

26 Attachment K - Creditworthiness Requirements For Customers

This Attachment K applies to all Customers and all applicants seeking to become Customers. “Customer,” as used in this Attachment K, shall also mean an applicant seeking to become a Customer.

26.1 Minimum Participation Criteria

To participate in the ISO-Administered Markets, in addition to satisfying any other eligibility requirements set forth in the ISO Tariffs, each Customer must satisfy, and at all times remain in compliance with, the following requirements:

- (a). Risk Management. Customer shall have written policies, procedures, and controls, approved by Customer's governing body, which provide an appropriate, comprehensive risk management framework that at a minimum, clearly identifies and documents the range of risks to which Customer is exposed, including, but not limited to, legal risk, credit risk, liquidity risk, custody and investment risk, concentration risk, default risk, operation risk, market risk, and business risk.
- (b). Training. Each employee and agent of Customer, which employee or agent has the right to bid or schedule in the ISO-Administered Markets, shall have adequate expertise to transact in the ISO-Administered Markets. In addition, each employee and agent of Customer, which employee or agent has the right to bid or schedule in the TCC market or Virtual Transactions, shall complete ISO-administered training specific to the TCC market and/or Virtual Transactions, as appropriate.
- (c). Operational Capabilities. Customer shall have appropriate operating procedures and technical abilities to promptly and effectively respond to all ISO communications and directions.
- (d). Capitalization. Customer shall meet the adequate capitalization criteria set forth below or post additional security in accordance with the following:

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- i. Demonstrate, based on Customer's, or its guarantor's, most recent audited financial statements, that Customer, or its guarantor, if applicable, has US \$10 million in assets or US \$1 million in tangible net worth; or
- ii. If Customer is unable to meet the adequate capitalization criteria set forth in Section 26.1(d).i. of this Attachment K, post with the ISO either (1) \$200,000 to participate in any/all of the ISO-Administered Markets other than the TCC market, which security Customer may not use to support any ISO credit requirements, or (2) \$500,000, to participate in any/all of the ISO-Administered Markets including the TCC market, which security the Customer may not use to support any ISO credit requirements.

Each Customer must demonstrate ongoing compliance with these minimum participation criteria annually by submitting to the ISO on or before April 30 of each year a notarized officer's certificate, signed by an authorized officer of Customer with signatory authority, in a form acceptable to the ISO, certifying that Customer is, and at all times has been, in compliance with each of the minimum participation requirements set forth in Sections 26.1(a)-(d) of this Attachment K. Moreover, each Customer must submit an initial notarized officer's certificate in compliance with the above by October 1, 2011.

Each Customer shall also submit to the ISO, upon request, any information or documentation required for the ISO to confirm Customer's compliance with the ISO's financial, operational, or other requirements of the ISO Tariffs, ISO Procedures, and/or ISO Agreements.

26.~~24~~ Reporting Requirements

26.~~24~~.1 All Customers. All Customers shall be required to comply with the reporting requirements in this Section 26.~~24~~.1

26.~~24~~.1.1 References

The ISO may require a Customer to provide references from one (1) bank and up to three (3) utilities. A Customer that does not have utility references, may substitute trade payable vendor references.

26.~~24~~.1.2 Prior Bankruptcy or Default

A Customer shall inform the ISO of any prior bankruptcy declarations or material defaults by the Customer or its predecessors, subsidiaries, or Affiliates occurring within the previous five (5) years.

26.~~24~~.1.3 Investigations

A Customer shall inform the ISO of the existence of any ongoing investigations of which the Customer is aware by the Securities and Exchange Commission, the Department of Justice, the Federal Energy Regulatory Commission, or the New York Public Service Commission which could have a material impact on the Customer's financial condition.

26.~~24~~.1.4 Material Change in Financial Status

A Customer shall inform the ISO of any material change in its financial status within five (5) business days, including but not limited to: (a) a downgrade of a long- or short-term debt rating by any ISO-approved rating agency; (b) placement on a negative credit watch by any ISO-approved rating agency; (c) a bankruptcy filing, insolvency, or a default under any financing agreement; (d) resignation or termination of a key officer; (e) initiation of a lawsuit that could

materially and adversely impact current or future financial performance; or (fe) restatement of prior financial statements.

