, and same type (on-peak or off-peak). For purposes of this netting, annual FTRs may be converted into monthly positions.

The proxy value for each FTR path, which shall be calculated separately for on-peak and off-peak FTRs, will be based on the standard deviation observed in the difference between the average congestion components of the Locational Marginal Price in the Day-Ahead Energy Market at the path’s sink and source for the previous 36 months, with differing multipliers for annual and monthly FTRs and for prevailing flow and counter flow paths. These multipliers will be reviewed and approved by the NEPOOL Budget

and Finance Subcommittee and shall be posted on the ISO's website. Where there is insufficient data to perform these calculations for a node, zonal data will be used instead.

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

B. Unsettled FTR Financial Assurance

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

C. Settlement Financial Assurance

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

D. Consequences of Failure to Satisfy FTR Financial Assurance Requirements

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

VII. ADDITIONAL PROVISIONS FOR FORWARD CAPACITY MARKETS

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

A. FCM Delivery Financial Assurance

A Designated FCM Participant must include for the Capacity Supply Obligation of each resource in its portfolio other than the Capacity Supply Obligation associated with any

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

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

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

B. Non-Commercial Capacity

Notwithstanding any provision of this Section VII to the contrary, a Designated FCM Participant offering Non-Commercial Capacity for a Resource that elected existing Resource treatment for the Capacity Commitment Period beginning June 1, 2010 will not

be subject to the provisions of this Section VII.B with respect to that Resource (other than financial assurance obligations relating to transfers of Capacity Supply Obligations).

1. FCM Deposit

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

2. Non-Commercial Capacity in Forward Capacity Auctions

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

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

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

supply offer was accepted, an additional amount required to make the total amount included in the calculation of the Financial Assurance Requirement with respect to that Non-Commercial Capacity equal to three (3) times the Non-Commercial Capacity FA Amount.

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

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

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

Non-Commercial Capacity Financial Assurance Amount = (NCC x NCCFCA\$ x Multiplier) + NCC Trading FA

Where:

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

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the thirteenth Forward Capacity Auction, NCCFCA\$ = the Capacity Clearing Price from the first run of the auction-clearing process of the Forward Capacity Auction in which the Capacity Supply Obligation was awarded. For Capacity Supply Obligations acquired in the fourteenth Forward Capacity Auction and all Forward Capacity Auctions

thereafter, $NCCFA\$$ = the Net CONE associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded (adjusted as described in Section III.13.2.4).

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

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

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the twelfth Forward Capacity Auction, $NCC\ Trading\ FA = zero$. For Capacity Supply Obligations acquired in the thirteenth Forward Capacity Auction and all Forward Capacity Auctions thereafter, $NCC\ Trading\ FA$ shall be zero until the start of the applicable Capacity Commitment Period, at which time $NCC\ Trading\ FA =$ the total amount of NCC that has been shed (whether before or after the start of the Capacity Commitment Period) in any reconfiguration auctions or Capacity Supply Obligation Bilaterals or that is subject to a failure to cover charge pursuant to Section III.13.3.4(b) (but this total amount shall not be greater than NCC) multiplied by the difference (but not less than zero) between: (i) the weighted average price at which the Capacity Supply

Obligation was acquired in the Forward Capacity Auction (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs); and (ii) the weighted average price or failure to cover charge rate at which the Capacity Supply Obligation was shed or assessed, as applicable (except that for monthly Capacity Supply Obligation Bilaterals, the applicable monthly reconfiguration auction clearing price will be used instead of the Capacity Supply Obligation Bilateral price).

c. Non-Commercial Capacity Deferral

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

3. Return of Non-Commercial Capacity Financial Assurance

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

Once Non-Commercial Capacity associated with a Capacity Supply Obligation awarded in the ninth Forward Capacity Auction and all Forward Capacity Auctions thereafter

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

4. Credit Test Percentage Consequences for Provisional Members

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

C. 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 FCM Charge Rate for Capacity Commitment Periods beginning prior to June 1, 2022 for a Capacity Zone will be calculated using the same methodology described in Section III.13.7.5 of Market Rule 1 for deriving the Net Regional Clearing Price, with the exception that the FCM Charge Rate will include the balance of the CTR fund after the value of specifically allocated CTRs has been paid, as described in Section III.13.7.5.3.1 of Market Rule 1. For purposes of this calculation, the FCM Charge Rate for Capacity Commitment Periods beginning on or after to June 1, 2022 for a Capacity Zone will be calculated as the sum of the charge and adjustment rates specified in Section III.13.7.5.1.1 of Market Rule 1.

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.

4. Substitution Auctions

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

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

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

- c. If a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction and does not cure such default by the earlier of (i) the end of the appropriate cure period and (ii) 5 p.m. (Eastern Time) on the second Business

Day prior to the start of the Forward Capacity Auction, then the defaulting Designated FCM Participant shall be precluded from submitting a supply offer or demand bid that is subject to this Section VII.F.4.

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

VIII. [Reserved]

IX. THIRD-PARTY CREDIT PROTECTION

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

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

year. Each Credit Qualifying Rated Market Participant shall provide the ISO with such information as may be reasonably necessary for the ISO to obtain the Credit Coverage at the lowest possible cost.

X. ACCEPTABLE FORMS OF FINANCIAL ASSURANCE

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

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

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

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

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

B. Letter of Credit

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

1. Requirements for Banks

Each bank issuing a letter of credit that serves as 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 Chicago Mercantile Exchange ("CME") as an approved letter of credit bank; or (ii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of "A-" by S&P, or "A3" by Moody's or "A-" by Fitch so long as its letter of credit is confirmed by a bank that is recognized by CME as an approved letter of credit issuer as described in clause (i) above; or (iii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of "A-" by S&P, or "A3" by Moody's, or "A-" by Fitch and be approved by the ISO in its sole discretion (the ISO will promptly advise the NEPOOL Budget and Finance Subcommittee of any additional bank approved by it under this provision). Because the ratings described in clauses (ii) and (iii) are minimum ratings, a bank will not be considered to have satisfied the requirement of those clauses if any applicable rating from the Rating Agencies falls below the levels listed in those clauses. In addition, no Posting Entity may provide a letter of credit that has been issued or confirmed by a bank that is an Affiliate of that Market Participant. If a bank that is included on the List of Eligible Letter of Credit Issuers fails to satisfy any of the criteria set forth above, 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 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 (A) the ISO shall issue a notice described in subsection (i) above, (B) the bank will no longer be eligible to issue or confirm letters of credit in favor of the ISO, (C) any letters of credit issued or confirmed by such bank in favor of the ISO will not be renewed, and (D) any letters of credit issued or confirmed by such bank in favor of the ISO must be replaced with another acceptable form of financial assurance within five (5) Business Days from the date on which the ISO provides notice of such failure (the ISO may extend that cure period to twenty (20) Business Days in its sole discretion). Notwithstanding the foregoing, the ISO in its sole discretion may reinstate eligibility after not less than two years from the loss of eligibility, provided that the bank otherwise meets the conditions of this Section X.B.1.

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

2. Form of Letter of Credit

Attachment 2 provides a generally acceptable sample “clean” letter of credit, and all letters of credit provided by Posting Entities shall be in this form (with only minor, non-material changes), unless a variation therefrom is approved by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee and filed with the Commission. Notwithstanding the foregoing, Posting Entities that have provided a letter of credit in a form that was previously acceptable (e.g., under a prior version of Attachment 2) shall not be required to resubmit such letter of credit until the earlier of (a) the amendment or

expiration of such letter of credit, in which case Posting Entity shall be required to provide a Letter of Credit in the Form of Attachment 2, or (b) December 31, 2021. Any letter of credit provided for a new Posting Entity must have a minimum term of 120 days. All costs incurred by the ISO in collecting on a letter of credit provided under the ISO New England Financial Assurance Policy shall be paid, or reimbursed to the ISO, by the Posting Entity providing that letter of credit.

C. Special Provisions for Provisional Members

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

Policy described above) shall be at least \$2,500, and each Provisional Member will replenish that cash deposit to at least that \$2,500 level on December 31 of each year.

XI. MISCELLANEOUS PROVISIONS

A. Obligation to Report Material Adverse Changes

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

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

B. Weekly Payments

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

billing arrangement for Non-Hourly Charges and Transmission Charges will be terminated if it fails to demonstrate to the ISO's satisfaction in its sole discretion at any such six (6) month interval that compliance with the other provisions of the ISO New England Financial Assurance Policy will impose a substantial hardship on it. If the ISO agrees to implement a weekly billing schedule for Non-Hourly Charges and Transmission Charges for a Market Participant or Non-Market Participant Transmission Customer, the Market Participant or Non-Market Participant Transmission Customer shall be billed weekly for such Non-Hourly Charges and Transmission Charges in accordance with the ISO New England Billing Policy. The Market Participant or Non-Market Participant Transmission Customer shall pay with respect to each weekly Invoice for Non-Hourly Charges and Transmission Charges an administrative fee, determined by the ISO, to reimburse the ISO for the costs it incurs as a result of that Market Participant's or Non-Market Participant Transmission Customer's weekly billing arrangement.

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

C. Use of Transaction Setoffs

In the event that a Market Participant or Non-Market Participant Transmission Customer has failed to satisfy its Financial Assurance Requirement hereunder, the ISO may retain payments due to such Market Participant or Non-Market Participant Transmission Customer, up to the amount of such Market Participant's or Non-Market Participant Transmission Customer's unsatisfied Financial Assurance Requirement, as a cash deposit securing such Market Participant's or Non-Market Participant Transmission Customer's

obligations to the ISO, NEPOOL, the Market Participants, the PTOs and the Non-Market Participant Transmission Customers, provided, however, that a Market Participant or Non-Market Participant Transmission Customer will not be deemed to have satisfied its Financial Assurance Requirement under the ISO New England Financial Assurance Policy because the ISO is retaining amounts due to it hereunder unless such Market Participant or Non-Market Participant Transmission Customer has satisfied all of the requirements of Section X with respect to such amounts.

D. Reimbursement of Costs

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

E. Notification of Default

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

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

F. Remedies Not Exclusive

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

G. Inquiries and Contests

A Market Participant or Non-Market Participant Transmission Customer may request a written explanation of the ISO's determination of its Market Credit Limit, Transmission Credit Limit, Financial Assurance Requirement or Transmission Obligations, including any change thereto, by submitting that request in writing to the ISO's Credit Department, either by email at CreditDepartment@iso-ne.com or by facsimile at (413) 540-4569. That request must include the Market Participant's customer identification number, the name of the Market Participant or Non-Market Participant Transmission Customer and the specific information for which the Market Participant or Non-Market Participant Transmission Customer would like an explanation and must be submitted by the designated credit contact for that Market Participant or Non-Market Participant Transmission Customer as on file with the ISO. In addition, since Financial Assurance Requirements are updated at least daily, any request for an explanation relating to the calculation of, or a change in, a Financial Assurance Requirement must be submitted on the same day as that calculation or change. The ISO's response to any request under this Section XI.G shall include an explanation of how the applicable calculation or determination was performed using the formulas and criteria in the ISO New England Financial Assurance Policy. A Market Participant or Non-Market Participant Transmission Customer may contest any calculation or determination by the ISO under the ISO New England Financial Assurance Policy using the dispute resolution provisions of Section I.6 of the Tariff.

H. Forward Contract/Swap Agreement

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

ATTACHMENT 1
SECURITY AGREEMENT

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

WITNESSETH:

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

1. Definitions.

a. In this Security Agreement:

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

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

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

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

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

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

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

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

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

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

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

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

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

[INSERT NAME]

By: _____

Name:

Title:

ISO NEW ENGLAND INC.

By: _____

Name:

Title:

ATTACHMENT 2
SAMPLE STANDBY LETTER OF CREDIT

[DATE PROVIDED]

IRREVOCABLE STANDBY LETTER OF CREDIT NO.

[EXPIRATION DATE]

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

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

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

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

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

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

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

THE FOLLOWING TERMS AND CONDITIONS APPLY:

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

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

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

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

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

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

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

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

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

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

IF TO THE BENEFICIARY OF THIS STANDBY LETTER OF CREDIT:

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

IF TO THE ACCOUNT PARTY:

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

IF TO ISSUER:

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

[signature]

[signature]

ATTACHMENT 3

ISO NEW ENGLAND MINIMUM CRITERIA FOR MARKET PARTICIPATION OFFICER
CERTIFICATION FORM

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the minimum criteria for market participation requirements set forth in Sections II.A.2 and II.A.3 of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Transmission, Markets and Services Tariff), 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 _____, 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 (and any supporting documentation, if applicable) applicable to the Certifying Entity’s participation in the FTR market.

OR

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

(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.

ATTACHMENT 6
MINIMUM CRITERIA FOR MARKET PARTICIPATION
INFORMATION DISCLOSURE FORM

Date: _____

Prepared by: _____

Customer/Applicant:¹ _____

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

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

2. List all material litigation (criminal or civil) against Certifying Entity or any of the Certifying Entity’s Principals, Personnel,³ or Predecessors,⁴ arising out of participation in any wholesale or retail energy market (domestic or international) or trading exchanges in the past ten (10) years:
(Enter N/A if not applicable)

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

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

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

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

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

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

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

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

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

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

Certifying Entity: _____

By: _____
(Signature)

Print Name: _____

Title: _____

Date: _____

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

III.13.7. Performance, Payments and Charges in the FCM.

Revenue in the Forward Capacity Market for resources providing capacity shall be composed of Capacity Base Payments as described in Section III.13.7.1 and Capacity Performance Payments as described in Section III.13.7.2, adjusted as described in Section III.13.7.3 and Section III.13.7.4. Market Participants with a Capacity Load Obligation will be subject to charges as described in Section III.13.7.5.

In the event of a change in the Lead Market Participant for a resource that has a Capacity Supply Obligation, the Capacity Supply Obligation shall remain associated with the resource and the new Lead Market Participant for the resource shall be bound by all provisions of this Section III.13 arising from such Capacity Supply Obligation. The Lead Market Participant for the resource at the start of an Obligation Month shall be responsible for all payments and charges associated with that resource in that Obligation Month.

III.13.7.1. Capacity Base Payments.

Resources acquiring or shedding a Capacity Supply Obligation for the Obligation Month shall receive a Capacity Base Payment for the Obligation Month reflecting the payments and charges described in Section III.13.7.1.1, as adjusted to account for peak energy rents as described in Section III.13.7.1.2.

III.13.7.1.1. Monthly Payments and Charges Reflecting Capacity Supply Obligations.

Each resource that has: (i) cleared in a Forward Capacity Auction, except for the portion of resources designated as Self-Supplied FCA Resources; (ii) cleared in a reconfiguration auction; or (iii) entered into a Capacity Supply Obligation Bilateral shall be entitled to a monthly payment or charge during the Capacity Commitment Period based on the following amounts:

(a) **Forward Capacity Auction.** For a resource whose offer has cleared in a Forward Capacity Auction, the monthly capacity payment shall equal the product of its cleared capacity and the Capacity Clearing Price in the Capacity Zone in which the resource is located as adjusted by applicable indexing for resources with additional Capacity Commitment Period elections pursuant to Section III.13.1.1.2.2.4 in the manner described below. For a resource that has elected to have the Capacity Clearing Price and the Capacity Supply Obligation apply for more than one Capacity Commitment Period, payments associated with the Capacity Supply Obligation and Capacity Clearing Price (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) shall continue to apply after the Capacity Commitment Period associated

with the Forward Capacity Auction in which the offer clears, for up to six additional and consecutive Capacity Commitment Periods, in whole Capacity Commitment Period increments only.

(b) **Reconfiguration Auctions.** For a resource whose offer or bid has cleared in an annual or monthly reconfiguration auction, the monthly capacity payment or charge shall be equal to the product of its cleared capacity and the appropriate reconfiguration auction clearing price in the Capacity Zone in which the resource cleared.

(c) **Capacity Supply Obligation Bilaterals.** For resources that have acquired or shed a Capacity Supply Obligation through a Capacity Supply Obligation Bilateral, the monthly capacity payment or charge shall be equal to the product of the Capacity Supply Obligation being assumed or shed and price associated with the Capacity Supply Obligation Bilateral.

(d) **Substitution Auctions.** For a resource whose offer or bid has cleared in a substitution auction, the monthly capacity payment or charge shall be equal to the product of its cleared capacity and the substitution auction clearing price. Notwithstanding the foregoing, the monthly capacity charge for a demand bid cleared at a substitution auction clearing price above its bid price shall be calculated using its bid price.

III.13.7.1.2 Peak Energy Rents.

For Capacity Commitment Periods beginning prior to June 1, 2019, Capacity Base Payments to resources with Capacity Supply Obligations, except for (1) On-Peak Demand Resources, (2) Seasonal Peak Demand Resources, and (3) New Generating Capacity Resources that have cleared in the Forward Capacity Auction and have completed construction but due to a planned transmission facility (e.g., a radial interconnection) not being in service are not able to achieve FCM Commercial Operation, shall be decreased by Peak Energy Rents (“PER”) calculated in each Capacity Zone, as determined pursuant to Section III.13.2.3.4 in the Forward Capacity Auction, as provided below. The PER calculation shall utilize hourly integrated Real-Time LMPs. For each Capacity Zone in the Forward Capacity Auction, as determined pursuant to Section III.13.2.3.4, PER shall be computed based on the load-weighted Real-Time LMPs for each Capacity Zone, using the Real-Time Hub Price for the Rest-of-Pool Capacity Zone. Self-Supplied FCA Resources shall not be subject to a PER adjustment on the portion of the resource that is self-supplied.

III.13.7.1.2.1 Hourly PER Calculations.

(a) For hours with a positive difference between the hourly Real-Time energy price and a strike price, the ISO shall compute PER for each hour ("Hourly PER") equal to this positive difference in accordance with one of the following formulas, which include scaling adjustments for system load and availability:

For hours within the period beginning September 30, 2016 through May 31, 2018:

$$\text{Hourly PER}(\$/\text{kW}) = [(\text{LMP} - \text{Adjusted Hourly PER Strike Price}) * [\text{Scaling Factor}] * [\text{Availability Factor}]$$

Where:

$$\text{Adjusted Hourly PER Strike Price} = \text{Strike Price} + \text{Hourly PER Adjustment}$$

$$\text{Hourly PER Adjustment} = \text{average of Five-Minute PER Strike Price Adjustment values}$$

$$\text{Five-Minute PER Strike Price Adjustment} = \text{MAX} (\text{Thirty-Minute Operating Reserve clearing price} - \$500/\text{MWh}, 0) + \text{MAX} (\text{Ten-Minute Non-Spinning Reserve clearing price} - \text{Thirty-Minute Operating Reserve clearing price} - \$850/\text{MWh}, 0).$$

Strike Price = as defined below

Scaling Factor = as defined below

Availability Factor = as defined below

For all other hours:

$$\text{Hourly PER}(\$/\text{kW}) = [\text{LMP} - \text{Strike Price}] * [\text{Scaling Factor}] * [\text{Availability Factor}]$$

Where:

Strike Price = the heat rate x fuel cost of the PER Proxy Unit described below.