26.21.1.5 Change in Peak Load

A Load Serving Entity shall inform the ISO as soon as practicable if it expects its peak Load to increase by fifteen percent (15%) or more above its peak Load during the Prior Equivalent Capability Period.

26.21.2 Customers Requesting Unsecured Credit

In addition to the reporting requirements in Section 26.21.1., above, a Customer requesting Unsecured Credit, including a request for an Equivalency Rating, shall be required to comply with the reporting requirements of this Section 26.21.2.

26.21.2.1 Financial Statements

A Customer requesting Unsecured Credit shall provide to the ISO audited annual financial statements from the most recent three (3) years and its recent quarterly financial statement. Thereafter, the Customer shall provide audited annual financial statements to the ISO within ninety (90) days of the end of each fiscal year and shall provide quarterly financial statements to the ISO within sixty (60) days of the end of each quarter. The ISO may grant an extension for the provision of quarterly and annual financial statements upon a showing of good cause.

26.21.2.2 Publicly-Traded Customer

A publicly-traded Customer shall provide financial statements on Form 10-K and 10-Q, respectively. A publicly-traded Customer shall also provide Form 8-K reports within five (5) business days of their issuance. Information available on EDGAR shall be deemed provided by a Customer that directs the ISO to obtain it there.

26.~~21~~.2.3 Privately-Held Customer

A Customer that is not publicly-traded shall provide financial statements that include a balance sheet including a statement of stockholders' equity, an income statement, a statement of cash flow, notes to the financial statement, and an unqualified auditor's opinion.

26.~~21~~.2.4 Government Entities

Notwithstanding Section 26.~~21~~.2.1 of this Attachment K, government entities that do not normally prepare quarterly financial statements shall not be required to provide them to qualify for Unsecured Credit.

26.~~32~~ Investment Grade Customers

26.~~32~~.1 Senior Long-Term Unsecured Debt Rating

A Customer shall be deemed an Investment Grade Customer if its senior long-term unsecured debt rating is BBB- or higher by Standard & Poor's or Fitch, or Baa3 or higher by Moody's. If a Customer has been rated by two of these agencies, the ISO shall use the lower of the two ratings. If a Customer is rated by all three of these rating agencies, and one rating agency differs in its rating of a Customer from the other two, the ISO shall use the matching ratings. If a Customer is rated differently by all three of these rating agencies, the ISO shall use the middle rating. A Customer that has not been rated by any of the three above-named rating agencies may use a rating from Dominion. Notwithstanding the above, a Customer with a senior long-term unsecured debt rating from any of the approved rating agencies below BBB- (or Baa3) shall be deemed to be a Non-Investment Grade Customer.

26.~~32~~.2 Issuer Rating

If a Customer does not have a senior long-term unsecured debt rating from Standard & Poor's, Fitch, Moody's or Dominion, the Customer shall nevertheless be deemed an Investment Grade Customer if it has an issuer rating of BBB or higher from Standard & Poor's, Fitch, or Dominion, or Baa2 or higher from Moody's.

A Customer that has a senior long-term unsecured debt rating from Standard & Poor's, Fitch, Moody's or Dominion shall not be permitted to substitute an issuer rating. The rules established in Section 26.~~32~~.1 of this Attachment K regarding conflicting ratings and the use of a Dominion rating shall apply to issuer ratings. Notwithstanding the above, a Customer with an issuer rating from any of the approved rating agencies below BBB (or Baa2) shall be deemed to be a Non-Investment Grade Customer.

26.32.3 Equivalency Rating

A Customer that has not received a senior long-term unsecured debt rating or an issuer rating from Standard & Poor's, Moody's, Fitch, or Dominion may request that the ISO assign it an Equivalency Rating. The ISO shall determine an Equivalency Rating using Moody's KMV RiskCalc™. A Customer with an Equivalency Rating of BBB or higher shall be deemed to be an Investment Grade Customer. The ISO shall review a Customer's Equivalency Rating at least once each quarter. A Customer may not use an Equivalency Rating in the event that it is rated by an ISO-approved rating agency.

26.43 Operating Requirement and Bidding Requirement

26.43.1 Purpose and Function

The Operating Requirement is a measure of a Customer's expected financial obligations to the ISO based on the nature and extent of that Customer's participation in ISO-Administered Markets. A Customer shall be required to allocate Unsecured Credit, where allowed, and/or provide collateral in an amount equal to or greater than its Operating Requirement. Upon a Customer's written request, the ISO will provide a written explanation for any changes in the Customer's Operating Requirement.