Scaling Factor = the ratio of actual hourly integrated system load (calculated as the sum of Real-Time Load Obligations for the system as calculated in the settlement of the Real-Time Energy Market and adjusted for losses and including imports delivered in the Real-Time Energy Market)

and the 50/50 predicted peak system load reduced appropriately for Demand Capacity Resources, used in the most recent calculation of the Installed Capacity Requirement for that Capacity Commitment Period, capped at an hourly ratio of 1.0.

Availability Factor = 0.95.

(b) PER Proxy Unit characteristics shall be as follows:

(i) The PER Proxy Unit shall be indexed to the marginal fuel, which shall be the higher of the following, as determined on a daily basis: ultra low-sulfur No. 2 oil measured at New York Harbor plus a seven percent markup for transportation; or day-ahead gas measured at the AGT-CG (Non-G) hub;

(ii) The PER Proxy Unit shall be assumed to have no start-up, ramp rate or minimum run time constraints;

(iii) The PER Proxy Unit shall have a 22,000 Btu/kWh heat rate. This assumption shall be periodically reviewed after the first Capacity Commitment Period by the ISO to ensure that the heat rate continues to reflect a level slightly higher than the marginal generating unit in the region that would be dispatched as the system enters a scarcity condition. Any changes to the heat rate of the PER Proxy Unit shall be considered in the stakeholder process in consultation with the state utility regulatory agencies, shall be filed pursuant to Section 205 of the Federal Power Act, and shall be applied prospectively to the settlement of future Forward Capacity Auctions.

III.13.7.1.2.2. Monthly PER Application.

The Hourly PER shall be summed for each calendar month to determine the total PER for that month ("Monthly PER"). The ISO shall then calculate the Average Monthly PER earned by the proxy unit. The Average Monthly PER shall be equal to the average of the Monthly PER values for the 12 months prior to the Obligation Month. The PER deduction for each resource shall be calculated as the Average Monthly PER multiplied by the resource's Capacity Supply Obligation for the Obligation Month (less any Capacity Supply Obligation MW from any portion of a Self-Supplied FCA Resource); provided, however, that in no case shall a resource's PER deduction for an Obligation Month be less than zero or greater than the product of the resource's Capacity Supply Obligation and the relevant Forward Capacity Auction Capacity Clearing Price.

III.13.7.1.3. Export Capacity.

If there are any Export Bids or Administrative Export De-List Bids from resources located in an export-constrained Capacity Zone or in the Rest-of-Pool Capacity Zone that have cleared in the Forward Capacity Auction and if the resource is exporting capacity at an export interface that is connected to an import-constrained Capacity Zone or the Rest-of-Pool Capacity Zone that is different than the Capacity Zone in which the resource is located, then charges and credits are applied as follows (for the following calculation, the Capacity Clearing Price will be the value prior to PER adjustments).

Charge Amount to Resource Exporting = [Capacity Clearing Price_{location of the interface} - Capacity Clearing Price_{location of the resource}] x Cleared MWs of Export Bid or Administrative Export De-List Bid]

Credit Amount to Capacity Load Obligations in the Capacity Zone where the export interface is located = [Capacity Clearing Price_{location of the interface} - Capacity Clearing Price_{location of the resource}] x Cleared MWs of Export Bid or Administrative Export De-list Bid]

Credits and charges to load in the applicable Capacity Zones, as set forth above, shall be allocated in proportion to each LSE's Capacity Load Obligation as calculated in Section III.13.7.5.2.

III.13.7.1.4. [Reserved.]

III.13.7.2 Capacity Performance Payments.

III.13.7.2.1 Definition of Capacity Scarcity Condition.

A Capacity Scarcity Condition shall exist in a Capacity Zone for any five-minute interval in which the Real-Time Reserve Clearing Price for that entire Capacity Zone is set based on the Reserve Constraint Penalty Factor pricing for: (i) the Minimum Total Reserve Requirement; (ii) the Ten-Minute Reserve Requirement; or (iii) the Zonal Reserve Requirement, each as described in Section III.2.7A(c); provided, however, that a Capacity Scarcity Condition shall not exist if the Reserve Constraint Penalty Factor pricing results only because of resource ramping limitations that are not binding on the energy dispatch.

III.13.7.2.2 Calculation of Actual Capacity Provided During a Capacity Scarcity Condition.

For each five-minute interval in which a Capacity Scarcity Condition exists, the ISO shall calculate the Actual Capacity Provided by each resource, whether or not it has a Capacity Supply Obligation, in any Capacity Zone that is subject to the Capacity Scarcity Condition. For resources not having a Capacity Supply Obligation (including External Transactions), the Actual Capacity Provided shall be calculated using the provision below applicable to the resource type. Notwithstanding the specific provisions of this Section III.13.7.2.2, no resource shall have an Actual Capacity Provided that is less than zero.

(a) A Generating Capacity Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the sum of the resource's output during the interval plus the resource's Reserve Quantity For Settlement during the interval; provided, however, that if the resource's output was limited during the Capacity Scarcity Condition as a result of a transmission system limitation, then the resource's Actual Capacity Provided may not be greater than the sum of the resource's Desired Dispatch Point during the interval, plus the resource's Reserve Quantity For Settlement during the interval. Where the resource is associated with one or more External Transaction sales submitted in accordance with Section III.1.10.7(f), the resource will have its hourly Actual Capacity Provided reduced by the hourly integrated delivered MW for the External Transaction sale or sales.

(b) An Import Capacity Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the net energy delivered during the interval in which the Capacity Scarcity Condition occurred. Where a single Market Participant owns more than one Import Capacity Resource, then the difference between the total net energy delivered from those resources and the total of the Capacity Supply Obligations of those resources shall be allocated to those resources pro rata.

(c) An On-Peak Demand Resource or Seasonal Peak Demand Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the sum of the Actual Capacity Provided for each of its components, as determined below, where the MWhs of reduction, other than MWhs associated with Net Supply, are increased by average avoided peak transmission and distribution losses.

- (i) For Energy Efficiency measures, ~~if the Capacity Scarcity Condition occurs during Demand Resource On-Peak Hours or Demand Resource Seasonal Peak Hours, as applicable, then the Actual Capacity Provided shall be equal to the applicable reported monthly performance value; if the Capacity Scarcity Condition occurs in an interval outside of Demand Resource On-Peak Hours or Demand Resource Seasonal Peak Hours, as applicable, then~~ the Actual Capacity Provided shall be zero.

- (ii) For Distributed Generation measures submitting meter data for the full 24 hour calendar day during which the Capacity Scarcity Condition occurs, the Actual Capacity Provided shall be equal to the submitted meter data, adjusted as necessary for the five-minute interval in which the Capacity Scarcity Condition occurs.
 - (iii) For Load Management measures submitting meter data for the full 24 hour calendar day during which the Capacity Scarcity Condition occurs, the Actual Capacity Provided shall be equal to the submitted demand reduction data, adjusted as necessary for the five-minute interval in which the Capacity Scarcity Condition occurs.
 - (iv) Notwithstanding any other provision of this Section III.13.7.2.2(c), for any On-Peak Demand Resource or Seasonal Peak Demand Resource that fails to provide the data necessary for the ISO to determine the Actual Capacity Provided as described in this Section III.13.7.2.2(c), the Actual Capacity Provided shall be zero.
- (d) An Active Demand Capacity Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the sum of the Actual Capacity Provided by its constituent Demand Response Resources during the Capacity Scarcity Condition.
- (i) A Demand Response Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be: (1) the sum of the Real-Time demand reduction of its constituent Demand Response Assets (provided, however, that if the Demand Response Resource was limited during the Capacity Scarcity Condition as a result of a transmission system limitation, then the sum of the Real-Time demand reduction of its constituent Demand Response Assets may not be greater than its Desired Dispatch Point during the interval), plus (2) the Demand Response Resource's Reserve Quantity For Settlement, where the MW quantity, other than the MW quantity associated with Net Supply, is increased by average avoided peak transmission and distribution losses; provided, however, that a Demand Response Resource's Actual Capacity Provided shall not be less than zero.
 - (ii) The Real-Time demand reduction of a Demand Response Asset shall be calculated as described in Section III.8.4, except that: (1) in the case of a Demand Response Asset that is on a forced or scheduled curtailment as described in Section III.8.3, a Real-Time

demand reduction shall also be calculated for intervals in which the associated Demand Response Resource does not receive a non-zero Dispatch Instruction; (2) in the case of a Demand Response Asset that is on a forced or scheduled curtailment as described in Section III.8.3, the minuend in the calculation described in Section III.8.4 shall be the unadjusted Demand Response Baseline of the Demand Response Asset; and (3) the resulting MWhs of reduction, other than the MWhs associated with Net Supply, shall be increased by average avoided peak transmission and distribution losses.

III.13.7.2.3 Capacity Balancing Ratio.

For each five-minute interval in which a Capacity Scarcity Condition exists, the ISO shall calculate a Capacity Balancing Ratio using the following formula:

$$(\text{Load} + \text{Reserve Requirement}) / \text{Total Capacity Supply Obligation}$$

(a) If the Capacity Scarcity Condition is a result of a violation of the Minimum Total Reserve Requirement such that the associated system-wide Reserve Constraint Penalty Factor pricing applies, then the terms used in the formula above shall be calculated as follows:

Load = the total amount of Actual Capacity Provided (excluding applicable Real-Time Reserve Designations) from all resources in the New England Control Area during the interval; ~~(with provided, however, that if the interval occurs outside of Demand Resource On Peak Hours or Demand Resource Seasonal Peak Hours, then~~ the Actual Capacity Provided of ~~any applicable~~ Energy Efficiency measures ~~shall be being~~ zero, as specified in Section III.13.7.2.2(c)(i).

Reserve Requirement = the Minimum Total Reserve Requirement during the interval.

Total Capacity Supply Obligation = the total amount of Capacity Supply Obligations in the New England Control Area during the interval; ~~provided, however, that if the interval occurs outside of Demand Resource On Peak Hours or Demand Resource Seasonal Peak Hours, then, excluding~~ the Capacity Supply Obligations associated with ~~any applicable~~ Energy Efficiency measures ~~shall be excluded from the total amount of Capacity Supply Obligations.~~

(b) If the Capacity Scarcity Condition is a result of a violation of the Ten-Minute Reserve Requirement such that the associated system-wide Reserve Constraint Penalty Factor pricing applies, then the terms used in the formula above shall be calculated as follows:

Load = the total amount of Actual Capacity Provided (excluding applicable Real-Time Reserve Designations) from all resources in the New England Control Area during the interval; ~~(with provided, however, that if the interval occurs outside of Demand Resource On Peak Hours or Demand Resource Seasonal Peak Hours, then~~ the Actual Capacity Provided of ~~any applicable~~ Energy Efficiency measures ~~shall be being~~ zero, as specified in Section III.13.7.2.2(c)(i)).

Reserve Requirement = the Ten-Minute Reserve Requirement during the interval.

Total Capacity Supply Obligation = the total amount of Capacity Supply Obligations in the New England Control Area during the interval; ~~provided, however, that if the interval occurs outside of Demand Resource On Peak Hours or Demand Resource Seasonal Peak Hours, then, excluding~~ the Capacity Supply Obligations associated with ~~any applicable~~ Energy Efficiency measures ~~shall be excluded from the total amount of Capacity Supply Obligations.~~

(c) If the Capacity Scarcity Condition is a result of a violation of the Zonal Reserve Requirement such that the associated Reserve Constraint Penalty Factor pricing applies, then the terms used in the formula above shall be calculated as follows:

Load = the total amount of Actual Capacity Provided (excluding applicable Real-Time Reserve Designations) from all resources in the Capacity Zone during the interval plus the net amount of energy imported into the Capacity Zone from outside the New England Control Area during the interval (but not less than zero); ~~(with provided, however, that if the interval occurs outside of Demand Resource On Peak Hours or Demand Resource Seasonal Peak Hours, then~~ the Actual Capacity Provided of ~~any applicable~~ Energy Efficiency measures ~~shall being~~ zero, as specified in Section III.13.7.2.2(c)(i)).

Reserve Requirement = the Zonal Reserve Requirement minus any reserve support coming into the Capacity Zone over the internal transmission interface.

Total Capacity Supply Obligation = the total amount of Capacity Supply Obligations in the Capacity Zone during the interval; ~~provided however, that if the interval occurs outside of Demand Resource On~~

~~Peak Hours or Demand Resource Seasonal Peak Hours, excluding then the Capacity Supply Obligations associated with any applicable Energy Efficiency measures shall be excluded from the total amount of Capacity Supply Obligations.~~

(d) The following provisions shall be used to determine the applicable Capacity Balancing Ratio where more than one of the conditions described in subsections (a), (b), and (c) apply in a Capacity Zone.

(i) In any Capacity Zone subject to Reserve Constraint Penalty Factor pricing associated with both the Minimum Total Reserve Requirement and the Ten-Minute Reserve Requirement, but not the Zonal Reserve Requirement, the Capacity Balancing Ratio shall be calculated as described in Section III.13.7.2.3(a) for resources in that Capacity Zone.

(ii) In any Capacity Zone subject to Reserve Constraint Penalty Factor pricing associated with both the Ten-Minute Reserve Requirement and the Zonal Reserve Requirement, but not the Minimum Total Reserve Requirement, the Capacity Balancing Ratio for resources in that Capacity Zone shall be the higher of the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(b) and the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(c).

(iii) In any Capacity Zone subject to Reserve Constraint Penalty Factor pricing associated with the Minimum Total Reserve Requirement and the Zonal Reserve Requirement (regardless of whether the Capacity Zone is also subject to Reserve Constraint Penalty Factor pricing associated with the Ten-Minute Reserve Requirement), the Capacity Balancing Ratio for resources in that Capacity Zone shall be the higher of the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(a) and the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(c).

III.13.7.2.4 Capacity Performance Score.

Each resource, whether or not it has a Capacity Supply Obligation, will be assigned a Capacity Performance Score for each five-minute interval in which a Capacity Scarcity Condition exists in the Capacity Zone in which the resource is located. A resource's Capacity Performance Score for the interval shall equal the resource's Actual Capacity Provided during the interval (with the Actual Capacity Provided of Energy Efficiency measures being zero, as specified in Section III.13.7.2.2(c)(i)) minus the product of the resource's Capacity Supply Obligation (which for this purpose shall not be less than zero)

and the applicable Capacity Balancing Ratio; provided, however, that for an On-Peak Demand Resource or a Seasonal Peak Demand Resource, ~~if the Capacity Scarcity Condition occurs in an interval outside of Demand Resource On-Peak Hours or Demand Resource Seasonal Peak Hours, as applicable, then the Actual Capacity Provided and~~ Capacity Supply Obligation associated with any applicable Energy Efficiency measures shall be excluded from the calculation of the resource's Capacity Performance Score. The resulting Capacity Performance Score may be positive, zero, or negative.

III.13.7.2.5 Capacity Performance Payment Rate.

For the three Capacity Commitment Periods beginning June 1, 2018 and ending May 31, 2021, the Capacity Performance Payment Rate shall be \$2000/MWh. For the three Capacity Commitment Periods beginning June 1, 2021 and ending May 31, 2024, the Capacity Performance Payment Rate shall be \$3500/MWh. For the Capacity Commitment Period beginning on June 1, 2024 and ending on May 31, 2025, the Capacity Performance Payment Rate shall be \$5455/MWh. For the Capacity Commitment Period beginning on June 1, 2025 and ending on May 31, 2026 and thereafter, the Capacity Performance Payment Rate shall be \$8782/MWh. The ISO shall review the Capacity Performance Payment Rate in the stakeholder process as needed and shall file with the Commission a new Capacity Performance Payment Rate if and as appropriate.

III.13.7.2.6 Calculation of Capacity Performance Payments.

For each resource, whether or not it has a Capacity Supply Obligation, the ISO shall calculate a Capacity Performance Payment for each five-minute interval in which a Capacity Scarcity Condition exists in the Capacity Zone in which the resource is located. A resource's Capacity Performance Payment for an interval shall equal the resource's Capacity Performance Score for the interval multiplied by the Capacity Performance Payment Rate. The resulting Capacity Performance Payment for an interval may be positive or negative.

III.13.7.3 Monthly Capacity Payment and Capacity Stop-Loss Mechanism.

Each resource's Monthly Capacity Payment for an Obligation Month, which may be positive or negative, shall be the sum of the resource's Capacity Base Payment for the Obligation Month plus the sum of the resource's Capacity Performance Payments for all five-minute intervals in the Obligation Month, except as provided in Section III.13.7.3.1 and Section III.13.7.3.2 below.

III.13.7.3.1 Monthly Stop-Loss.

If the sum of the resource's Capacity Performance Payments (excluding any Capacity Performance Payments associated with Actual Capacity Provided above the resource's Capacity Supply Obligation in any interval) for all five-minute intervals in the Obligation Month is negative, the amount subtracted from the resource's Capacity Base Payment for the Obligation Month will be limited to an amount equal to the product of the applicable Forward Capacity Auction Starting Price multiplied by the resource's Capacity Supply Obligation for the Obligation Month (or, 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, the amount subtracted from the resource's Capacity Base Payment for the Obligation Month will be limited to an amount equal to the product of the applicable Capacity Clearing Price (indexed for inflation) multiplied by the resource's Capacity Supply Obligation for the Obligation Month).

III.13.7.3.2 Annual Stop-Loss.

(a) For each Obligation Month, the ISO shall calculate a stop-loss amount equal to:

$$\text{MaxCSO} \times [3 \text{ months} \times (\text{FCACP} - \text{FCASP}) - (12 \text{ months} \times \text{FCACP})]$$

Where:

MaxCSO = the resource's highest monthly Capacity Supply Obligation in the Capacity Commitment Period to date.

FCACP = the Capacity Clearing Price for the relevant Forward Capacity Auction.

FCASP = the Forward Capacity Auction Starting Price for the relevant Forward Capacity Auction.

(b) For each Obligation Month, the ISO shall calculate each resource's cumulative Capacity Performance Payments as the sum of the resource's Capacity Performance Payments for all months in the Capacity Commitment Period to date, with those monthly amounts limited as described in Section III.13.7.3.1.