The Bidding Requirement is a measure of a Customer's potential financial obligation to the ISO based upon the bids that Customer seeks to submit in an ISO-administered TCC or ICAP auction. A Customer shall be required to allocate Unsecured Credit, where allowed, and/or provide collateral in an amount equal to or greater than its Bidding Requirement prior to submitting bids in an ISO-administered TCC or ICAP auction.

26.43.2 Calculation of Operating Requirement

The Operating Requirement shall be equal to the sum of (i) the Energy and Ancillary Services Component; (ii) the UCAP Component; (iii) the TCC Component; (iv) the WTSC Component; (v) the Virtual Transaction Component; (vi) the DADRP Component; and (vii) the DSASP Component where:

26.43.2.1 Energy and Ancillary Services Component

The Energy and Ancillary Services Component shall be equal to:

- (a) For Customers without a prepayment agreement, the greater of either:

$$\frac{\text{Basis Amount for Energy and Ancillary Services}}{\text{Days in Basis Month}} \times \text{5016}$$

- or -

$$\frac{\text{Total Charges Incurred for Energy and Ancillary Services for Previous Ten (10) Days}}{10} \times 5016$$

- (b) For Customers that qualify for a prepayment agreement, subject to the ISO's credit analysis and approval, and execute a prepayment agreement in the form provided in Appendix W-1, the greater of either:

$$\frac{\text{Basis Amount for Energy and Ancillary Services}}{\text{Days in Basis Month}} \times 3$$

or-

$$\frac{\text{Total Charges Incurred for Energy and Ancillary Services for Previous Ten (10) Days}}{10} \times 3$$

- (c) For new Customers, the ISO shall determine a substitute for the Basis Amount for Energy and Ancillary Services for use in the appropriate formula above equal to:

$$\text{EPL} \times 720 \times \text{AEP}$$

where:

EPL = estimated peak Load for the Capability Period; and

AEP = average Energy and Ancillary Services price during the Prior Equivalent Capability Period after applying the Price Adjustment.

26.43.2.2 UCAP Component

The UCAP Component shall be equal to the total of all amounts then-owed (billed and unbilled) for UCAP purchased in the ISO-administered markets.

26.43.2.3 TCC Component

The TCC Component shall be equal to the greater of either 26.43.2.3(a) or 26.43.2.3(b) where:

- (a) The sum of the amounts calculated in accordance with the appropriate per TCC term-based formula listed below for TCC purchases less the amounts calculated in accordance with the appropriate per TCC term-based formula listed below for TCC sales:

for two-year TCCs:

- (1) upon initial award of a two-year TCC until completion of the final round of the current one-year Sub-Auction:

$$2 \quad \times \quad \text{the amount calculated in accordance with the one-year TCC formula listed below}$$

where:

Pijt = auction price of a one-year TCC in the final round of the one-year Sub-Auction in the prior Capability Period Centralized TCC Auction with the same POI and POW combination as the two-year TCC; *provided, however*, in the event there is no price for a one-year TCC with the same POI and POW combination as the two-year TCC, then “Pijt” shall equal a proxy price, assigned by the NYISO, for a one-year TCC with like characteristics. For Centralized TCC Auctions conducted before May 1, 2010, the “auction price of a one-year TCC in the final round of the one-year Sub-Auction” means the auction price of a one-year TCC in the final Stage 1 round of the one-year TCC auction.

- (2) upon completion of the final round of the current one-year Sub-Auction until commencement of year two of a two-year TCC:

$$2 \quad \times \quad \text{the amount calculated in accordance with the one-year TCC formula listed below}$$

where:

Pijt = auction price of a one-year TCC in the final round of the current one-year Sub-Auction with the same POI and POW combination as the two-year TCC

- (3) upon commencement of year two of a two-year TCC until commencement of the final six months of the two-year TCC:

$$1 \quad \times \quad \text{the amount calculated in accordance with the one-year TCC formula listed below}$$

where:

Pijt = auction price of a one-year TCC in the final round of the most recently completed one-year Sub-Auction with the same POI and POW combination as the two-year TCC