(c) If the sum of the resource's Capacity Performance Payments (excluding any Capacity Performance Payments associated with Actual Capacity Provided above the resource's Capacity Supply

Obligation in any interval) for all five-minute intervals in the Obligation Month is negative, the amount subtracted from the resource's Capacity Base Payment for the Obligation Month will be limited to an amount equal to the difference between the stop-loss amount calculated as described in Section III.13.7.3.2(a) and the resource's cumulative Capacity Performance Payments as described in Section III.13.7.3.2(b).

III.13.7.4 Allocation of Deficient or Excess Capacity Performance Payments.

For each type of Capacity Scarcity Condition as described in Section III.13.7.2.1 and for each Capacity Zone, the ISO shall allocate deficient or excess Capacity Performance Payments as described in subsections (a) and (b) below. Where more than one type of Capacity Scarcity Condition applies, then the provisions below shall be applied in proportion to the duration of each type of Capacity Scarcity Condition.

(a) If the sum of all Capacity Performance Payments to all resources subject to the Capacity Scarcity Condition in the Capacity Zone in an Obligation Month is positive, the deficiency will be charged to resources in proportion to each such resource's Capacity Supply Obligation for the Obligation Month, excluding any resources subject to the stop-loss mechanism described in Section III.13.7.3 for the Obligation Month and excluding any resource, or portion thereof, consisting of Energy Efficiency measures. If the charge described in this Section III.13.7.4(a) causes a resource to reach the stop-loss limit described in Section III.13.7.3, then the stop-loss cap described in Section III.13.7.3 will be applied to that resource, and the remaining deficiency will be further allocated to other resources in the same manner as described in this Section III.13.7.4(a).

(b) If the sum of all Capacity Performance Payments to all resources subject to the Capacity Scarcity Condition in the Capacity Zone in an Obligation Month is negative, the excess will be credited to all such resources (excluding any resource, or portion thereof, consisting of Energy Efficiency measures) in proportion to each resource's Capacity Supply Obligation for the Obligation Month. For a resource subject to the stop-loss mechanism described in Section III.13.7.3 for the Obligation Month, any such credit shall be reduced (though not to less than zero) by the amount not charged to the resource as a result of the application of the stop-loss mechanism described in Section III.13.7.3, and the remaining excess will be further allocated to other resources in the same manner as described in this Section III.13.7.4(b)

III.13.7.5. Charges to Market Participants with Capacity Load Obligations.

III.13.7.5.1. Calculation of Capacity Charges Prior to June 1, 2022.

The provisions in this subsection apply to charges associated with Capacity Commitment Periods beginning prior to June 1, 2022. A load serving entity with a Capacity Load Obligation as of the end of the Obligation Month shall be subject to a charge equal to the product of: (a) its Capacity Load Obligation in the Capacity Zone; and (b) the applicable Net Regional Clearing Price. The Net Regional Clearing Price is defined as the sum of the total payments as defined in Section III.13.7 paid to resources with Capacity Supply Obligations in the Capacity Zone (excluding any capacity payments and charges made for Capacity Supply Obligation Bilaterals and excluding any Capacity Performance Payments), less PER adjustments for resources in the zone as defined in Section III.13.7.1.2, and including any applicable export charges or credits as determined pursuant to Section III.13.7.1.3 divided by the sum of all Capacity Supply Obligations (excluding (i) the quantity of capacity subject to Capacity Supply Obligation Bilaterals and (ii) the quantity of capacity clearing as Self-Supplied FCA Resources) assumed by resources in the zone. A load serving entity satisfying its Capacity Load Obligation by a Self-Supplied FCA Resource shall not receive a credit for any PER payment for its Capacity Load Obligation so satisfied. A load serving entity with a Capacity Load Obligation as of the end of the Obligation Month may also receive a failure to cover credit equal to the product of: (a) its Capacity Load Obligation in the Capacity Zone, and; (b) the sum of all failure to cover charges in the Capacity Zone calculated pursuant to Section III.13.3.4(b), divided by total Capacity Load Obligation in the Capacity Zone.

III.13.7.5.1.1. Calculation of Capacity Charges On and After June 1, 2022.

The provisions in this subsection apply to charges associated with Capacity Commitment Periods beginning on or after June 1, 2022. For purposes of this Section III.13.7.5.1.1, Capacity Zone costs calculated for a Capacity Zone that contains a nested Capacity Zone shall exclude the Capacity Zone costs of the nested Capacity Zone. A Market Participant with a Capacity Load Obligation as of the end of the Obligation Month shall be subject to the following charges and adjustments:

III.13.7.5.1.1.1 Forward Capacity Auction Charge.

The FCA charge, for each Capacity Zone, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Capacity Zone FCA Costs divided by Zonal Capacity Obligation.

Where

Capacity Zone FCA Costs, for each Capacity Zone, are the Total FCA Costs multiplied by the Zonal Peak Load Allocator and divided by the Total Peak Load Allocator.

Total FCA Costs are the sum of, for all Capacity Zones, (i) Capacity Supply Obligations in each zone (the total obligation awarded to or shed by resources in the Forward Capacity Auction process for the Obligation Month in the zone, excluding any obligations awarded to Intermittent Power Resources that are the basis for the Intermittent Power Resource Capacity Adjustment specified in Section III.13.7.5.1.1.6 and excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A) multiplied by the applicable clearing price from the auction in which the obligation was awarded to (or shed by) the resource, and (ii) the difference between the bid price and the substitution auction clearing price that was not included in the capacity charge pursuant to the second sentence of Section III.13.7.1.1(d). Capacity Supply Obligations awarded to Proxy De-List Bids in the primary auction, or shed by demand bids entered into the substitution auction on behalf of a Proxy De-List Bid, are excluded from Total FCA Costs.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal Capacity Clearing Price.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

III.13.7.5.1.1.2 Annual Reconfiguration Auction Charge.

The total annual reconfiguration auction charge, for each Capacity Zone and each associated annual reconfiguration auction, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Capacity Zone Annual Reconfiguration Auction Costs divided by Zonal Capacity Obligation.

Where

Capacity Zone Annual Reconfiguration Auction Costs, for each Capacity Zone, are the Total Annual Reconfiguration Costs multiplied by the Zonal Peak Load Allocator and divided by the Total Peak Load Allocator.

Total Annual Reconfiguration Auction Costs are the sum, for all Capacity Zones and each associated annual reconfiguration auction, of the product of the Capacity Supply Obligations acquired through the annual reconfiguration auction in each zone (adjusted for any obligations procured in the annual reconfiguration auction that are subsequently terminated pursuant to Section III.13.3.4A) and the zonal annual reconfiguration auction clearing price, minus the sum, for all Capacity Zones, of the product of the amount of any Capacity Supply Obligation shed

through the annual reconfiguration auction in each zone and the applicable annual reconfiguration auction clearing price.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal annual reconfiguration auction clearing price.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

III.13.7.5.1.1.3. Monthly Reconfiguration Auction Charge.

The monthly reconfiguration auction charge is: (a) total Capacity Load Obligation for all Capacity Zones; multiplied by (b) Total Monthly Reconfiguration Auction Costs divided by Total Zonal Capacity Obligation.

Where

Total Monthly Reconfiguration Auction Costs are the sum of, for all Capacity Zones, the product of Capacity Supply Obligations acquired through the monthly reconfiguration auction in each zone and the applicable monthly reconfiguration auction clearing price, minus the sum of, for all Capacity Zones, any Capacity Supply Obligations shed through the monthly reconfiguration auction in each zone and the applicable monthly reconfiguration auction clearing price.

Total Zonal Capacity Obligation is the total of the Zonal Capacity Obligation in all Capacity Zones.

III.13.7.5.1.1.4. HQICC Capacity Charge.

The HQICC capacity charge is: (a) total Capacity Load Obligation for all Capacity Zones; multiplied by (b) Total HQICC Credits divided by Total Capacity Load Obligation.

Where

Total HQICC credits are the product of HQICCs multiplied by the sum of the values calculated in Sections III.13.7.5.1.1.1(b), III.13.7.5.1.1.2(b), III.13.7.5.1.1.3(b), III.13.7.5.1.1.6(b), III.13.7.5.1.1.7(b), III.13.7.5.1.1.8(b), and III.13.7.5.1.1.9(b) in the Capacity Zone in which the HQ Phase I/II external node is located.

Total Capacity Load Obligation is the total Capacity Load Obligation in all Capacity Zones.

III.13.7.5.1.1.5. Self-Supply Adjustment.

The self-supply adjustment is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) the Self-Supply Variance divided by Total Capacity Load Obligation.

Where

Self-Supply Variance is the difference between foregone capacity payments and avoided capacity charges associated with designated self-supply quantities.

Foregone capacity payments to Self-Supplied FCA Resources are the sum, for all Capacity Zones, of the product of the zonal Capacity Supply Obligation (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A) designated as self-supply, multiplied by the applicable clearing price from the auction in which the obligation was awarded.

Avoided capacity charges are the sum, for all Capacity Zones, of the product of any designated self-supply quantities multiplied by the sum of the values calculated in Sections III.13.7.5.1.1.1(b), III.13.7.5.1.1.2(b), III.13.7.5.1.1.3(b), III.13.7.5.1.1.6(b), III.13.7.5.1.1.7(b), III.13.7.5.1.1.8(b), and III.13.7.5.1.1.9(b) in the Capacity Zone associated with the designated self-supply quantity.

Total Capacity Load Obligation is the total Capacity Load Obligation in all Capacity Zones.

III.13.7.5.1.1.6. Intermittent Power Resource Capacity Adjustment.

The Intermittent Power Resource capacity adjustment in a winter season for the Obligation Months from October through May is: (a) total Capacity Load Obligation for all Capacity Zones; multiplied by (b) the Intermittent Power Resource Seasonal Variance divided by Total Zonal Capacity Obligation.

Where

Intermittent Power Resource Seasonal Variance is the difference between the FCA payments for Intermittent Power Resource in the Obligation Month and the base FCA payments for Intermittent Power Resources.

FCA payments to Intermittent Power Resources are the sum, for all Capacity Zones, of the product of the Capacity Supply Obligations awarded to or shed by Intermittent Power Resources in the Forward Capacity Auction process for the Obligation Month pursuant to Section III.13.2.7.6 or Section III.13.2.8.1.1 (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the applicable clearing price from the auction in which the obligation was awarded.

Base FCA payments for Intermittent Power Resources are the sum, for all Capacity Zones, of the product of the FCA Qualified Capacity procured from or shed by Intermittent Power Resources in the Forward Capacity Auction process (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the applicable clearing price from the auction in which the obligation was awarded.

Total Zonal Capacity Obligation is the total Capacity Load Obligation in all Capacity Zones.

III.13.7.5.1.1.7. Multi-Year Rate Election Adjustment.

For multi-year rate elections made in the primary Forward Capacity Auction for Capacity Commitment Periods beginning on or after June 1, 2022, the multi-year rate election adjustment, for each Capacity Zone, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Zonal Multi-Year Rate Election Costs divided by Zonal Capacity Obligation.

Where

Zonal Multi-Year Rate Election Costs is the sum, for each resource with a multi-year rate election in the Obligation Month, of the amount of Capacity Supply Obligation designated to receive the multi-year rate (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the difference in the applicable zonal Capacity Clearing Price for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) and the applicable zonal Capacity Clearing Price for the current Capacity Commitment Period, multiplied by the Zonal Peak Load Allocator for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation and divided by the Total Peak Load Allocator for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal Capacity Clearing Price.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

For multi-year rate elections made in the primary Forward Capacity Auction for Capacity Commitment Periods beginning prior to June 1, 2022, the multi-year rate election adjustment, for each Capacity Zone, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Zonal Multi-Year Rate Election Costs divided by Zonal Capacity Obligation.

Where

Zonal Multi-Year Rate Election Costs is the sum in each Capacity Zone, for each resource with a multi-year rate election in the Obligation Month, of the amount of Capacity Supply Obligation designated to receive the multi-year rate (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the difference in the applicable zonal Capacity Clearing Price for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) and the applicable zonal Capacity Clearing Price for the current Capacity Commitment Period.

III.13.7.5.1.1.8 CTR Transmission Upgrade Charge.

The CTR transmission upgrade charge is: (a) the Capacity Load Obligation in the Capacity Zones to which the applicable interface limits the transfer of capacity, multiplied by (b) Zonal CTR Transmission Upgrade Cost divided by Zonal Capacity Obligation.

Where

Zonal CTR Transmission Upgrade Cost for each Capacity Zone to which the interface limits the transfer of capacity is the amount calculated pursuant to Section III.13.7.5.4.4 (f), multiplied by the Zonal Capacity Obligation and divided by the sum of the Zonal Capacity Obligation for all Capacity Zones to which the interface limits the transfer of capacity.

III.13.7.5.1.1.9 CTR Pool-Planned Unit Charge.

The CTR Pool-Planned Unit charge is: (a) the Capacity Load Obligation in the Capacity Zone less the amount of any CTRs specifically allocated pursuant to Section III.13.7.5.4.5, multiplied by (b) CTR Pool-Planned Unit Cost divided by Total Zonal Capacity Obligation less the amount of any CTRs specifically allocated pursuant to Section III.13.7.5.4.5.

Where

The CTR Pool-Planned Unit Cost for each Capacity Zone is the sum of the amounts calculated pursuant to Section III.13.7.5.4.5 (b).

Total Zonal Capacity Obligation is the total of the Zonal Capacity Obligation in all Capacity Zones.

III.13.7.5.1.1.10. Failure to Cover Charge Adjustment.

The failure to cover charge adjustment, for each Capacity Zone, is (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Zonal Failure to Cover Charges divided by Zonal Capacity Obligation.

Where:

Zonal Failure to Cover Charges are the product of: (1) the sum, for all Capacity Zones, of the failure to cover charges calculated pursuant to Section III.13.3.4(b), and; (2) the Zonal Peak Load Allocator and divided by the Total Peak Load Allocator.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal annual reconfiguration auction clearing price as determined pursuant to Section III.13.3.4.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

III.13.7.5.2. Calculation of Capacity Load Obligation and Zonal Capacity Obligation.

The ISO shall assign each Market Participant a share of the Zonal Capacity Obligation prior to the commencement of each Obligation Month for each Capacity Zone established in the Forward Capacity Auction pursuant to Section III.13.2.3.4. The Zonal Capacity Obligation of a Capacity Zone that contains a nested Capacity Zone shall exclude the Zonal Capacity Obligation of the nested Capacity Zone.

Zonal Capacity Obligation for each month and Capacity Zone shall equal the product of: (i) the total of the system-wide Capacity Supply Obligations (excluding the quantity of capacity subject to Capacity

Supply Obligation Bilaterals for Capacity Commitment Periods beginning prior to June 1, 2022 and excluding any additional obligations awarded to Intermittent Power Resources pursuant to Section III.13.2.7.6 that exceed the FCA Qualified Capacity procured in the Forward Capacity Auction for Capacity Commitment Periods beginning on or after June 1, 2022) plus HQICCs; and (ii) the ratio of the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year two years prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning prior to June 1, 2022) and from the calendar year one year prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning on or after June 1, 2022) to the system-wide sum of all load serving entities' annual coincident contributions to the system-wide annual peak load from the calendar year two years prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning prior to June 1, 2022) and from the calendar year one year prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning on or after June 1, 2022).

The following loads are assigned a peak contribution of zero for the purposes of assigning obligations and tracking load shifts: load associated with the receipt of electricity from the grid by Storage DARDs for later injection of electricity back to the grid; Station service load that is modeled as a discrete Load Asset and the Resource is complying with the maintenance scheduling procedures of the ISO; load that is modeled as a discrete Load Asset and is exclusively related to an Alternative Technology Regulation Resource following AGC Dispatch Instructions; and transmission losses associated with delivery of energy over the Control Area tie lines.

A Market Participant's share of Zonal Capacity Obligation for each month and Capacity Zone shall equal the product of: (i) the Capacity Zone's Zonal Capacity Obligation as calculated above and (ii) the ratio of the sum of the load serving entity's annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capacity Commitment Period to the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capacity Commitment Period.

A Market Participant's Capacity Load Obligation shall be its share of Zonal Capacity Obligation for each month and Capacity Zone, adjusted as appropriate to account for any relevant Capacity Load Obligation Bilaterals, HQICCs, and Self-Supplied FCA Resource designations. A Capacity Load Obligation can be a positive or negative value.

A Market Participant's share of Zonal Capacity Obligation will not be reconstituted to include the demand reduction of a Demand Capacity Resource or Demand Response Resource.

III.13.7.5.2.1. Charges Associated with Dispatchable Asset Related Demands.

Dispatchable Asset Related Demand resources will not receive Forward Capacity Market payments, but instead each Dispatchable Asset Related Demand resource will receive an adjustment to its share of the associated Coincident Peak Contribution based on the ability of the Dispatchable Asset Related Demand resource to reduce consumption. The adjustment to a load serving entity's Coincident Peak Contribution resulting from Dispatchable Asset Related Demand resource reduction in consumption shall be based on the Nominated Consumption Limit submitted for the Dispatchable Asset Related Demand resource.

The Nominated Consumption Limit value of each Dispatchable Asset Related Demand resource is subject to adjustment as further described in the ISO New England Manuals, including adjustments based on the results of Nominated Consumption Limit audits performed in accordance with the ISO New England Manuals.

III.13.7.5.3. Excess Revenues.

(a) For Capacity Commitment Periods beginning prior to June 1, 2022, revenues collected from load serving entities in excess of revenues paid by the ISO to resources shall be paid by the ISO to the holders of Capacity Transfer Rights, as detailed in Section III.13.7.5.3.

(b) Any payment associated with a Capacity Supply Obligation Bilateral that was to accrue to a Capacity Acquiring Resource for a Capacity Supply Obligation that is terminated pursuant to Section III.13.3.4A shall instead be allocated to Market Participants based on their pro rata share of all Capacity Load Obligations in the Capacity Zone in which the terminated resource is located.

III.13.7.5.4. Capacity Transfer Rights.

III.13.7.5.4.1. Definition and Payments to Holders of Capacity Transfer Rights.

This subsection applies to Capacity Commitment Periods beginning prior to June 1, 2022.

Capacity Transfer Rights are calculated for each internal interface associated with a Capacity Zone established in the Forward Capacity Auction (as determined pursuant to Section III.13.2.3.4). Based upon results of the Forward Capacity Auction and reconfiguration auctions, the total CTR fund will be calculated as the difference between the charges to load serving entities with Capacity Load Obligations

and the payments to Capacity Resources as follows: The system-wide sum of the product of each Capacity Zone's Net Regional Clearing Price and absolute value of each Capacity Zone's Capacity Load Obligations, as calculated in Section III.13.7.5.1, minus the sum of the monthly capacity payments to Capacity Resources within each zone, as adjusted for PER.