- (4) upon commencement of the final six months of a two-year TCC until commencement of the final month of the two-year TCC:

the amount calculated in accordance with the six-month TCC formula listed below

where:

Pijt = auction price of a six-month TCC in the final round of the most recently completed six-month Sub-Auction with the same POI and POW combination as the two-year TCC

- (5) upon commencement of the final month of a two-year TCC:

the amount calculated in accordance with the one-month TCC formula listed below

where:

Pijt = auction price of a one-month TCC in the most recently completed monthly reconfiguration auction with the same POI and POW combination as the two-year TCC

for one-year TCCs:

- (1) upon initial award of a one-year TCC until completion of the final round of the current one-year Sub-Auction:

the amount calculated in accordance with the one-year TCC formula listed below

- (2) upon completion of the final round of the current one-year Sub-Auction until commencement of the final six months of the one-year TCC:

the amount calculated in accordance with the one-year TCC formula listed below

where:

Pijt = auction price of a one-year TCC in the final round of the current one-year Sub-Auction with the same POI and POW combination as the one-year TCC

- (3) upon commencement of the final six months of a one-year TCC until commencement of the final month of the one-year TCC:

the amount calculated in accordance with the six-month TCC formula listed below

where:

P_{ijt} = auction price of a six-month TCC in the final round of the most recently completed six-month Sub-Auction with the same POI and POW combination as the one-year TCC

- (4) upon commencement of the final month of a one-year TCC:

the amount calculated in accordance with the one-month TCC formula listed below

where:

P_{ijt} = auction price of a one-month TCC in the most recently completed monthly reconfiguration auction with the same POI and POW combination as the one-year TCC

for six-month TCCs:

- (1) upon initial award of a six-month TCC until completion of the final round of the current six-month Sub-Auction:

the amount calculated in accordance with the six-month TCC formula listed below

- (2) upon completion of the final round of the current six-month Sub-Auction until commencement of the final month of a six-month TCC:

the amount calculated in accordance with the six-month TCC formula listed below

where:

P_{ijt} = auction price of a six-month TCC in the final round of the current six-month Sub-Auction with the same POI and POW combination as the one-year TCC

(3) upon commencement of the final month of a six-month TCC:

the amount calculated in accordance with the one-month TCC formula listed below

where:

P_{ijt} = auction price of a one-month TCC in the most recently completed monthly reconfiguration auction with the same POI and POW combination as the six-month TCC

for one-month TCCs:

the amount calculated in accordance with the one-month TCC formula listed below

TCC formulas:

for one-year TCCs, representing a 5% probability curve:

$$+1.909 \sqrt{e^{10.9729 + .6514 (\ln(|P_{ijt}| + e)) + .6633 * Zone J}} - .9696 P_{ijt}$$

for six-month TCCs, representing a 3% probability curve:

$$+2.565 \sqrt{e^{11.6866 + .4749 (\ln(|P_{ijt}| + e)) + .4856 * Zone J - .0373 Summer}} - .8166 P_{ijt}$$

for one-month TCCs, representing a 3% probability curve:

$$+2.221 \sqrt{e^{11.2682 + 0.3221 (\ln(|P_{ijt}| + e)) + 1.3734 * Zone J + 2.00 * Zone K + Month}} - .8152 P_{ijt}$$

where:

P_{ijt} = auction price of i to j TCC in round t of the auction in which the TCC was purchased;

Zone J = 1 if TCC sources or sinks but not both in Zone J, zero otherwise;

Zone K = 1 if TCC sources or sinks but not both in Zone K and does not source or sink in Zone J, 0 otherwise;

Summer = 1 for six-month TCCs sold in the spring auction, 0 otherwise; and

Month = the following values:

January	=	0
February	=	-0.0201
March	=	0.1065
April	=	-0.3747
May	=	0.8181
June	=	0.2835
July	=	0.5201
August	=	0.7221
September	=	0.242
October	=	0.32
November	=	-0.7681
December	=	-0.3836

Provided, however, for purposes of determining the credit holding requirement for a Fixed Price TCC, the auction price shall be replaced by the fixed price associated with that Fixed Price TCC, as determined in Section 19.2.1 of Attachment M of the OATT.