Each Capacity Zone established in the Forward Capacity Auction (as determined pursuant to Section III.13.2.3.4) will be assigned its portion of the CTR fund.

For CTRs resulting from an export constrained zone, the assignment will be calculated as the product of: (i) the Net Regional Clearing Price for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Net Regional Clearing Price for the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the difference between the absolute value of the total Capacity Supply Obligations obtained in the exporting Capacity Zone, adjusted for Capacity Supply Obligations associated with Self-Supplied FCA Resources, and the absolute value of the total Capacity Load Obligations in the exporting Capacity Zone.

For CTRs resulting from an import constrained zone, the assignment will be calculated as the product of: (i) the Net Regional Clearing Price for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Net Regional Clearing Price for the absolute value of the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the difference between absolute value of the total Capacity Load Obligations in the importing Capacity Zone and the total Capacity Supply Obligations obtained in the importing Capacity Zone, adjusted for Capacity Supply Obligations associated with Self-Supplied FCA Resources.

III.13.7.5.4.2. Allocation of Capacity Transfer Rights.

This subsection applies to Capacity Commitment Periods beginning prior to June 1, 2022.

For Capacity Zones established in the Forward Capacity Auction as determined pursuant to Section III.13.2.3.4, the CTR fund shall be allocated among load serving entities using their Capacity Load Obligation (net of HQICCs) described in Section III.13.7.5.1. Market Participants with CTRs specifically allocated under Section III.13.7.5.3.6 will have their specifically allocated CTR MWs netted from their Capacity Load Obligation used to establish their share of the CTR fund.

(a) **Connecticut Import Interface.** The allocation of the CTR fund associated with the Connecticut Import Interface shall be made to load serving entities based on their Capacity Load Obligation in the Connecticut Capacity Zone.

(b) **NEMA/Boston Import Interface.** Except as provided in Section III.13.7.5.3.6 of Market Rule 1, the allocation of the CTR fund associated with the NEMA/Boston Import Interface shall be made to load serving entities based on their Capacity Load Obligation in the NEMA/Boston Capacity Zone.

III.13.7.5.4.3. Allocations of CTRs Resulting From Revised Capacity Zones.

This subsection applies to Capacity Commitment Periods beginning prior to June 1, 2022.

The portion of the CTR fund associated with revised definitions of Capacity Zones shall be fully allocated to load serving entities after deducting the value of applicable CTRs that have been specifically allocated. Allocations of the CTR fund among load serving entities will be made using their Capacity Load Obligations (net of HQICCs) as described in Section III.13.7.5.3.1. Market Participants with CTRs specifically allocated under Section III.13.7.5.3.6 will have their specifically allocated CTR MWs netted from the Capacity Load Obligation used to establish their share of the CTR fund.

(a) **Import Constraints.** The allocation of the CTR fund associated with newly defined import-constrained Capacity Zones restricting the transfer of capacity into a single adjacent import-constrained Capacity Zone shall be allocated to load serving entities with Capacity Load Obligations in that import-constrained Capacity Zone.

(b) **Export Constraints.** The allocation of the CTR fund associated with newly defined export-constrained Capacity Zones shall be allocated to load serving entities with Capacity Load Obligations on the import-constrained side of the interface.

III.13.7.5.4.4. Specifically Allocated CTRs Associated with Transmission Upgrades.

(a) A Market Participant that pays for transmission upgrades not funded through the Pool PTF Rate and which increase transfer capability across existing or potential Capacity Zone interfaces may request a specifically allocated CTR in an amount equal to the number of CTRs supported by that increase in transfer capability.

- (b) The allocation of additional CTRs created through generator interconnections completed after February 1, 2009 shall be made in accordance with the provisions of the ISO generator interconnection or planning standards. In the event the ISO interconnection or planning standards do not address this issue, the CTRs created shall be allocated in the same manner as described in Section III.13.7.5.4.2.
- (c) Specifically allocated CTRs shall expire when the Market Participant ceases to pay to support the transmission upgrades.
- (d) CTRs resulting from transmission upgrades funded through the Pool PTF Rate shall not be specifically allocated but shall be allocated in the same manner as described in Section III.13.7.5.4.2.
- (e) **Maine Export Interface.** Casco Bay shall receive specifically allocated CTRs of 325 MW across the Maine export interface for as long as Casco Bay continues to pay to support the transmission upgrades.
- (f) The value of CTRs specifically allocated pursuant to this Section shall be calculated as the product of: (i) the Capacity Clearing Price to which the applicable interface limits the transfer of capacity minus the Capacity Clearing Price from which the applicable interface limits the transfer of capacity; and (ii) the MW quantity of the specifically allocated CTRs across the applicable interface.

III.13.7.5.4.5. Specifically Allocated CTRs for Pool-Planned Units.

- (a) In import-constrained Capacity Zones, in recognition of longstanding life of unit contracts, the municipal utility entitlement holder of a resource constructed as Pool-Planned Units shall receive an initial allocation of CTRs equal to the most recent seasonal claimed capability of the ownership entitlements in such unit, adjusted for any designated self-supply quantities as described in Section III.13.1.6.2. Municipal utility entitlements are set as shown in the table below and are not transferrable.

Millstone 3		Seabrook	Stonybrook GT 1A	Stonybrook GT 1B	Stonybrook GT 1C	Stonybrook 2A	Stonybrook 2B	Wyman 4	Summer	Winter
									(MW)	(MW)
Nominal Summer (MW)	1155.001	1244.275	104.000	100.000	104.000	67.400	65.300	586.725		
Nominal Winter (MW)	1155.481	1244.275	119.000	116.000	119.000	87.400	85.300	608.575		
Danvers	0.2627%	1.1124%	8.4569%	8.4569%	8.4569%	11.5551%	11.5551%	0.0000%	58.26	63.73
Georgetown	0.0208%	0.0956%	0.7356%	0.7356%	0.7356%	1.0144%	1.0144%	0.0000%	5.04	5.55
Ipswich	0.0608%	0.1066%	0.2934%	0.2934%	0.2934%	0.0000%	0.0000%	0.0000%	2.93	2.37
Marblehead	0.1544%	0.1351%	2.6840%	2.6840%	2.6840%	1.5980%	1.5980%	0.2793%	15.49	15.64
Middleton	0.0440%	0.3282%	0.8776%	0.8776%	0.8776%	1.8916%	1.8916%	0.1012%	10.40	11.07
Peabody	0.2969%	1.1300%	13.0520%	13.0520%	13.0520%	0.0000%	0.0000%	0.0000%	57.69	60.26
Reading	0.4041%	0.6351%	14.4530%	14.4530%	14.4530%	19.5163%	19.5163%	0.0000%	82.98	92.77
Wakefield	0.2055%	0.3870%	3.9929%	3.9929%	3.9929%	6.3791%	6.3791%	0.4398%	30.53	32.64
Ashburnham	0.0307%	0.0652%	0.6922%	0.6922%	0.6922%	0.9285%	0.9285%	0.0000%	4.53	5.22
Boylston	0.0264%	0.0849%	0.5933%	0.5933%	0.5933%	0.9120%	0.9120%	0.0522%	4.71	5.35
Braintree	0.0000%	0.6134%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	7.63	7.63
Groton	0.0254%	0.1288%	0.8034%	0.8034%	0.8034%	1.0832%	1.0832%	0.0000%	5.81	6.61
Hingham	0.1007%	0.4740%	3.9815%	3.9815%	3.9815%	5.3307%	5.3307%	0.0000%	26.40	30.36
Holden	0.0726%	0.3971%	2.2670%	2.2670%	2.2670%	3.1984%	3.1984%	0.0000%	17.01	19.33
Holyoke	0.3194%	0.3096%	0.0000%	0.0000%	0.0000%	2.8342%	2.8342%	0.6882%	15.34	16.63

Hudson	0.1056%	1.6745%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.3395%	24.05	24.12
Hull	0.0380%	0.1650%	1.4848%	1.4848%	1.4848%	2.1793%	2.1793%	0.1262%	10.70	12.28
Littleton	0.0536%	0.1093%	1.5115%	1.5115%	1.5115%	3.0607%	3.0607%	0.1666%	11.67	13.63
Mansfield	0.1581%	0.7902%	5.0951%	5.0951%	5.0951%	7.2217%	7.2217%	0.0000%	36.93	42.17
Middleborough	0.1128%	0.5034%	2.0657%	2.0657%	2.0657%	4.9518%	4.9518%	0.1667%	21.48	24.45
North Attleborough	0.1744%	0.3781%	3.2277%	3.2277%	3.2277%	5.9838%	5.9838%	0.1666%	25.58	29.49
Pascoag	0.0000%	0.1068%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	1.33	1.33
Paxton	0.0326%	0.0808%	0.6860%	0.6860%	0.6860%	0.9979%	0.9979%	0.0000%	4.82	5.53
Shrewsbury	0.2323%	0.5756%	3.9105%	3.9105%	3.9105%	0.0000%	0.0000%	0.4168%	24.33	26.23
South Hadley	0.5755%	0.3412%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	10.89	10.90
Sterling	0.0294%	0.2044%	0.7336%	0.7336%	0.7336%	1.1014%	1.1014%	0.0000%	6.60	7.38
Taunton	0.0000%	0.1003%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	1.25	1.25
Templeton	0.0700%	0.1926%	1.3941%	1.3941%	1.3941%	2.3894%	2.3894%	0.0000%	10.67	12.27
Vermont Public Power Supply Authority	0.0000%	0.0000%	2.2008%	2.2008%	2.2008%	0.0000%	0.0000%	0.0330%	6.97	7.99
West Boylston	0.0792%	0.1814%	1.2829%	1.2829%	1.2829%	2.3041%	2.3041%	0.0000%	10.18	11.69
Westfield	1.1131%	0.3645%	9.0452%	9.0452%	9.0452%	13.5684%	13.5684%	0.7257%	67.51	77.27

This allocation of CTRs shall expire on December 31, 2040. If a resource listed in the table above retires prior to December 31, 2040, however, its allocation of CTRs shall expire upon retirement. In the event that the NEMA zone either becomes or is forecast to become a separate zone for Forward Capacity Auction purposes, National Grid agrees to discuss with Massachusetts Municipal Wholesale Electric Company (“MMWEC”) and Wellesley Municipal Light Plant, Reading Municipal Light Plant and Concord Municipal Light Plant (“WRC”) any proposal by National Grid to develop cost effective transmission improvements that would mitigate or alleviate the import constraints and to work cooperatively and in good faith with MMWEC and WRC regarding any such proposal. MMWEC and WRC agree to support any proposals advanced by National Grid in the regional system planning process to construct any such transmission improvements, provided that MMWEC and WRC determine that the proposed improvements are cost effective (without regard to CTRs) and will mitigate or alleviate the import constraints.

(b) The value of CTRs specifically allocated pursuant to this Section shall be calculated as the product of: (i) the Capacity Clearing Price for the Capacity Zone where the load of the municipal utility entitlement holder is located minus the Capacity Clearing Price for the Capacity Zone in which the Pool-Planned Unit is located, and; (ii) the MW quantity of the specifically allocated CTRs.

III.13.7.5.5. Forward Capacity Market Net Charge Amount.

The Forward Capacity Market net charge amount for each Market Participant as of the end of the Obligation Month shall be equal to the sum of: (a) its Capacity Load Obligation charges; (b) its revenues from any applicable specifically allocated CTRs; (c) its share of the CTR fund (for Capacity Commitment Periods beginning prior to June 1, 2022); and (d) any applicable export charges.

EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

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EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

Overview

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

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

I. GROUPS REGARDED AS SINGLE MARKET PARTICIPANTS

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

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

II. MARKET PARTICIPANTS' REVIEW AND CREDIT LIMITS

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

A. Minimum Criteria for Market Participation

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

1. Information Disclosure

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

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

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

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

2. Risk Management

- (a) Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has: (i) either established or contracted for risk management procedures that are applicable to participation in the New England Markets; and (ii) has established or contracted for appropriate training of relevant personnel that is applicable to its participation in the New England Markets. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant 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, including, if requested by the ISO in its sole discretion, supporting documentation (which may include an organizational chart (or portion thereof) or equivalent information) that demonstrates the segregation of duties within such risk policies, procedures, and controls of the such customer or applicant, applicable to its participation in the FTR market relied upon by the Senior Officer of the applicant signing the certificate provided pursuant to Section II.A.2 (a). On an annual basis (by April 30 each year), each Designated FTR Participant with FTR transactions in any of the previous twelve months or in any currently open month

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

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

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

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

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

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

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

3. Communications

Each customer and applicant shall submit, on an annual basis (by April 30 each year), a certificate in the form of Attachment 3 to the ISO New England Financial Assurance Policy stating that the customer or applicant has either established or contracted to establish procedures to effectively communicate with and respond to the ISO with respect to matters relating to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy. Such procedures must ensure, at a minimum, that at least one person with the ability and authority to address matters related to the ISO New England Financial Assurance Policy and the ISO New England Billing Policy on behalf of the customer or applicant, including the ability and authority to respond to requests for information and to arrange for additional financial assurance as necessary, is available from 9:00 a.m. to 5:00 p.m. Eastern Time on Business Days. Such procedures must also ensure that the ISO is kept informed about the current contact information (including phone numbers and e-mail addresses) for the person or people described above. The certificate must be signed on behalf of the customer or applicant by a Senior Officer of the customer or applicant 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 or any future transactions for a duration of one month or less except when FTRs for a month are being auctioned for the final time. Such a customer or applicant may enter into future transaction of a duration of one month or less in the FTR system in the case of FTRs for a month being auctioned for the final time. Any customer or applicant that fails to meet these capitalization requirements shall provide additional financial assurance in one of the forms described in Section X of the ISO New England Financial Assurance Policy equal to 25 percent of the customer's or applicant's FTR Financial Assurance Requirements. Any additional financial assurance provided pursuant to this Section II.A.4(b) shall not be counted toward satisfaction of the total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy.

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

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

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

5. Additional Eligibility Requirements

All customers and applicants shall at all times be:

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

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

total financial assurance requirements as calculated pursuant to the ISO New England Financial Assurance Policy. The certificate must be signed on behalf of the customer by a Senior Officer of the customer 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.

6. Prior Uncured Defaults

In addition to, and not in limitation of Section IV of the ISO New England Financial Assurance Policy, an applicant who has a previous uncured payment default must cure such payment default by payment to the ISO of all outstanding and unpaid obligations, as well as meet all requirements for participation in the New England Markets contained in the ISO New England Financial Assurance Policy. For purposes of this Section II.A.6

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

B. Proof of Financial Viability for Applicants

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

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

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

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

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

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

C. Ongoing Review and Credit Ratings

1. Rated and Credit Qualifying Market Participants

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

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

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

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

2. Unrated Market Participants

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

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

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

3. Information Reporting Requirements for Market Participants

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

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

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

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

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

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

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

D. Market Credit Limits

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

1. Market Credit Limit for Non-Municipal Market Participants

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

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

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

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

Below BBB-

Below Baa3

0.00%

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

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

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

2. Market Credit Limit for Municipal Market Participants

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

E. Transmission Credit Limits

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

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

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

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

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

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

3. Transmission Credit Limit for Municipal Market Participants

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

F. Credit Limits for FTR-Only Customers

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

G. Total Credit Limit

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

III. MARKET PARTICIPANTS' REQUIREMENTS

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

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

A. Determination of Financial Assurance Obligations

For purposes of the ISO New England Financial Assurance Policy:

- (i) a Market Participant’s “Hourly Requirements” at any time will be the sum of (x) the Hourly Charges 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 2.50 (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 or participate in a substitution auction in the Forward Capacity Market, drawing down of financial assurance, rejection of Increment Offers and Decrement Bids, and rejection of bilateral transactions submitted to the ISO, shall not limit, in any way, the ISO's right to invoice or collect payment for any amounts owed (whether such amounts are due or becoming due) by such suspended Market Participant under the Tariff or the ISO's right to administratively submit a bid or offer of a Market Participant's Non-Commercial

Capacity in any Forward Capacity Auction or any reconfiguration auction or to make other adjustments under Market Rule 1.

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

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

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

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

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

If a Market Participant is suspended from the New England Markets in accordance with the provisions of the ISO New England Financial Assurance Policy or the ISO New England Billing Policy, then the provisions of this Section III.B shall control notwithstanding any other provision of the Tariff to the contrary. A suspended Market Participant shall have no ability so long as it is suspended (i) to be reflected in the ISO's settlement system, including any bilateral transactions, as either a purchaser or a seller of any products or services sold through the New England Markets (other than (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the Market Participants, (ii) to submit Demand Bids, Decrement Bids or Increment Offers in the New England Markets, (iii) to submit offers for Non-Commercial Capacity in any Forward Capacity Auction or reconfiguration auction or acquire Non-Commercial Capacity through a Capacity Supply Obligation Bilateral, or (iv) to submit supply offers or demand bids in any Forward Capacity Market substitution auction. Any transactions, including bilateral transactions with a suspended Market Participant (other than transactions for (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the other Market Participants and any Demand Bids, Decrement Bids, Increment Offers, and Export Transactions submitted by a suspended Market Participant shall be deemed to be terminated for purposes of the Day-Ahead Energy Market clearing and the ISO's settlement system. If a Market Participant has provided the financial assurance required for a Capacity Supply Obligation Bilateral or Annual Reconfiguration Transaction, then that Capacity Supply Obligation Bilateral or Annual Reconfiguration

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

b. Load Assets

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

c. FTRs

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

d. Virtual Transactions

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

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

e. Bilateral Transactions

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

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

4. Serial Notice and Suspension Penalties

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

C. Additional Financial Assurance Requirements for Certain Municipal Market Participants

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

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

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

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

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

2. NMPTC Transmission Credit Limit

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

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

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

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

3. NMPTC Total Credit Limit

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. Financial Assurance for ISO Charges

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

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

2. Financial Assurance for Transmission Charges

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

3. Notice of Failure to Satisfy NMPTC Financial Assurance Requirement

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

VI. ADDITIONAL PROVISIONS FOR FTR TRANSACTIONS

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

referred to in the ISO New England Financial Assurance Policy as the “FTR Financial Assurance Requirements”).

A. FTR Settlement Risk Financial Assurance

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

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

Once an FTR Auction’s results are final, a Designated FTR Participant must provide FTR Settlement Risk Financial Assurance based on awarded FTRs, equal to the MW value of each awarded FTR multiplied by the applicable proxy value for the FTR path (as described below) multiplied by the number of hours associated with the FTR. For purposes of this calculation, the ISO will net the MW values of a Designated FTR Participant’s awarded FTRs having the same or opposite path, same contract month, and same type (on-peak or off-peak). For purposes of this netting, annual FTRs may be converted into monthly positions.

The proxy value for each FTR path, which shall be calculated separately for on-peak and off-peak FTRs, will be based on the standard deviation observed in the difference between the average congestion components of the Locational Marginal Price in the Day-Ahead Energy Market at the path’s sink and source for the previous 36 months, with differing multipliers for annual and monthly FTRs and for prevailing flow and counter flow paths. These multipliers will be reviewed and approved by the NEPOOL Budget

and Finance Subcommittee and shall be posted on the ISO's website. Where there is insufficient data to perform these calculations for a node, zonal data will be used instead.

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

B. Unsettled FTR Financial Assurance

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

C. Settlement Financial Assurance

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

D. Consequences of Failure to Satisfy FTR Financial Assurance Requirements

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

VII. ADDITIONAL PROVISIONS FOR FORWARD CAPACITY MARKETS

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

A. FCM Delivery Financial Assurance

A Designated FCM Participant must include, for the Capacity Supply Obligation of each resource in its portfolio other than the Capacity Supply Obligation associated with any

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

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

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. If the calculated DFAMW is less than zero, then the DFAMW will be set equal to zero.

PE (potential exposure) is a monthly value calculated for the Designated FCM Participant's portfolio as the difference between the Capacity Supply Obligation weighted average Forward Capacity Auction Starting Price and the Capacity Supply Obligation weighted average capacity price for the portfolio, excluding the Capacity Supply Obligation of any resource that has reached the annual stop-loss as described in Section III.13.7.3.2 of Market Rule 1. The Forward Capacity Auction Starting Price shall correspond to that used in the Forward Capacity Auction corresponding to the instant 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 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 Net CONE associated with the Forward Capacity Auction in which the Capacity Supply Obligation was awarded (adjusted as described in Section III.13.2.4) times the Non-Commercial Capacity qualified for such Forward Capacity Auction and the FCM Deposit.

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

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

Where:

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

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

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

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

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

For Capacity Supply Obligations acquired in Forward Capacity Auctions up to and including the twelfth Forward Capacity Auction, NCC Trading FA = zero. For Capacity Supply Obligations acquired in the thirteenth Forward Capacity Auction and all Forward Capacity Auctions thereafter, NCC Trading FA shall be zero until the start of the applicable Capacity Commitment Period, at which time NCC Trading FA = the total amount of NCC that has been shed (whether before or after the start of the Capacity Commitment Period) in any reconfiguration auctions or Capacity Supply Obligation Bilaterals or that is subject to a failure to cover charge pursuant to Section III.13.3.4(b) (but this total amount shall not be greater than NCC) multiplied by the difference (but not less than zero) between: (i) the weighted average price at which the Capacity Supply Obligation was acquired in the Forward Capacity Auction (adjusted, where appropriate, in accordance with the Handy-Whitman Index of Public Utility Construction Costs); and (ii) the weighted average price or failure to cover charge rate at which the Capacity Supply Obligation was shed or assessed, as applicable (except that for monthly Capacity Supply Obligation Bilaterals, the applicable monthly reconfiguration auction clearing price will be used instead of the Capacity Supply Obligation Bilateral price).

c. Non-Commercial Capacity Deferral

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

3. Return of Non-Commercial Capacity Financial Assurance

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

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

4. Credit Test Percentage Consequences for Provisional Members

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

C. 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 FCM Charge Rate for Capacity Commitment Periods beginning prior to June 1, 2022 for a Capacity Zone will be calculated using the same methodology described in Section III.13.7.5 of Market Rule 1 for deriving the Net Regional Clearing Price, with the exception that the FCM Charge Rate will include the balance of the CTR fund after the value of specifically allocated CTRs has been paid, as described in Section III.13.7.5.3.1 of Market Rule 1. For purposes of this calculation, the FCM Charge Rate for Capacity Commitment Periods beginning on or after to June 1, 2022 for a Capacity Zone will be calculated as the sum of the charge and adjustment rates specified in Section III.13.7.5.1.1 of Market Rule 1.

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.

4. Substitution Auctions

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

- a. For any supply offer with at least one price-quantity pair priced less than zero must include in the calculation of its FCM Financial Assurance Requirements, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction, amounts calculated as described in

Section VII.F.1 above. For purposes of these calculations, the maximum charge that would result from clearing any price-quantity pairs priced less than zero for each month of the Capacity Commitment Period associated with the Forward Capacity Auction shall be included in the amount calculated as described in Section VII.F.1(b) above, the net FCM revenue for all other months in the defined periods shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations in the Forward Capacity Market, and any accrued Capacity Performance Payments on positions currently or previously held are excluded.

- b. A Designated FCM Participant (i) that submits a demand bid into a substitution auction for a resource that is subject to a multi-year rate pursuant to Section III.13.1.3.5.4 or Section III.13.1.1.2.2.4, (ii) for which the maximum charge that would result from clearing the capacity subject to the multi-year rate election would exceed the revenue the Designated FCM Participant will receive for the relevant Capacity Commitment Period under its multi-year rate election for the resource, (iii) must include in the calculation of its FCM Financial Assurance Requirements, beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction, amounts calculated as described in Section VII.F.1 above. For purposes of these calculations, the maximum charge that would result from clearing the capacity subject to the multi-year rate election shall be included in the amount calculated as described in Section VII.F.1(b) above, the net FCM revenue for all other months in the defined periods shall be determined by accounting for all charges and credits related to the purchase or sale of Capacity Supply Obligations in the Forward Capacity Market, and any accrued Capacity Performance Payments on positions currently or previously held are excluded.
- c. If a Designated FCM Participant is in default under the ISO New England Financial Assurance Policy or the ISO New England Billing Policy beginning at 8 a.m. (Eastern Time) on the tenth Business Day prior to the Forward Capacity Auction and does not cure such default by the earlier of (i) the end of the appropriate cure period and (ii) 5 p.m. (Eastern Time) on the second Business Day prior to the start of the Forward Capacity Auction, then the defaulting Designated FCM Participant shall be precluded from submitting a supply offer or demand bid that is subject to this Section VII.F.4.

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

VIII. [Reserved]

IX. THIRD-PARTY CREDIT PROTECTION

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

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

X. ACCEPTABLE FORMS OF FINANCIAL ASSURANCE

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

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

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

If the amount of collateral maintained in the shareholder account is below the required level (including by reason of losses on investments), the Posting Entity shall immediately replenish or increase the amount to the required level. The collateral will be held in an account maintained in the name of the Posting Entity and invested in the investment selected by that Posting Entity from a menu of investment options listed at the time on

the ISO's website, which menu will be approved by the NEPOOL Budget and Finance Subcommittee, with discounts applied to the investments in certain of such options if and as determined by the NEPOOL Budget and Finance Subcommittee. If a Posting Entity does not select an investment for its collateral, that collateral will be invested in the "default" investment option selected by the ISO and approved by the NEPOOL Budget and Finance Subcommittee from time to time. Any dividends and distribution on such investment will accrue to the benefit of the Posting Entity. The ISO may sell or otherwise liquidate such investments at its discretion to meet the Posting Entity's obligations to the ISO. In no event will the ISO or NEPOOL or any NEPOOL Participant have any liability with respect to the investment of collateral under this Section X.A.

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

B. Letter of Credit

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

1. Requirements for Banks

Each bank issuing a letter of credit that serves as 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 Chicago Mercantile Exchange (“CME”) as an approved letter of credit bank; or (ii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of “A-” by S&P, or “A3” by Moody’s or “A-” by Fitch so long as its letter of credit is confirmed by a bank that is recognized by CME as an approved letter of credit issuer as described in clause (i) above; or (iii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of “A-” by S&P, or “A3” by Moody’s, or “A-” by Fitch and be approved by the ISO in its sole discretion (the ISO will promptly advise the NEPOOL Budget and Finance Subcommittee of any additional bank approved by it under this provision). Because the ratings described in clauses (ii) and (iii) are minimum ratings, a bank will not be considered to have satisfied the requirement of those clauses if any applicable rating from the Rating Agencies falls below the levels listed in those clauses. In addition, no Posting Entity may provide a letter of credit that has been issued or confirmed by a bank that is an Affiliate of that Market Participant. If a bank that is included on the List of Eligible Letter of Credit Issuers fails to satisfy any of the criteria set forth above, 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 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 (A) the ISO shall issue a notice described in subsection (i) above, (B) the bank will no longer be eligible to issue or confirm letters of credit in favor of the ISO, (C) any letters of credit issued or confirmed by such bank in favor of the ISO will not be renewed, and (D) any letters of credit issued or confirmed by such bank in favor of the ISO must be replaced with another acceptable form of financial assurance within five (5) Business Days from the date on which the ISO provides notice of such failure (the ISO may extend that cure period to twenty (20) Business Days in its sole discretion). Notwithstanding the foregoing, the ISO in its sole discretion may reinstate eligibility after not less than two years from the loss of eligibility, provided that the bank otherwise meets the conditions of this Section X.B.1.

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

2. Form of Letter of Credit

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

New England Financial Assurance Policy shall be paid, or reimbursed to the ISO, by the Posting Entity providing that letter of credit.

C. Special Provisions for Provisional Members

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

XI. MISCELLANEOUS PROVISIONS

A. Obligation to Report Material Adverse Changes

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

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

B. Weekly Payments

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

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

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

C. Use of Transaction Setoffs

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

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

D. Reimbursement of Costs

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

E. Notification of Default

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

F. Remedies Not Exclusive

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

G. Inquiries and Contests

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

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

H. Forward Contract/Swap Agreement

All FTR transactions constitute "forward contracts" and/or "swap agreements" within the meaning of the United States Bankruptcy Code (the "Bankruptcy Code"), and the ISO shall be deemed to be a "forward contract merchant" and/or "swap participant" within the

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

ATTACHMENT 1
SECURITY AGREEMENT

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

WITNESSETH:

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

1. Definitions.

a. In this Security Agreement:

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

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

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

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

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

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

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

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

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

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

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

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

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

[INSERT NAME]

By: _____

Name:

Title:

ISO NEW ENGLAND INC.

By: _____

Name:

Title:

ATTACHMENT 2
SAMPLE STANDBY LETTER OF CREDIT

[DATE PROVIDED]

IRREVOCABLE STANDBY LETTER OF CREDIT NO.

[EXPIRATION DATE]

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

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

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

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

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

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

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

THE FOLLOWING TERMS AND CONDITIONS APPLY:

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

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

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

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

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

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

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

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

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

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

IF TO THE BENEFICIARY OF THIS STANDBY LETTER OF CREDIT:

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

IF TO THE ACCOUNT PARTY:

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

IF TO ISSUER:

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

[signature]

[signature]

ATTACHMENT 3

ISO NEW ENGLAND MINIMUM CRITERIA FOR MARKET PARTICIPATION OFFICER
CERTIFICATION FORM

Certifying Entity:	
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I, _____, a duly authorized Senior Officer of _____ (“Certifying Entity”), understanding that ISO New England Inc. is relying on this certification as evidence that Certifying Entity meets the minimum criteria for market participation requirements set forth in Sections II.A.2 and II.A.3 of the ISO New England Financial Assurance Policy (Exhibit IA to Section I of the ISO New England Transmission, Markets and Services Tariff), 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 _____, 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 (and any supporting documentation, if applicable) applicable to the Certifying Entity’s participation in the FTR market.

OR

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

(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.

ATTACHMENT 6
MINIMUM CRITERIA FOR MARKET PARTICIPATION
INFORMATION DISCLOSURE FORM

Date: _____

Prepared by: _____

Customer/Applicant:¹ _____

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

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

2. List all material litigation (criminal or civil) against Certifying Entity or any of the Certifying Entity’s Principals, Personnel,³ or Predecessors,⁴ arising out of participation in any wholesale or retail energy market (domestic or international) or trading exchanges in the past ten (10) years:
(Enter N/A if not applicable)

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

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

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

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

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

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

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

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

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

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

Certifying Entity: _____

By: _____
(Signature)

Print Name: _____

Title: _____

Date: _____

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

III.13.7. Performance, Payments and Charges in the FCM.

Revenue in the Forward Capacity Market for resources providing capacity shall be composed of Capacity Base Payments as described in Section III.13.7.1 and Capacity Performance Payments as described in Section III.13.7.2, adjusted as described in Section III.13.7.3 and Section III.13.7.4. Market Participants with a Capacity Load Obligation will be subject to charges as described in Section III.13.7.5.

In the event of a change in the Lead Market Participant for a resource that has a Capacity Supply Obligation, the Capacity Supply Obligation shall remain associated with the resource and the new Lead Market Participant for the resource shall be bound by all provisions of this Section III.13 arising from such Capacity Supply Obligation. The Lead Market Participant for the resource at the start of an Obligation Month shall be responsible for all payments and charges associated with that resource in that Obligation Month.

III.13.7.1. Capacity Base Payments.

Resources acquiring or shedding a Capacity Supply Obligation for the Obligation Month shall receive a Capacity Base Payment for the Obligation Month reflecting the payments and charges described in Section III.13.7.1.1, as adjusted to account for peak energy rents as described in Section III.13.7.1.2.

III.13.7.1.1. Monthly Payments and Charges Reflecting Capacity Supply Obligations.

Each resource that has: (i) cleared in a Forward Capacity Auction, except for the portion of resources designated as Self-Supplied FCA Resources; (ii) cleared in a reconfiguration auction; or (iii) entered into a Capacity Supply Obligation Bilateral shall be entitled to a monthly payment or charge during the Capacity Commitment Period based on the following amounts:

(a) **Forward Capacity Auction.** For a resource whose offer has cleared in a Forward Capacity Auction, the monthly capacity payment shall equal the product of its cleared capacity and the Capacity Clearing Price in the Capacity Zone in which the resource is located as adjusted by applicable indexing for resources with additional Capacity Commitment Period elections pursuant to Section III.13.1.1.2.2.4 in the manner described below. For a resource that has elected to have the Capacity Clearing Price and the Capacity Supply Obligation apply for more than one Capacity Commitment Period, payments associated with the Capacity Supply Obligation and Capacity Clearing Price (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) shall continue to apply after the Capacity Commitment Period associated

with the Forward Capacity Auction in which the offer clears, for up to six additional and consecutive Capacity Commitment Periods, in whole Capacity Commitment Period increments only.

(b) **Reconfiguration Auctions.** For a resource whose offer or bid has cleared in an annual or monthly reconfiguration auction, the monthly capacity payment or charge shall be equal to the product of its cleared capacity and the appropriate reconfiguration auction clearing price in the Capacity Zone in which the resource cleared.

(c) **Capacity Supply Obligation Bilaterals.** For resources that have acquired or shed a Capacity Supply Obligation through a Capacity Supply Obligation Bilateral, the monthly capacity payment or charge shall be equal to the product of the Capacity Supply Obligation being assumed or shed and price associated with the Capacity Supply Obligation Bilateral.

(d) **Substitution Auctions.** For a resource whose offer or bid has cleared in a substitution auction, the monthly capacity payment or charge shall be equal to the product of its cleared capacity and the substitution auction clearing price. Notwithstanding the foregoing, the monthly capacity charge for a demand bid cleared at a substitution auction clearing price above its bid price shall be calculated using its bid price.

III.13.7.1.2 Peak Energy Rents.

For Capacity Commitment Periods beginning prior to June 1, 2019, Capacity Base Payments to resources with Capacity Supply Obligations, except for (1) On-Peak Demand Resources, (2) Seasonal Peak Demand Resources, and (3) New Generating Capacity Resources that have cleared in the Forward Capacity Auction and have completed construction but due to a planned transmission facility (e.g., a radial interconnection) not being in service are not able to achieve FCM Commercial Operation, shall be decreased by Peak Energy Rents (“PER”) calculated in each Capacity Zone, as determined pursuant to Section III.13.2.3.4 in the Forward Capacity Auction, as provided below. The PER calculation shall utilize hourly integrated Real-Time LMPs. For each Capacity Zone in the Forward Capacity Auction, as determined pursuant to Section III.13.2.3.4, PER shall be computed based on the load-weighted Real-Time LMPs for each Capacity Zone, using the Real-Time Hub Price for the Rest-of-Pool Capacity Zone. Self-Supplied FCA Resources shall not be subject to a PER adjustment on the portion of the resource that is self-supplied.

III.13.7.1.2.1 Hourly PER Calculations.

(a) For hours with a positive difference between the hourly Real-Time energy price and a strike price, the ISO shall compute PER for each hour ("Hourly PER") equal to this positive difference in accordance with one of the following formulas, which include scaling adjustments for system load and availability:

For hours within the period beginning September 30, 2016 through May 31, 2018:

$$\text{Hourly PER}(\$/\text{kW}) = [(\text{LMP} - \text{Adjusted Hourly PER Strike Price}) * [\text{Scaling Factor}] * [\text{Availability Factor}]$$

Where:

$$\text{Adjusted Hourly PER Strike Price} = \text{Strike Price} + \text{Hourly PER Adjustment}$$

$$\text{Hourly PER Adjustment} = \text{average of Five-Minute PER Strike Price Adjustment values}$$

$$\text{Five-Minute PER Strike Price Adjustment} = \text{MAX} (\text{Thirty-Minute Operating Reserve clearing price} - \$500/\text{MWh}, 0) + \text{MAX} (\text{Ten-Minute Non-Spinning Reserve clearing price} - \text{Thirty-Minute Operating Reserve clearing price} - \$850/\text{MWh}, 0).$$

Strike Price = as defined below

Scaling Factor = as defined below

Availability Factor = as defined below

For all other hours:

$$\text{Hourly PER}(\$/\text{kW}) = [\text{LMP} - \text{Strike Price}] * [\text{Scaling Factor}] * [\text{Availability Factor}]$$

Where:

Strike Price = the heat rate x fuel cost of the PER Proxy Unit described below.

Scaling Factor = the ratio of actual hourly integrated system load (calculated as the sum of Real-Time Load Obligations for the system as calculated in the settlement of the Real-Time Energy Market and adjusted for losses and including imports delivered in the Real-Time Energy Market)

and the 50/50 predicted peak system load reduced appropriately for Demand Capacity Resources, used in the most recent calculation of the Installed Capacity Requirement for that Capacity Commitment Period, capped at an hourly ratio of 1.0.

Availability Factor = 0.95.