- or -

- (b) The projected amount of the Primary Holder's payment obligation to the NYISO, if any, considering the net mark-to-market value of all TCCs in the Primary Holder's portfolio, as defined for these purposes, according to the formula below:

$$\sum_{n \in N} \left\{ \frac{NAP_n}{90} \times RD_n \right\}$$

where:

- NAP = the net amount of Congestion Rents (positive or negative) between the POI and POW composing each TCC_n during the previous ninety days
- RD = the remaining number of days in the life of TCC_n; *provided, however*, that in the case of Grandfathered TCCs, RD shall equal the remaining number of days in the life of the longest duration TCC sold in an ISO-administered auction then outstanding; and
- N = the set of TCCs held by the Primary Holder.

26.43.2.4 WTSC Component

The WTSC Component shall be equal to the greater of either:

$$\frac{\text{Greatest Amount Owed for WTSC During Any Single Month in the Prior Equivalent Capability Period}}{\text{Days in Month}} \times 50$$

- or -

$$\frac{\text{Total Charges Incurred for WTSC Based Upon the Most Recent Monthly Data Provided by the Transmission Owner}}{\text{Days in Month}} \times 50$$

Comment [A1]: This multiplier will remain 50 upon commencement of weekly invoicing because the Transmission Owners provide the WTSC data to the NYISO monthly.

Comment [A2]: This multiplier will remain 50 upon commencement of weekly invoicing because the Transmission Owners provide the WTSC data to the NYISO monthly.

26.43.2.5 Virtual Transaction Component

The Virtual Transaction Component shall be equal to the sum of the Customer's

(i) Virtual Supply credit requirement ("VSCR") for all outstanding Virtual Supply Bids, plus (ii) Virtual Load credit requirement ("VLCR") for all outstanding Virtual Load Bids, plus (iii) net amount owed to the ISO for settled Virtual Transactions.

Where:

$$\text{VSCR} = \sum (\text{VSG}_{\text{MWh}} \times \text{VSG}_{\text{CS}})$$

$$\text{VLCR} = \sum (\text{VLG}_{\text{MWh}} \times \text{VLG}_{\text{CS}})$$

Where:

VSG_{MWh} = the total quantity of MWhs of Virtual Supply that a Customer Bids for all Virtual Supply positions in the Virtual Supply group

VSG_{CS} = the amount of credit support required in \$/MWh for the Virtual Supply group

VLG_{MWh} = the total quantity of MWhs of Virtual Load that a Customer Bids for all Virtual Load positions in the Virtual Load group

VLG_{CS} = the amount of credit support required in \$/MWh for the Virtual Load group

The ISO will categorize each Virtual Supply Bid into one of the 72 Virtual Supply groups set forth in the Virtual Supply chart below, as appropriate, based upon the season, Load Zone, and time-of-day of the Virtual Supply Bid. The amount of credit support required in \$/MWh for

a Virtual Transaction in a particular Virtual Supply group shall equal the price differential between the Energy price in the Day-Ahead Market and the Energy price in the Real-Time Market, at the 97th percentile, based upon all possible Virtual Supply positions in the Virtual Supply group for the period of time from April 1, 2005, through the end of the preceding calendar month.

The ISO will categorize each Virtual Load Bid into one of the 30 Virtual Load groups set forth in the Virtual Load chart below, as appropriate, based upon the season, Load Zone, and time-of-day of the Virtual Load Bid. The amount of credit support required in \$/MWh for a Virtual Transaction in a particular Virtual Load group shall equal the price differential between the Energy price in the Day-Ahead Market and the Energy price in the Real-Time Market, at the 97th percentile, based upon all possible Virtual Load positions in the Virtual Load group for the period of time from April 1, 2005, through the end of the preceding calendar month.

If a Customer submits Bids for both Virtual Load and Virtual Supply for the same day, hour, and Load Zone, then for those Bids, until such time as those Bids have been evaluated by SCUC, only the greater of the Customer's (i) VLCR for the total MWhs Bid for Virtual Load, or (ii) VSCR for the total MWhs Bid for Virtual Supply will be included when calculating the Customer's Virtual Transaction Component. After evaluation of those Bids by SCUC, then only the credit requirement for the net position of the accepted Bids (in MWhs of Virtual Load or Virtual Supply) will be included when calculating the Customer's Virtual Transaction Component.