(b) PER Proxy Unit characteristics shall be as follows:

(i) The PER Proxy Unit shall be indexed to the marginal fuel, which shall be the higher of the following, as determined on a daily basis: ultra low-sulfur No. 2 oil measured at New York Harbor plus a seven percent markup for transportation; or day-ahead gas measured at the AGT-CG (Non-G) hub;

(ii) The PER Proxy Unit shall be assumed to have no start-up, ramp rate or minimum run time constraints;

(iii) The PER Proxy Unit shall have a 22,000 Btu/kWh heat rate. This assumption shall be periodically reviewed after the first Capacity Commitment Period by the ISO to ensure that the heat rate continues to reflect a level slightly higher than the marginal generating unit in the region that would be dispatched as the system enters a scarcity condition. Any changes to the heat rate of the PER Proxy Unit shall be considered in the stakeholder process in consultation with the state utility regulatory agencies, shall be filed pursuant to Section 205 of the Federal Power Act, and shall be applied prospectively to the settlement of future Forward Capacity Auctions.

III.13.7.1.2.2. Monthly PER Application.

The Hourly PER shall be summed for each calendar month to determine the total PER for that month ("Monthly PER"). The ISO shall then calculate the Average Monthly PER earned by the proxy unit. The Average Monthly PER shall be equal to the average of the Monthly PER values for the 12 months prior to the Obligation Month. The PER deduction for each resource shall be calculated as the Average Monthly PER multiplied by the resource's Capacity Supply Obligation for the Obligation Month (less any Capacity Supply Obligation MW from any portion of a Self-Supplied FCA Resource); provided, however, that in no case shall a resource's PER deduction for an Obligation Month be less than zero or greater than the product of the resource's Capacity Supply Obligation and the relevant Forward Capacity Auction Capacity Clearing Price.

III.13.7.1.3. Export Capacity.

If there are any Export Bids or Administrative Export De-List Bids from resources located in an export-constrained Capacity Zone or in the Rest-of-Pool Capacity Zone that have cleared in the Forward Capacity Auction and if the resource is exporting capacity at an export interface that is connected to an import-constrained Capacity Zone or the Rest-of-Pool Capacity Zone that is different than the Capacity Zone in which the resource is located, then charges and credits are applied as follows (for the following calculation, the Capacity Clearing Price will be the value prior to PER adjustments).

Charge Amount to Resource Exporting = [Capacity Clearing Price_{location of the interface} - Capacity Clearing Price_{location of the resource}] x Cleared MWs of Export Bid or Administrative Export De-List Bid]

Credit Amount to Capacity Load Obligations in the Capacity Zone where the export interface is located = [Capacity Clearing Price_{location of the interface} - Capacity Clearing Price_{location of the resource}] x Cleared MWs of Export Bid or Administrative Export De-list Bid]

Credits and charges to load in the applicable Capacity Zones, as set forth above, shall be allocated in proportion to each LSE's Capacity Load Obligation as calculated in Section III.13.7.5.2.

III.13.7.1.4. [Reserved.]

III.13.7.2 Capacity Performance Payments.

III.13.7.2.1 Definition of Capacity Scarcity Condition.

A Capacity Scarcity Condition shall exist in a Capacity Zone for any five-minute interval in which the Real-Time Reserve Clearing Price for that entire Capacity Zone is set based on the Reserve Constraint Penalty Factor pricing for: (i) the Minimum Total Reserve Requirement; (ii) the Ten-Minute Reserve Requirement; or (iii) the Zonal Reserve Requirement, each as described in Section III.2.7A(c); provided, however, that a Capacity Scarcity Condition shall not exist if the Reserve Constraint Penalty Factor pricing results only because of resource ramping limitations that are not binding on the energy dispatch.

III.13.7.2.2 Calculation of Actual Capacity Provided During a Capacity Scarcity Condition.

For each five-minute interval in which a Capacity Scarcity Condition exists, the ISO shall calculate the Actual Capacity Provided by each resource, whether or not it has a Capacity Supply Obligation, in any Capacity Zone that is subject to the Capacity Scarcity Condition. For resources not having a Capacity Supply Obligation (including External Transactions), the Actual Capacity Provided shall be calculated using the provision below applicable to the resource type. Notwithstanding the specific provisions of this Section III.13.7.2.2, no resource shall have an Actual Capacity Provided that is less than zero.

(a) A Generating Capacity Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the sum of the resource's output during the interval plus the resource's Reserve Quantity For Settlement during the interval; provided, however, that if the resource's output was limited during the Capacity Scarcity Condition as a result of a transmission system limitation, then the resource's Actual Capacity Provided may not be greater than the sum of the resource's Desired Dispatch Point during the interval, plus the resource's Reserve Quantity For Settlement during the interval. Where the resource is associated with one or more External Transaction sales submitted in accordance with Section III.1.10.7(f), the resource will have its hourly Actual Capacity Provided reduced by the hourly integrated delivered MW for the External Transaction sale or sales.

(b) An Import Capacity Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the net energy delivered during the interval in which the Capacity Scarcity Condition occurred. Where a single Market Participant owns more than one Import Capacity Resource, then the difference between the total net energy delivered from those resources and the total of the Capacity Supply Obligations of those resources shall be allocated to those resources pro rata.

(c) An On-Peak Demand Resource or Seasonal Peak Demand Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the sum of the Actual Capacity Provided for each of its components, as determined below, where the MWs of reduction, other than MWs associated with Net Supply, are increased by average avoided peak transmission and distribution losses.

(i) For Energy Efficiency measures, the Actual Capacity Provided shall be zero.

(ii) For Distributed Generation measures submitting meter data for the full 24 hour calendar day during which the Capacity Scarcity Condition occurs, the Actual Capacity Provided shall be equal to the submitted meter data, adjusted as necessary for the five-minute interval in which the Capacity Scarcity Condition occurs.

- (iii) For Load Management measures submitting meter data for the full 24 hour calendar day during which the Capacity Scarcity Condition occurs, the Actual Capacity Provided shall be equal to the submitted demand reduction data, adjusted as necessary for the five-minute interval in which the Capacity Scarcity Condition occurs.
 - (iv) Notwithstanding any other provision of this Section III.13.7.2.2(c), for any On-Peak Demand Resource or Seasonal Peak Demand Resource that fails to provide the data necessary for the ISO to determine the Actual Capacity Provided as described in this Section III.13.7.2.2(c), the Actual Capacity Provided shall be zero.
- (d) An Active Demand Capacity Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be the sum of the Actual Capacity Provided by its constituent Demand Response Resources during the Capacity Scarcity Condition.
- (i) A Demand Response Resource's Actual Capacity Provided during a Capacity Scarcity Condition shall be: (1) the sum of the Real-Time demand reduction of its constituent Demand Response Assets (provided, however, that if the Demand Response Resource was limited during the Capacity Scarcity Condition as a result of a transmission system limitation, then the sum of the Real-Time demand reduction of its constituent Demand Response Assets may not be greater than its Desired Dispatch Point during the interval), plus (2) the Demand Response Resource's Reserve Quantity For Settlement, where the MW quantity, other than the MW quantity associated with Net Supply, is increased by average avoided peak transmission and distribution losses; provided, however, that a Demand Response Resource's Actual Capacity Provided shall not be less than zero.
 - (ii) The Real-Time demand reduction of a Demand Response Asset shall be calculated as described in Section III.8.4, except that: (1) in the case of a Demand Response Asset that is on a forced or scheduled curtailment as described in Section III.8.3, a Real-Time demand reduction shall also be calculated for intervals in which the associated Demand Response Resource does not receive a non-zero Dispatch Instruction; (2) in the case of a Demand Response Asset that is on a forced or scheduled curtailment as described in Section III.8.3, the minuend in the calculation described in Section III.8.4 shall be the unadjusted Demand Response Baseline of the Demand Response Asset; and (3) the

resulting MWhs of reduction, other than the MWhs associated with Net Supply, shall be increased by average avoided peak transmission and distribution losses.

III.13.7.2.3 Capacity Balancing Ratio.

For each five-minute interval in which a Capacity Scarcity Condition exists, the ISO shall calculate a Capacity Balancing Ratio using the following formula:

$$(\text{Load} + \text{Reserve Requirement}) / \text{Total Capacity Supply Obligation}$$

(a) If the Capacity Scarcity Condition is a result of a violation of the Minimum Total Reserve Requirement such that the associated system-wide Reserve Constraint Penalty Factor pricing applies, then the terms used in the formula above shall be calculated as follows:

Load = the total amount of Actual Capacity Provided (excluding applicable Real-Time Reserve Designations) from all resources in the New England Control Area during the interval (with the Actual Capacity Provided of Energy Efficiency measures being zero, as specified in Section III.13.7.2.2(c)(i)).

Reserve Requirement = the Minimum Total Reserve Requirement during the interval.

Total Capacity Supply Obligation = the total amount of Capacity Supply Obligations in the New England Control Area during the interval, excluding the Capacity Supply Obligations associated with Energy Efficiency measures.

(b) If the Capacity Scarcity Condition is a result of a violation of the Ten-Minute Reserve Requirement such that the associated system-wide Reserve Constraint Penalty Factor pricing applies, then the terms used in the formula above shall be calculated as follows:

Load = the total amount of Actual Capacity Provided (excluding applicable Real-Time Reserve Designations) from all resources in the New England Control Area during the interval (with the Actual Capacity Provided of Energy Efficiency measures being zero, as specified in Section III.13.7.2.2(c)(i)).

Reserve Requirement = the Ten-Minute Reserve Requirement during the interval.

Total Capacity Supply Obligation = the total amount of Capacity Supply Obligations in the New England Control Area during the interval, excluding the Capacity Supply Obligations associated with Energy Efficiency measures.

(c) If the Capacity Scarcity Condition is a result of a violation of the Zonal Reserve Requirement such that the associated Reserve Constraint Penalty Factor pricing applies, then the terms used in the formula above shall be calculated as follows:

Load = the total amount of Actual Capacity Provided (excluding applicable Real-Time Reserve Designations) from all resources in the Capacity Zone during the interval plus the net amount of energy imported into the Capacity Zone from outside the New England Control Area during the interval (but not less than zero) (with the Actual Capacity Provided of Energy Efficiency measures being zero, as specified in Section III.13.7.2.2(c)(i)).

Reserve Requirement = the Zonal Reserve Requirement minus any reserve support coming into the Capacity Zone over the internal transmission interface.

Total Capacity Supply Obligation = the total amount of Capacity Supply Obligations in the Capacity Zone during the interval, excluding then the Capacity Supply Obligations associated with Energy Efficiency measures.

(d) The following provisions shall be used to determine the applicable Capacity Balancing Ratio where more than one of the conditions described in subsections (a), (b), and (c) apply in a Capacity Zone.

(i) In any Capacity Zone subject to Reserve Constraint Penalty Factor pricing associated with both the Minimum Total Reserve Requirement and the Ten-Minute Reserve Requirement, but not the Zonal Reserve Requirement, the Capacity Balancing Ratio shall be calculated as described in Section III.13.7.2.3(a) for resources in that Capacity Zone.

(ii) In any Capacity Zone subject to Reserve Constraint Penalty Factor pricing associated with both the Ten-Minute Reserve Requirement and the Zonal Reserve Requirement, but not the Minimum Total Reserve Requirement, the Capacity Balancing Ratio for resources in that Capacity Zone shall be the higher of the Capacity Balancing Ratio calculated as described in

Section III.13.7.2.3(b) and the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(c).

(iii) In any Capacity Zone subject to Reserve Constraint Penalty Factor pricing associated with the Minimum Total Reserve Requirement and the Zonal Reserve Requirement (regardless of whether the Capacity Zone is also subject to Reserve Constraint Penalty Factor pricing associated with the Ten-Minute Reserve Requirement), the Capacity Balancing Ratio for resources in that Capacity Zone shall be the higher of the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(a) and the Capacity Balancing Ratio calculated as described in Section III.13.7.2.3(c).

III.13.7.2.4 Capacity Performance Score.

Each resource, whether or not it has a Capacity Supply Obligation, will be assigned a Capacity Performance Score for each five-minute interval in which a Capacity Scarcity Condition exists in the Capacity Zone in which the resource is located. A resource's Capacity Performance Score for the interval shall equal the resource's Actual Capacity Provided during the interval (with the Actual Capacity Provided of Energy Efficiency measures being zero, as specified in Section III.13.7.2.2(c)(i)) minus the product of the resource's Capacity Supply Obligation (which for this purpose shall not be less than zero) and the applicable Capacity Balancing Ratio; provided, however, that for an On-Peak Demand Resource or a Seasonal Peak Demand Resource, the Capacity Supply Obligation associated with any Energy Efficiency measures shall be excluded from the calculation of the resource's Capacity Performance Score. The resulting Capacity Performance Score may be positive, zero, or negative.

III.13.7.2.5 Capacity Performance Payment Rate.

For the three Capacity Commitment Periods beginning June 1, 2018 and ending May 31, 2021, the Capacity Performance Payment Rate shall be \$2000/MWh. For the three Capacity Commitment Periods beginning June 1, 2021 and ending May 31, 2024, the Capacity Performance Payment Rate shall be \$3500/MWh. For the Capacity Commitment Period beginning on June 1, 2024 and ending on May 31, 2025, the Capacity Performance Payment Rate shall be \$5455/MWh. For the Capacity Commitment Period beginning on June 1, 2025 and ending on May 31, 2026 and thereafter, the Capacity Performance Payment Rate shall be \$8782/MWh. The ISO shall review the Capacity Performance Payment Rate in the stakeholder process as needed and shall file with the Commission a new Capacity Performance Payment Rate if and as appropriate.

III.13.7.2.6 Calculation of Capacity Performance Payments.

For each resource, whether or not it has a Capacity Supply Obligation, the ISO shall calculate a Capacity Performance Payment for each five-minute interval in which a Capacity Scarcity Condition exists in the Capacity Zone in which the resource is located. A resource's Capacity Performance Payment for an interval shall equal the resource's Capacity Performance Score for the interval multiplied by the Capacity Performance Payment Rate. The resulting Capacity Performance Payment for an interval may be positive or negative.

III.13.7.3 Monthly Capacity Payment and Capacity Stop-Loss Mechanism.

Each resource's Monthly Capacity Payment for an Obligation Month, which may be positive or negative, shall be the sum of the resource's Capacity Base Payment for the Obligation Month plus the sum of the resource's Capacity Performance Payments for all five-minute intervals in the Obligation Month, except as provided in Section III.13.7.3.1 and Section III.13.7.3.2 below.

III.13.7.3.1 Monthly Stop-Loss.

If the sum of the resource's Capacity Performance Payments (excluding any Capacity Performance Payments associated with Actual Capacity Provided above the resource's Capacity Supply Obligation in any interval) for all five-minute intervals in the Obligation Month is negative, the amount subtracted from the resource's Capacity Base Payment for the Obligation Month will be limited to an amount equal to the product of the applicable Forward Capacity Auction Starting Price multiplied by the resource's Capacity Supply Obligation for the Obligation Month (or, 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, the amount subtracted from the resource's Capacity Base Payment for the Obligation Month will be limited to an amount equal to the product of the applicable Capacity Clearing Price (indexed for inflation) multiplied by the resource's Capacity Supply Obligation for the Obligation Month).

III.13.7.3.2 Annual Stop-Loss.

(a) For each Obligation Month, the ISO shall calculate a stop-loss amount equal to:

$$\text{MaxCSO} \times [3 \text{ months} \times (\text{FCAcp} - \text{FCAsp}) - (12 \text{ months} \times \text{FCAcp})]$$

Where:

MaxCSO = the resource's highest monthly Capacity Supply Obligation in the Capacity Commitment Period to date.

FCACP = the Capacity Clearing Price for the relevant Forward Capacity Auction.

FCASP = the Forward Capacity Auction Starting Price for the relevant Forward Capacity Auction.

(b) For each Obligation Month, the ISO shall calculate each resource's cumulative Capacity Performance Payments as the sum of the resource's Capacity Performance Payments for all months in the Capacity Commitment Period to date, with those monthly amounts limited as described in Section III.13.7.3.1.

(c) If the sum of the resource's Capacity Performance Payments (excluding any Capacity Performance Payments associated with Actual Capacity Provided above the resource's Capacity Supply Obligation in any interval) for all five-minute intervals in the Obligation Month is negative, the amount subtracted from the resource's Capacity Base Payment for the Obligation Month will be limited to an amount equal to the difference between the stop-loss amount calculated as described in Section III.13.7.3.2(a) and the resource's cumulative Capacity Performance Payments as described in Section III.13.7.3.2(b).

III.13.7.4 Allocation of Deficient or Excess Capacity Performance Payments.

For each type of Capacity Scarcity Condition as described in Section III.13.7.2.1 and for each Capacity Zone, the ISO shall allocate deficient or excess Capacity Performance Payments as described in subsections (a) and (b) below. Where more than one type of Capacity Scarcity Condition applies, then the provisions below shall be applied in proportion to the duration of each type of Capacity Scarcity Condition.

(a) If the sum of all Capacity Performance Payments to all resources subject to the Capacity Scarcity Condition in the Capacity Zone in an Obligation Month is positive, the deficiency will be charged to resources in proportion to each such resource's Capacity Supply Obligation for the Obligation Month, excluding any resources subject to the stop-loss mechanism described in Section III.13.7.3 for the Obligation Month and excluding any resource, or portion thereof, consisting of Energy Efficiency measures. If the charge described in this Section III.13.7.4(a) causes a resource to reach the stop-loss limit

described in Section III.13.7.3, then the stop-loss cap described in Section III.13.7.3 will be applied to that resource, and the remaining deficiency will be further allocated to other resources in the same manner as described in this Section III.13.7.4(a).

(b) If the sum of all Capacity Performance Payments to all resources subject to the Capacity Scarcity Condition in the Capacity Zone in an Obligation Month is negative, the excess will be credited to all such resources (excluding any resource, or portion thereof, consisting of Energy Efficiency measures) in proportion to each resource's Capacity Supply Obligation for the Obligation Month. For a resource subject to the stop-loss mechanism described in Section III.13.7.3 for the Obligation Month, any such credit shall be reduced (though not to less than zero) by the amount not charged to the resource as a result of the application of the stop-loss mechanism described in Section III.13.7.3, and the remaining excess will be further allocated to other resources in the same manner as described in this Section III.13.7.4(b)

III.13.7.5. Charges to Market Participants with Capacity Load Obligations.

III.13.7.5.1. Calculation of Capacity Charges Prior to June 1, 2022.