Virtual Supply Groups

Summer	Load Zones A–F	Load Zones G–I	Load Zone J	Load Zone K
HB07–10	VSG-1	VSG-7	VSG-13	VSG-19
HB11–14	VSG-2	VSG-8	VSG-14	VSG-20
HB15–18	VSG-3	VSG-9	VSG-15	VSG-21
HB19–22	VSG-4	VSG-10	VSG-16	VSG-22

Weekend/ Holiday (HB07–22)	VSG-5	VSG-11	VSG-17	VSG-23
Night (HB23–06)	VSG-6	VSG-12	VSG-18	VSG-24
Winter				
HB07–10	VSG-25	VSG-31	VSG-37	VSG-43
HB11–14	VSG-26	VSG-32	VSG-38	VSG-44
HB15–18	VSG-27	VSG-33	VSG-39	VSG-45
HB19–22	VSG-28	VSG-34	VSG-40	VSG-46
Weekend/ Holiday (HB07–22)	VSG-29	VSG-35	VSG-41	VSG-47
Night (HB23–06)	VSG-30	VSG-36	VSG-42	VSG-48
Rest-of-Year				
HB07–10	VSG-49	VSG-55	VSG-61	VSG-67
HB11–14	VSG-50	VSG-56	VSG-62	VSG-68
HB15–18	VSG-51	VSG-57	VSG-63	VSG-69
HB19–22	VSG-52	VSG-58	VSG-64	VSG-70
Weekend/ Holiday (HB07–22)	VSG-53	VSG-59	VSG-65	VSG-71
Night (HB23–06)	VSG-54	VSG-60	VSG-66	VSG-72

Where:

Summer	=	May, June, July, and August
Winter	=	December, January, and February
Rest-of-Year	=	March, April, September, October, and November
HB07–10	=	weekday hours beginning 07:00–10:00
HB11–14	=	weekday hours beginning 11:00–14:00
HB15–18	=	weekday hours beginning 15:00–18:00
HB19–22	=	weekday hours beginning 19:00– 22:00
Weekend/Holiday	=	weekend and holiday hours beginning 07:00–22:00
Night	=	all hours beginning 23:00– 06:00

Virtual Load Groups

Summer	Load Zones A–F	Load Zones G–I	Load Zone J	Load Zone K
HB07–10	VLG-1	VLG-4	VLG-8	VLG-12
HB11–14	VLG-2	VLG-5	VLG-9	VLG-13
HB15–18	VLG-2	VLG-6	VLG-10	VLG-14
HB19–22	VLG-1	VLG-4	VLG-8	VLG-15

Weekend/ Holiday (HB07–22)	VLG-3	VLG-4	VLG-8	VLG-16
Night (HB23–06)	VLG-1	VLG-7	VLG-11	VLG-12
Winter				
HB07–10	VLG-17	VLG-19	VLG-21	VLG-23
HB11–14	VLG-17	VLG-20	VLG-21	VLG-23
HB15–18	VLG-18	VLG-19	VLG-22	VLG-24
HB19–22	VLG-17	VLG-20	VLG-21	VLG-24
Weekend/ Holiday (HB07–22)	VLG-17	VLG-20	VLG-21	VLG-23
Night (HB23–06)	VLG-17	VLG-20	VLG-21	VLG-23
Rest-of-Year				
HB07–10	VLG-25	VLG-26	VLG-27	VLG-29
HB11–14	VLG-25	VLG-26	VLG-28	VLG-29
HB15–18	VLG-25	VLG-26	VLG-28	VLG-30
HB19–22	VLG-25	VLG-26	VLG-27	VLG-30
Weekend/ Holiday (HB07–22)	VLG-25	VLG-26	VLG-27	VLG-30
Night (HB23–06)	VLG-25	VLG-26	VLG-27	VLG-29

Where:

Summer	=	May, June, July, and August
Winter	=	December, January, and February
Rest-of-Year	=	March, April, September, October, and November
HB07–10	=	weekday hours beginning 07:00–10:00
HB11–14	=	weekday hours beginning 11:00–14:00
HB15–18	=	weekday hours beginning 15:00–18:00
HB19–22	=	weekday hours beginning 19:00– 22:00
Weekend/Holiday	=	weekend and holiday hours beginning 07:00–22:00
Night	=	all hours beginning 23:00– 06:00