The provisions in this subsection apply to charges associated with Capacity Commitment Periods beginning prior to June 1, 2022. A load serving entity with a Capacity Load Obligation as of the end of the Obligation Month shall be subject to a charge equal to the product of: (a) its Capacity Load Obligation in the Capacity Zone; and (b) the applicable Net Regional Clearing Price. The Net Regional Clearing Price is defined as the sum of the total payments as defined in Section III.13.7 paid to resources with Capacity Supply Obligations in the Capacity Zone (excluding any capacity payments and charges made for Capacity Supply Obligation Bilaterals and excluding any Capacity Performance Payments), less PER adjustments for resources in the zone as defined in Section III.13.7.1.2, and including any applicable export charges or credits as determined pursuant to Section III.13.7.1.3 divided by the sum of all Capacity Supply Obligations (excluding (i) the quantity of capacity subject to Capacity Supply Obligation Bilaterals and (ii) the quantity of capacity clearing as Self-Supplied FCA Resources) assumed by resources in the zone. A load serving entity satisfying its Capacity Load Obligation by a Self-Supplied FCA Resource shall not receive a credit for any PER payment for its Capacity Load Obligation so satisfied. A load serving entity with a Capacity Load Obligation as of the end of the Obligation Month may also receive a failure to cover credit equal to the product of: (a) its Capacity Load Obligation in the Capacity Zone, and; (b) the sum of all failure to cover charges in the Capacity Zone calculated pursuant to Section III.13.3.4(b), divided by total Capacity Load Obligation in the Capacity Zone.

III.13.7.5.1.1. Calculation of Capacity Charges On and After June 1, 2022.

The provisions in this subsection apply to charges associated with Capacity Commitment Periods beginning on or after June 1, 2022. For purposes of this Section III.13.7.5.1.1, Capacity Zone costs calculated for a Capacity Zone that contains a nested Capacity Zone shall exclude the Capacity Zone costs of the nested Capacity Zone. A Market Participant with a Capacity Load Obligation as of the end of the Obligation Month shall be subject to the following charges and adjustments:

III.13.7.5.1.1.1 Forward Capacity Auction Charge.

The FCA charge, for each Capacity Zone, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Capacity Zone FCA Costs divided by Zonal Capacity Obligation.

Where

Capacity Zone FCA Costs, for each Capacity Zone, are the Total FCA Costs multiplied by the Zonal Peak Load Allocator and divided by the Total Peak Load Allocator.

Total FCA Costs are the sum of, for all Capacity Zones, (i) Capacity Supply Obligations in each zone (the total obligation awarded to or shed by resources in the Forward Capacity Auction process for the Obligation Month in the zone, excluding any obligations awarded to Intermittent Power Resources that are the basis for the Intermittent Power Resource Capacity Adjustment specified in Section III.13.7.5.1.1.6 and excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A) multiplied by the applicable clearing price from the auction in which the obligation was awarded to (or shed by) the resource, and (ii) the difference between the bid price and the substitution auction clearing price that was not included in the capacity charge pursuant to the second sentence of Section III.13.7.1.1(d). Capacity Supply Obligations awarded to Proxy De-List Bids in the primary auction, or shed by demand bids entered into the substitution auction on behalf of a Proxy De-List Bid, are excluded from Total FCA Costs.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal Capacity Clearing Price.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

III.13.7.5.1.1.2 Annual Reconfiguration Auction Charge.

The total annual reconfiguration auction charge, for each Capacity Zone and each associated annual reconfiguration auction, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Capacity Zone Annual Reconfiguration Auction Costs divided by Zonal Capacity Obligation.

Where

Capacity Zone Annual Reconfiguration Auction Costs, for each Capacity Zone, are the Total Annual Reconfiguration Costs multiplied by the Zonal Peak Load Allocator and divided by the Total Peak Load Allocator.

Total Annual Reconfiguration Auction Costs are the sum, for all Capacity Zones and each associated annual reconfiguration auction, of the product of the Capacity Supply Obligations acquired through the annual reconfiguration auction in each zone (adjusted for any obligations procured in the annual reconfiguration auction that are subsequently terminated pursuant to Section III.13.3.4A) and the zonal annual reconfiguration auction clearing price, minus the sum, for all Capacity Zones, of the product of the amount of any Capacity Supply Obligation shed through the annual reconfiguration auction in each zone and the applicable annual reconfiguration auction clearing price.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal annual reconfiguration auction clearing price.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

III.13.7.5.1.1.3. Monthly Reconfiguration Auction Charge.

The monthly reconfiguration auction charge is: (a) total Capacity Load Obligation for all Capacity Zones; multiplied by (b) Total Monthly Reconfiguration Auction Costs divided by Total Zonal Capacity Obligation.

Where

Total Monthly Reconfiguration Auction Costs are the sum of, for all Capacity Zones, the product of Capacity Supply Obligations acquired through the monthly reconfiguration auction in each zone and the applicable monthly reconfiguration auction clearing price, minus the sum of, for all Capacity Zones, any Capacity Supply Obligations shed through the monthly reconfiguration auction in each zone and the applicable monthly reconfiguration auction clearing price.

Total Zonal Capacity Obligation is the total of the Zonal Capacity Obligation in all Capacity Zones.

III.13.7.5.1.1.4. HQICC Capacity Charge.

The HQICC capacity charge is: (a) total Capacity Load Obligation for all Capacity Zones; multiplied by (b) Total HQICC Credits divided by Total Capacity Load Obligation.

Where

Total HQICC credits are the product of HQICCs multiplied by the sum of the values calculated in Sections III.13.7.5.1.1.1(b), III.13.7.5.1.1.2(b), III.13.7.5.1.1.3(b), III.13.7.5.1.1.6(b), III.13.7.5.1.1.7(b), III.13.7.5.1.1.8(b), and III.13.7.5.1.1.9(b) in the Capacity Zone in which the HQ Phase I/II external node is located.

Total Capacity Load Obligation is the total Capacity Load Obligation in all Capacity Zones.

III.13.7.5.1.1.5. Self-Supply Adjustment.

The self-supply adjustment is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) the Self-Supply Variance divided by Total Capacity Load Obligation.

Where

Self-Supply Variance is the difference between foregone capacity payments and avoided capacity charges associated with designated self-supply quantities.

Foregone capacity payments to Self-Supplied FCA Resources are the sum, for all Capacity Zones, of the product of the zonal Capacity Supply Obligation (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A) designated as self-supply, multiplied by the applicable clearing price from the auction in which the obligation was awarded.

Avoided capacity charges are the sum, for all Capacity Zones, of the product of any designated self-supply quantities multiplied by the sum of the values calculated in Sections III.13.7.5.1.1.1(b), III.13.7.5.1.1.2(b), III.13.7.5.1.1.3(b), III.13.7.5.1.1.6(b),

III.13.7.5.1.1.7(b), III.13.7.5.1.1.8(b), and III.13.7.5.1.1.9(b) in the Capacity Zone associated with the designated self-supply quantity.

Total Capacity Load Obligation is the total Capacity Load Obligation in all Capacity Zones.

III.13.7.5.1.1.6. Intermittent Power Resource Capacity Adjustment.

The Intermittent Power Resource capacity adjustment in a winter season for the Obligation Months from October through May is: (a) total Capacity Load Obligation for all Capacity Zones; multiplied by (b) the Intermittent Power Resource Seasonal Variance divided by Total Zonal Capacity Obligation.

Where

Intermittent Power Resource Seasonal Variance is the difference between the FCA payments for Intermittent Power Resource in the Obligation Month and the base FCA payments for Intermittent Power Resources.

FCA payments to Intermittent Power Resources are the sum, for all Capacity Zones, of the product of the Capacity Supply Obligations awarded to or shed by Intermittent Power Resources in the Forward Capacity Auction process for the Obligation Month pursuant to Section III.13.2.7.6 or Section III.13.2.8.1.1 (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the applicable clearing price from the auction in which the obligation was awarded.

Base FCA payments for Intermittent Power Resources are the sum, for all Capacity Zones, of the product of the FCA Qualified Capacity procured from or shed by Intermittent Power Resources in the Forward Capacity Auction process (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the applicable clearing price from the auction in which the obligation was awarded.

Total Zonal Capacity Obligation is the total Capacity Load Obligation in all Capacity Zones.

III.13.7.5.1.1.7. Multi-Year Rate Election Adjustment.

For multi-year rate elections made in the primary Forward Capacity Auction for Capacity Commitment Periods beginning on or after June 1, 2022, the multi-year rate election adjustment, for each Capacity

Zone, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Zonal Multi-Year Rate Election Costs divided by Zonal Capacity Obligation.

Where

Zonal Multi-Year Rate Election Costs is the sum, for each resource with a multi-year rate election in the Obligation Month, of the amount of Capacity Supply Obligation designated to receive the multi-year rate (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the difference in the applicable zonal Capacity Clearing Price for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the year preceding the Capacity Commitment Period) and the applicable zonal Capacity Clearing Price for the current Capacity Commitment Period, multiplied by the Zonal Peak Load Allocator for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation and divided by the Total Peak Load Allocator for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal Capacity Clearing Price.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

For multi-year rate elections made in the primary Forward Capacity Auction for Capacity Commitment Periods beginning prior to June 1, 2022, the multi-year rate election adjustment, for each Capacity Zone, is: (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Zonal Multi-Year Rate Election Costs divided by Zonal Capacity Obligation.

Where

Zonal Multi-Year Rate Election Costs is the sum in each Capacity Zone, for each resource with a multi-year rate election in the Obligation Month, of the amount of Capacity Supply Obligation designated to receive the multi-year rate (excluding any obligations procured in the Forward Capacity Auction that are terminated pursuant to Section III.13.3.4A), multiplied by the difference in the applicable zonal Capacity Clearing Price for the Forward Capacity Auction in which the resource originally was awarded a Capacity Supply Obligation (indexed using the Handy-Whitman Index of Public Utility Construction Costs in effect as of December 31 of the

year preceding the Capacity Commitment Period) and the applicable zonal Capacity Clearing Price for the current Capacity Commitment Period.

III.13.7.5.1.1.8 CTR Transmission Upgrade Charge.

The CTR transmission upgrade charge is: (a) the Capacity Load Obligation in the Capacity Zones to which the applicable interface limits the transfer of capacity, multiplied by (b) Zonal CTR Transmission Upgrade Cost divided by Zonal Capacity Obligation.

Where

Zonal CTR Transmission Upgrade Cost for each Capacity Zone to which the interface limits the transfer of capacity is the amount calculated pursuant to Section III.13.7.5.4.4 (f), multiplied by the Zonal Capacity Obligation and divided by the sum of the Zonal Capacity Obligation for all Capacity Zones to which the interface limits the transfer of capacity.

III.13.7.5.1.1.9 CTR Pool-Planned Unit Charge.

The CTR Pool-Planned Unit charge is: (a) the Capacity Load Obligation in the Capacity Zone less the amount of any CTRs specifically allocated pursuant to Section III.13.7.5.4.5, multiplied by (b) CTR Pool-Planned Unit Cost divided by Total Zonal Capacity Obligation less the amount of any CTRs specifically allocated pursuant to Section III.13.7.5.4.5.

Where

The CTR Pool-Planned Unit Cost for each Capacity Zone is the sum of the amounts calculated pursuant to Section III.13.7.5.4.5 (b).

Total Zonal Capacity Obligation is the total of the Zonal Capacity Obligation in all Capacity Zones.

III.13.7.5.1.1.10. Failure to Cover Charge Adjustment.

The failure to cover charge adjustment, for each Capacity Zone, is (a) Capacity Load Obligation in the Capacity Zone; multiplied by (b) Zonal Failure to Cover Charges divided by Zonal Capacity Obligation.

Where:

Zonal Failure to Cover Charges are the product of: (1) the sum, for all Capacity Zones, of the failure to cover charges calculated pursuant to Section III.13.3.4(b), and; (2) the Zonal Peak Load Allocator and divided by the Total Peak Load Allocator.

Zonal Peak Load Allocator is the Zonal Capacity Obligation multiplied by the zonal annual reconfiguration auction clearing price as determined pursuant to Section III.13.3.4.

Total Peak Load Allocator is the sum of the Zonal Peak Load Allocators.

III.13.7.5.2. Calculation of Capacity Load Obligation and Zonal Capacity Obligation.

The ISO shall assign each Market Participant a share of the Zonal Capacity Obligation prior to the commencement of each Obligation Month for each Capacity Zone established in the Forward Capacity Auction pursuant to Section III.13.2.3.4. The Zonal Capacity Obligation of a Capacity Zone that contains a nested Capacity Zone shall exclude the Zonal Capacity Obligation of the nested Capacity Zone.

Zonal Capacity Obligation for each month and Capacity Zone shall equal the product of: (i) the total of the system-wide Capacity Supply Obligations (excluding the quantity of capacity subject to Capacity Supply Obligation Bilaterals for Capacity Commitment Periods beginning prior to June 1, 2022 and excluding any additional obligations awarded to Intermittent Power Resources pursuant to Section III.13.2.7.6 that exceed the FCA Qualified Capacity procured in the Forward Capacity Auction for Capacity Commitment Periods beginning on or after June 1, 2022) plus HQICCs; and (ii) the ratio of the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year two years prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning prior to June 1, 2022) and from the calendar year one year prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning on or after June 1, 2022) to the system-wide sum of all load serving entities' annual coincident contributions to the system-wide annual peak load from the calendar year two years prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning prior to June 1, 2022) and from the calendar year one year prior to the start of the Capacity Commitment Period (for Capacity Commitment Periods beginning on or after June 1, 2022).

The following loads are assigned a peak contribution of zero for the purposes of assigning obligations and tracking load shifts: load associated with the receipt of electricity from the grid by Storage DARDs for later injection of electricity back to the grid; Station service load that is modeled as a discrete Load Asset and the Resource is complying with the maintenance scheduling procedures of the ISO; load that is

modeled as a discrete Load Asset and is exclusively related to an Alternative Technology Regulation Resource following AGC Dispatch Instructions; and transmission losses associated with delivery of energy over the Control Area tie lines.

A Market Participant's share of Zonal Capacity Obligation for each month and Capacity Zone shall equal the product of: (i) the Capacity Zone's Zonal Capacity Obligation as calculated above and (ii) the ratio of the sum of the load serving entity's annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capacity Commitment Period to the sum of all load serving entities' annual coincident contributions to the system-wide annual peak load in that Capacity Zone from the calendar year prior to the start of the Capacity Commitment Period.

A Market Participant's Capacity Load Obligation shall be its share of Zonal Capacity Obligation for each month and Capacity Zone, adjusted as appropriate to account for any relevant Capacity Load Obligation Bilaterals, HQICCs, and Self-Supplied FCA Resource designations. A Capacity Load Obligation can be a positive or negative value.

A Market Participant's share of Zonal Capacity Obligation will not be reconstituted to include the demand reduction of a Demand Capacity Resource or Demand Response Resource.

III.13.7.5.2.1. Charges Associated with Dispatchable Asset Related Demands.

Dispatchable Asset Related Demand resources will not receive Forward Capacity Market payments, but instead each Dispatchable Asset Related Demand resource will receive an adjustment to its share of the associated Coincident Peak Contribution based on the ability of the Dispatchable Asset Related Demand resource to reduce consumption. The adjustment to a load serving entity's Coincident Peak Contribution resulting from Dispatchable Asset Related Demand resource reduction in consumption shall be based on the Nominated Consumption Limit submitted for the Dispatchable Asset Related Demand resource. The Nominated Consumption Limit value of each Dispatchable Asset Related Demand resource is subject to adjustment as further described in the ISO New England Manuals, including adjustments based on the results of Nominated Consumption Limit audits performed in accordance with the ISO New England Manuals.

III.13.7.5.3. Excess Revenues.

(a) For Capacity Commitment Periods beginning prior to June 1, 2022, revenues collected from load serving entities in excess of revenues paid by the ISO to resources shall be paid by the ISO to the holders of Capacity Transfer Rights, as detailed in Section III.13.7.5.3.

(b) Any payment associated with a Capacity Supply Obligation Bilateral that was to accrue to a Capacity Acquiring Resource for a Capacity Supply Obligation that is terminated pursuant to Section III.13.3.4A shall instead be allocated to Market Participants based on their pro rata share of all Capacity Load Obligations in the Capacity Zone in which the terminated resource is located.

III.13.7.5.4. Capacity Transfer Rights.

III.13.7.5.4.1. Definition and Payments to Holders of Capacity Transfer Rights.

This subsection applies to Capacity Commitment Periods beginning prior to June 1, 2022.

Capacity Transfer Rights are calculated for each internal interface associated with a Capacity Zone established in the Forward Capacity Auction (as determined pursuant to Section III.13.2.3.4). Based upon results of the Forward Capacity Auction and reconfiguration auctions, the total CTR fund will be calculated as the difference between the charges to load serving entities with Capacity Load Obligations and the payments to Capacity Resources as follows: The system-wide sum of the product of each Capacity Zone's Net Regional Clearing Price and absolute value of each Capacity Zone's Capacity Load Obligations, as calculated in Section III.13.7.5.1, minus the sum of the monthly capacity payments to Capacity Resources within each zone, as adjusted for PER.

Each Capacity Zone established in the Forward Capacity Auction (as determined pursuant to Section III.13.2.3.4) will be assigned its portion of the CTR fund.

For CTRs resulting from an export constrained zone, the assignment will be calculated as the product of: (i) the Net Regional Clearing Price for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Net Regional Clearing Price for the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the difference between the absolute value of the total Capacity Supply Obligations obtained in the exporting Capacity Zone, adjusted for Capacity Supply Obligations associated with Self-Supplied FCA Resources, and the absolute value of the total Capacity Load Obligations in the exporting Capacity Zone.

For CTRs resulting from an import constrained zone, the assignment will be calculated as the product of: (i) the Net Regional Clearing Price for the Capacity Zone to which the applicable interface limits the transfer of capacity minus the Net Regional Clearing Price for the absolute value of the Capacity Zone from which the applicable interface limits the transfer of capacity; and (ii) the difference between absolute value of the total Capacity Load Obligations in the importing Capacity Zone and the total Capacity Supply Obligations obtained in the importing Capacity Zone, adjusted for Capacity Supply Obligations associated with Self-Supplied FCA Resources.

III.13.7.5.4.2. Allocation of Capacity Transfer Rights.

This subsection applies to Capacity Commitment Periods beginning prior to June 1, 2022.

For Capacity Zones established in the Forward Capacity Auction as determined pursuant to Section III.13.2.3.4, the CTR fund shall be allocated among load serving entities using their Capacity Load Obligation (net of HQICCs) described in Section III.13.7.5.1. Market Participants with CTRs specifically allocated under Section III.13.7.5.3.6 will have their specifically allocated CTR MWs netted from their Capacity Load Obligation used to establish their share of the CTR fund.

(a) **Connecticut Import Interface.** The allocation of the CTR fund associated with the Connecticut Import Interface shall be made to load serving entities based on their Capacity Load Obligation in the Connecticut Capacity Zone.

(b) **NEMA/Boston Import Interface.** Except as provided in Section III.13.7.5.3.6 of Market Rule 1, the allocation of the CTR fund associated with the NEMA/Boston Import Interface shall be made to load serving entities based on their Capacity Load Obligation in the NEMA/Boston Capacity Zone.

III.13.7.5.4.3. Allocations of CTRs Resulting From Revised Capacity Zones.

This subsection applies to Capacity Commitment Periods beginning prior to June 1, 2022.

The portion of the CTR fund associated with revised definitions of Capacity Zones shall be fully allocated to load serving entities after deducting the value of applicable CTRs that have been specifically allocated. Allocations of the CTR fund among load serving entities will be made using their Capacity Load Obligations (net of HQICCs) as described in Section III.13.7.5.3.1. Market Participants with CTRs specifically allocated under Section III.13.7.5.3.6 will have their specifically allocated CTR MWs netted from the Capacity Load Obligation used to establish their share of the CTR fund.

(a) **Import Constraints.** The allocation of the CTR fund associated with newly defined import-constrained Capacity Zones restricting the transfer of capacity into a single adjacent import-constrained Capacity Zone shall be allocated to load serving entities with Capacity Load Obligations in that import-constrained Capacity Zone.

(b) **Export Constraints.** The allocation of the CTR fund associated with newly defined export-constrained Capacity Zones shall be allocated to load serving entities with Capacity Load Obligations on the import-constrained side of the interface.

III.13.7.5.4.4. Specifically Allocated CTRs Associated with Transmission Upgrades.

(a) A Market Participant that pays for transmission upgrades not funded through the Pool PTF Rate and which increase transfer capability across existing or potential Capacity Zone interfaces may request a specifically allocated CTR in an amount equal to the number of CTRs supported by that increase in transfer capability.

(b) The allocation of additional CTRs created through generator interconnections completed after February 1, 2009 shall be made in accordance with the provisions of the ISO generator interconnection or planning standards. In the event the ISO interconnection or planning standards do not address this issue, the CTRs created shall be allocated in the same manner as described in Section III.13.7.5.4.2.

(c) Specifically allocated CTRs shall expire when the Market Participant ceases to pay to support the transmission upgrades.

(d) CTRs resulting from transmission upgrades funded through the Pool PTF Rate shall not be specifically allocated but shall be allocated in the same manner as described in Section III.13.7.5.4.2.

(e) **Maine Export Interface.** Casco Bay shall receive specifically allocated CTRs of 325 MW across the Maine export interface for as long as Casco Bay continues to pay to support the transmission upgrades.

(f) The value of CTRs specifically allocated pursuant to this Section shall be calculated as the product of: (i) the Capacity Clearing Price to which the applicable interface limits the transfer of capacity

minus the Capacity Clearing Price from which the applicable interface limits the transfer of capacity; and
(ii) the MW quantity of the specifically allocated CTRs across the applicable interface.

III.13.7.5.4.5. Specifically Allocated CTRs for Pool-Planned Units.

(a) In import-constrained Capacity Zones, in recognition of longstanding life of unit contracts, the municipal utility entitlement holder of a resource constructed as Pool-Planned Units shall receive an initial allocation of CTRs equal to the most recent seasonal claimed capability of the ownership entitlements in such unit, adjusted for any designated self-supply quantities as described in Section III.13.1.6.2. Municipal utility entitlements are set as shown in the table below and are not transferrable.

Millstone 3		Seabrook	Stonybrook GT 1A	Stonybrook GT 1B	Stonybrook GT 1C	Stonybrook 2A	Stonybrook 2B	Wyman 4	Summer	Winter
									(MW)	(MW)
Nominal Summer (MW)	1155.001	1244.275	104.000	100.000	104.000	67.400	65.300	586.725		
Nominal Winter (MW)	1155.481	1244.275	119.000	116.000	119.000	87.400	85.300	608.575		
Danvers	0.2627%	1.1124%	8.4569%	8.4569%	8.4569%	11.5551%	11.5551%	0.0000%	58.26	63.73
Georgetown	0.0208%	0.0956%	0.7356%	0.7356%	0.7356%	1.0144%	1.0144%	0.0000%	5.04	5.55
Ipswich	0.0608%	0.1066%	0.2934%	0.2934%	0.2934%	0.0000%	0.0000%	0.0000%	2.93	2.37
Marblehead	0.1544%	0.1351%	2.6840%	2.6840%	2.6840%	1.5980%	1.5980%	0.2793%	15.49	15.64
Middleton	0.0440%	0.3282%	0.8776%	0.8776%	0.8776%	1.8916%	1.8916%	0.1012%	10.40	11.07
Peabody	0.2969%	1.1300%	13.0520%	13.0520%	13.0520%	0.0000%	0.0000%	0.0000%	57.69	60.26
Reading	0.4041%	0.6351%	14.4530%	14.4530%	14.4530%	19.5163%	19.5163%	0.0000%	82.98	92.77
Wakefield	0.2055%	0.3870%	3.9929%	3.9929%	3.9929%	6.3791%	6.3791%	0.4398%	30.53	32.64
Ashburnham	0.0307%	0.0652%	0.6922%	0.6922%	0.6922%	0.9285%	0.9285%	0.0000%	4.53	5.22
Boylston	0.0264%	0.0849%	0.5933%	0.5933%	0.5933%	0.9120%	0.9120%	0.0522%	4.71	5.35
Braintree	0.0000%	0.6134%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	7.63	7.63
Groton	0.0254%	0.1288%	0.8034%	0.8034%	0.8034%	1.0832%	1.0832%	0.0000%	5.81	6.61
Hingham	0.1007%	0.4740%	3.9815%	3.9815%	3.9815%	5.3307%	5.3307%	0.0000%	26.40	30.36
Holden	0.0726%	0.3971%	2.2670%	2.2670%	2.2670%	3.1984%	3.1984%	0.0000%	17.01	19.33
Holyoke	0.3194%	0.3096%	0.0000%	0.0000%	0.0000%	2.8342%	2.8342%	0.6882%	15.34	16.63

Hudson	0.1056%	1.6745%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.3395%	24.05	24.12
Hull	0.0380%	0.1650%	1.4848%	1.4848%	1.4848%	2.1793%	2.1793%	0.1262%	10.70	12.28
Littleton	0.0536%	0.1093%	1.5115%	1.5115%	1.5115%	3.0607%	3.0607%	0.1666%	11.67	13.63
Mansfield	0.1581%	0.7902%	5.0951%	5.0951%	5.0951%	7.2217%	7.2217%	0.0000%	36.93	42.17
Middleborough	0.1128%	0.5034%	2.0657%	2.0657%	2.0657%	4.9518%	4.9518%	0.1667%	21.48	24.45
North Attleborough	0.1744%	0.3781%	3.2277%	3.2277%	3.2277%	5.9838%	5.9838%	0.1666%	25.58	29.49
Pascoag	0.0000%	0.1068%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	1.33	1.33
Paxton	0.0326%	0.0808%	0.6860%	0.6860%	0.6860%	0.9979%	0.9979%	0.0000%	4.82	5.53
Shrewsbury	0.2323%	0.5756%	3.9105%	3.9105%	3.9105%	0.0000%	0.0000%	0.4168%	24.33	26.23
South Hadley	0.5755%	0.3412%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	10.89	10.90
Sterling	0.0294%	0.2044%	0.7336%	0.7336%	0.7336%	1.1014%	1.1014%	0.0000%	6.60	7.38
Taunton	0.0000%	0.1003%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	0.0000%	1.25	1.25
Templeton	0.0700%	0.1926%	1.3941%	1.3941%	1.3941%	2.3894%	2.3894%	0.0000%	10.67	12.27
Vermont Public Power Supply Authority	0.0000%	0.0000%	2.2008%	2.2008%	2.2008%	0.0000%	0.0000%	0.0330%	6.97	7.99
West Boylston	0.0792%	0.1814%	1.2829%	1.2829%	1.2829%	2.3041%	2.3041%	0.0000%	10.18	11.69
Westfield	1.1131%	0.3645%	9.0452%	9.0452%	9.0452%	13.5684%	13.5684%	0.7257%	67.51	77.27

This allocation of CTRs shall expire on December 31, 2040. If a resource listed in the table above retires prior to December 31, 2040, however, its allocation of CTRs shall expire upon retirement. In the event that the NEMA zone either becomes or is forecast to become a separate zone for Forward Capacity Auction purposes, National Grid agrees to discuss with Massachusetts Municipal Wholesale Electric Company (“MMWEC”) and Wellesley Municipal Light Plant, Reading Municipal Light Plant and Concord Municipal Light Plant (“WRC”) any proposal by National Grid to develop cost effective transmission improvements that would mitigate or alleviate the import constraints and to work cooperatively and in good faith with MMWEC and WRC regarding any such proposal. MMWEC and WRC agree to support any proposals advanced by National Grid in the regional system planning process to construct any such transmission improvements, provided that MMWEC and WRC determine that the proposed improvements are cost effective (without regard to CTRs) and will mitigate or alleviate the import constraints.

(b) The value of CTRs specifically allocated pursuant to this Section shall be calculated as the product of: (i) the Capacity Clearing Price for the Capacity Zone where the load of the municipal utility entitlement holder is located minus the Capacity Clearing Price for the Capacity Zone in which the Pool-Planned Unit is located, and; (ii) the MW quantity of the specifically allocated CTRs.

III.13.7.5.5. Forward Capacity Market Net Charge Amount.

The Forward Capacity Market net charge amount for each Market Participant as of the end of the Obligation Month shall be equal to the sum of: (a) its Capacity Load Obligation charges; (b) its revenues from any applicable specifically allocated CTRs; (c) its share of the CTR fund (for Capacity Commitment Periods beginning prior to June 1, 2022); and (d) any applicable export charges.

1 Portfolio Manager at NRG Energy and two years as a Vice President in the Power
2 Trading division of Citibank Global Commodities. I also worked for five years as an
3 equity options trader on the Philadelphia Stock Exchange for Timber Hill, LLC. I hold a
4 B.A. in Economics from Lycoming College.

5
6 **II. PURPOSE AND BACKGROUND**

7 **Q: What is the purpose of your testimony?**

8 A: The purpose of my testimony is to explain the changes to the Forward Capacity Market
9 (“FCM”) contained in the instant filing. These changes enhance and clarify the market
10 rules relating to the Pay-for-Performance (“PFP”) design. Specifically, these revisions
11 alter the treatment of Demand Capacity Resources composed of Energy Efficiency
12 measures (referred to herein as “energy efficiency resources”) during Capacity Scarcity
13 Conditions, resulting in a treatment of energy efficiency resources that is consistent with
14 their system benefits and contribution to resource adequacy.

15
16 The revisions include two primary components. First, the revisions exclude energy
17 efficiency resources from PFP obligations and settlement when Capacity Scarcity
18 Conditions occur during hours in which energy efficiency resources report their
19 performance to the ISO. With this change, energy efficiency resources will not receive
20 either positive or negative Capacity Performance Payments in any hour of the year, nor
21 will they be allocated any of the excess or deficiency in total Capacity Performance
22 Payments. Second, under the revisions, energy efficiency resources will no longer be

1 required to post the collateral used to offset potential PFP losses, known as FCM
2 Delivery Financial Assurance.

3
4 **Q: By way of background, please provide a high-level overview of the Forward
5 Capacity Market.**

6 A: The FCM is a long-term wholesale electricity market that ensures resource adequacy,
7 locally and system wide in New England. To purchase enough qualified resources to
8 satisfy the region's future capacity needs and allow enough time to construct new
9 capacity resources, Forward Capacity Auctions are held each year approximately three
10 years in advance of the year-long Capacity Commitment Period when resources must
11 provide service for any Capacity Supply Obligation they obtained in the auction.

12
13 **III. OVERVIEW OF PAY-FOR-PERFORMANCE**

14 **Q: Why did the ISO propose Pay-For-Performance in 2014?**

15 A: Prior to the implementation of PFP, capacity resources rarely faced financial
16 consequences for failing to perform, and thus had little incentive to make investments to
17 ensure reliable provision of energy and reserves when needed. These non-consequences
18 for non-performance encouraged poorly performing resources to continue to participate
19 in the market when they should instead have considered retirement. Through PFP, the
20 ISO proposed to address these problems by linking capacity revenues to resource
21 performance during real-time operating reserve deficiencies, known as Capacity Scarcity
22 Conditions.

1 **Q: Please provide a high-level description of Pay-for-Performance.**

2 A: PFP revised a capacity resource's total potential capacity revenue by adding a Capacity
3 Performance Payment to the Capacity Base Payment, the latter being the primary revenue
4 stream under the original FCM design. Under PFP, if a resource provides more than its
5 share of energy and reserves during a Capacity Scarcity Condition, it receives a positive
6 Capacity Performance Payment; if it provides less than its share, it receives a negative
7 Capacity Performance Payment (*i.e.*, a performance charge). In addition, as part of the
8 PFP design, additional Financial Assurance requirements were implemented to
9 collateralize the potential for capacity resources to earn negative capacity payments.
10 These market features are intended to place performance risk on all FCM resources, so
11 suppliers bear both the risk and the rewards associated with their resources' respective
12 performance.

13
14 **Q: How did the ISO propose to treat Energy Efficiency in its initial PFP design?**

15 A: The ISO proposed a resource neutral design, under which suppliers providing the same
16 service would receive the same compensation, regardless of what technology or fuel they
17 used. The ISO argued that energy efficiency resources should therefore receive Capacity
18 Performance Payments (either positive or negative) in all hours of the year, as would all
19 other resource types.

20

1 **Q: Did the Federal Energy Regulatory Commission accept the treatment of Energy**
2 **Efficiency initially proposed by the ISO?**

3 A: No. The Federal Energy Regulatory Commission (“FERC” or the “Commission”) found
4 that the original design had a disproportionate impact on energy efficiency resources
5 because, it explained, such resources are fundamentally different from other resources.
6 The Commission found that, unlike all other resource types, energy efficiency resources
7 do not actively perform in real time—in other words, they do not produce energy or
8 reserves in real time—instead providing a pre-determined level of load reduction.
9 Therefore, reasoned the Commission, energy efficiency resources are not able to respond
10 to real-time performance incentives.

11
12 FERC directed the ISO to file Tariff revisions to calculate Capacity Performance
13 Payments for energy efficiency resources only during hours in which the resources report
14 their performance to the ISO. In response, the ISO revised the Tariff to calculate
15 Capacity Performance Payments for energy efficiency resources only when a Capacity
16 Scarcity Condition occurred during reporting hours. Energy efficiency resources were
17 still included in the resource pool to which any excess or deficiency in total Capacity
18 Performance Payments were allocated.

19
20 **Q: How are energy efficiency resources currently treated under Pay-for-Performance?**

21 A: Last year, in an effort to better align the PFP design with the Commission’s earlier
22 directive regarding the treatment of energy efficiency resources under PFP, the ISO
23 revised the Tariff to remove energy efficiency resources from PFP settlement outside of

1 energy efficiency reporting hours.² Therefore, pursuant to the currently effective Tariff,
2 outside of reporting hours, energy efficiency resources receive no Capacity Performance
3 Payments and are not allocated any excess or deficiency in total Capacity Performance
4 Payments. Because energy efficiency reporting hours only constitute about four percent
5 of the total hours in a year, energy efficiency resources are currently included in PFP
6 obligations and settlement in approximately four percent of hours—in the other 96
7 percent, energy efficiency resources are excluded.

8
9 **IV. MODIFICATIONS TO THE CURRENT PFP DESIGN**

10 **Q: How is the ISO revising the PFP rules?**

11 A: The instant revisions exclude energy efficiency resources from PFP in the remaining four
12 percent of hours. As a result, these resources will not receive positive or negative
13 Capacity Performance Payments in any hour of the year, will not be allocated Capacity
14 Performance Payment excess or deficiency in any hour of the year, and will no longer be
15 required to post FCM Delivery Financial Assurance.

16
17 **Q: Why is the ISO making this change?**

18 A: The revisions recognize the characteristics of energy efficiency resources and propose to
19 treat them in a manner that is consistent with their system benefits. Like other resource
20 types, energy efficiency resources help the region meet resource adequacy requirements.
21 However, as the Commission has recognized, rather than actively performing (*i.e.*,
22 producing energy or reserves) in real time as do other resource types, energy efficiency

² See *ISO New England, Inc. and New England Power Pool, Energy Efficiency Treatment During Capacity Scarcity Conditions*, FERC Docket No. ER20-1967-000; accepted by Letter Order issued July 21, 2020).

1 resources permanently reduce energy consumption. According to the Commission, it
2 follows that energy efficiency resources are therefore not able to respond to real-time
3 performance incentives. In contrast, for other resource types, there is some amount of
4 uncertainty associated with real-time performance. For example, during a Capacity
5 Scarcity Condition, a generator or import resource might experience a forced outage
6 preventing it from providing energy or reserves; the primary energy source driving a
7 variable renewable resource (*e.g.*, a wind- or solar-powered generator) might be absent; a
8 storage resource might have insufficient charge to provide energy or reserves; and a
9 demand response asset might be unable to reduce its energy consumption.

10
11 PFP is intended to provide resources with a strong incentive to perform by providing
12 energy or reserves in real time, which decreases the severity of a Capacity Scarcity
13 Condition or avoids it altogether. By removing energy efficiency from PFP obligations
14 and settlement, these revisions confine PFP obligations to resources whose real-time
15 performance is subject to uncertainty, and treats energy efficiency resources in a manner
16 that is consistent with their system benefits—that is, to reduce energy consumption
17 permanently and not to perform in real-time.

18
19 **Q: Please explain the changes being made to the financial assurance rules as part of this**
20 **filing.**

21 **A:** Capacity resources must have sufficient collateral on hand to cover any negative Capacity
22 Performance Payments that might accrue during Capacity Scarcity Conditions. Under the
23 revised design, energy efficiency resources will no longer be subject to potential PFP

1 charges during Capacity Scarcity Conditions and, as a result, there is no need for these
2 resources to post collateral offsetting potential losses. Therefore, with this filing, energy
3 efficiency resources will no longer be required to provide FCM Delivery Financial
4 Assurance, which reduces energy efficiency resource costs.

5
6 **V. CONCLUSION**

7 **Q: Does this conclude your testimony?**

8 **A: Yes.**

9
10 I declare, under penalty of perjury, that the foregoing is true and correct.

11 Executed on January 25, 2021

12
13
14 A handwritten signature in cursive script that reads "Ryan McCarthy" is written over a horizontal line.

15 Ryan McCarthy, Lead Analyst, ISO New England Market Development Department

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