26.43.2.6 DADRP Component

The DADRP Component shall be equal to the product of: (i) the Demand Reduction Provider’s monthly average of MWh of accepted Demand Reduction Bids during the prior summer Capability Period or, where the Demand Reduction Provider does not have a history of accepted Demand Reduction bids, a projected monthly average of the Demand Reduction

Provider's accepted Demand Reduction bids; (ii) the average Day-Ahead LBMP at the NYISO Reference Bus during the prior summer Capability Period; (iii) twenty percent (20%); and (iv) a factor of four (4). The ISO shall adjust the amount of Unsecured Credit and/or collateral that a Demand Reduction Provider is required to provide whenever the DADRP Component increases or decreases by ten percent (10%) or more.

26.43.2.7 DSASP Component

The DSASP Component is calculated every two months based on the Demand Side Resource's Operating Capacity available for the scheduling of such services, the delta between the Day-Ahead and hourly market clearing prices for such products in the like two-month period of the previous year, and the location of the Demand Side Resource. Resources located East of Central-East shall pay the Eastern reserves credit support requirement and Resources located West of Central-East shall pay the Western reserves credit support requirement. The DSASP Component shall be equal to:

- (a) For Demand Side Resources eligible to offer only Operating Reserves, the product of (i) the maximum hourly Operating Capacity (MW) for which the Demand Side Resource may be scheduled to provide Operating Reserves, (ii) the amount of Eastern or Western reserves credit support, as appropriate, in \$/MW per day, and (iii) three (3) days.

Where:

The amount of Eastern reserves credit support (\$/MW/day) for each two-month period	=	Eastern Price Differential for the same two-month period in the previous year * the higher of two (2) or the maximum number of daily Reserve Activations for the same two-month period in the previous year
The amount of Western reserves credit support (\$/MW/day) for each two-month period	=	Western Price Differential for the same two-month period in the previous year * the higher of two (2) or the maximum number of daily Reserve Activations for the same two-month period in the

previous year

Two-month periods:

= January and February
March and April
May and June
July and August
September and October
November and December

MCP_{SRh}

= Hourly, time-weighted Market Clearing Price for Spinning Reserves

Eastern Price Differential

= The hourly differential at the 97th percentile of all hourly differentials between the Day-Ahead and Real-Time MCP_{SRh} for Eastern Spinning Reserves for hours in the two-month period of the previous year when the Real-Time MCP_{SRh} for Eastern Spinning Reserves exceeded the Day-Ahead MCP_{SRh} for Eastern Spinning Reserves

Western Price Differential

= The hourly differential at the 97th percentile of all hourly differentials between the Day-Ahead and Real-Time MCP_{SRh} for Western Spinning Reserves for hours in the two-month period of the previous year when the Real-Time MCP_{SRh} for Western Spinning Reserves exceeded the Day-Ahead MCP_{SRh} for Western Spinning Reserves

Reserve Activations

= The number of reserve activations at the 97th percentile of daily reserve activations for days in each two month period of the previous year that had reserve activations.

- (b) For Demand Side Resources eligible to offer only Regulation Service, or Operating Reserves and Regulation Service, the product of (i) the maximum hourly Operating Capacity (MW) for which the Demand Side Resource may be scheduled to provide Regulation Service and Operating Reserves, (ii) the amount of regulation credit support, as appropriate, in \$/MW per day, and (iii) three (3) days.

Where:

The amount of regulation = Price Differential for the same two-month

credit support (\$/MW/day) for each two-month period		period in the previous year * 24 hours
Two-month periods:	=	January and February March and April May and June July and August September and October November and December
MCP_{RegH}	=	Hourly, time-weighted Market Clearing Price for Regulation Services
Price Differential	=	The hourly differential at the 97 th percentile of all hourly differentials between the Day- Ahead and Hour-Ahead MCP_{RegH} for hours in the two-month period of the previous year when the Real-Time MCP exceeded the Day- Ahead MCP

26.43.3 Calculation of Bidding Requirement

The Bidding Requirement shall be an amount equal to the sum of:

- (i) the amount of bidding authorization that the Customer has requested for use in an upcoming ISO-administered TCC auction, which shall account for all positive bids to purchase TCCs and the absolute value of all negative offers to sell TCCs; *provided, however*, that the amount of credit required for each TCC that the Customer bids to purchase, whether positive, negative, or zero shall not be less than (a) (2 x \$/MW for one-year TCCs) per MW for two-year TCCs, (b) \$1,500 per MW for one-year TCCs, (c) \$2,000 per MW for six-month TCCs, and (d) \$600 per MW for one-month TCCs;
- (ii) the approximate amount that the Customer may owe following an upcoming TCC auction as a result of converting expired ETAs into TCCs pursuant to Section 19.2.1 of Attachment M to the OATT, which shall be calculated in accordance

with the provisions of Section 19.2.1 regarding the purchase of TCCs with a duration of ten years;

- (iii) the amount of bidding authorization that the Customer has requested for use in an upcoming ISO-administered ICAP auction; and
- (iv) five (5) days prior to any ICAP Spot Market Auction, the maximum amount that the Customer may be required to pay for UCAP in the auction.

26.54 Unsecured Credit

A Customer may use Unsecured Credit to satisfy any part of its Operating Requirement or Bidding Requirement other than any credit requirement for bidding on or holding TCCs ~~incurred on or after November 12, 2009. Notwithstanding the preceding sentence, a Customer may use Unsecured Credit to satisfy its credit requirement for holding Fixed Price TCCs obtained pursuant to Section 19.2.1 of Attachment M to the OATT. Affiliate guarantees are a~~ form of Unsecured Credit.

Upon written request of a Customer, the ISO shall determine the amount of Unsecured Credit to be granted to the Customer, if any, in accordance with the ISO's creditworthiness requirements. Upon a Customer's written request, the ISO will provide a written explanation for any changes in the amount of the Customer's Unsecured Credit.

26.54.1 Eligibility

A Customer may be eligible to receive Unsecured Credit if the Customer (i) (a) is an Investment Grade Customer, or (b) is an Unrated Customer that is deemed an Investment Grade Customer pursuant to an Equivalency Rating, and (ii) (a) has actively participated in the ISO-Administered markets and paid when due all of its invoices during the immediately preceding six months, or (b) has actively participated in the markets of another independent system operator or regional transmission organization and has paid when due all of its invoices during the immediately preceding six months. Any Customer relying on its payment history in another market to fulfill the requirement of Section 26.54.31(ii)-2 ~~jm~~ must provide evidence satisfactory to the ISO of such payment history. Notwithstanding the foregoing, a Customer otherwise eligible for Unsecured Credit that fails to respond to the ISO's request to update the Customer's list of Affiliates, within the time frame provided by Section 9.2 of the ISO Services Tariff, shall not be eligible for Unsecured Credit.

26.54.2 Market Concentration Cap

A Customer's Unsecured Credit shall not exceed ~~one hundred and~~ fifty million dollars (\$150M) (the "Market Concentration Cap"). ~~Moreover, the maximum amount of Unsecured Credit extended to a group of Customers that are Affiliates shall not exceed, in the aggregate, the Market Concentration Cap unless the Customer:~~ (i) ~~is an Investment Grade Customer,~~ (ii) ~~provides evidence to the ISO, in a form satisfactory to the ISO in its sole discretion, that the Customer has a legal right to recover its costs for supplying Energy, Ancillary Services, and Capacity to end users, and~~ (iii) ~~uses its Unsecured Credit to meet its Native Load Credit Requirements only. For NYPA, Native Load Customers include all wholesale and retail power customers for which NYPA is under contract to provide electric service. A Customer that satisfies all of the conditions in clauses (i), (ii) and (iii) of this Section 26.4.2 may receive Unsecured Credit in excess of one hundred and fifty million dollars (\$150M) but the Customer's Unsecured Credit shall not exceed two hundred and fifty million dollars (\$250M). Once Market Participants approve the indexing methodology for adjusting these dollar limits, then the indexing methodology will be set forth in ISO Procedures and these dollar limits will be adjusted annually in accordance with that methodology.~~

26.54.3 Determination of Unsecured Credit

26.54.3.1 Starting Point

The starting point for determining the amount of Unsecured Credit to be granted to an Investment Grade Customer, except as provided otherwise in Section 26.54.3.6 of this Attachment K, shall be a percentage of its Tangible Net Worth, as indicated on the matrix contained in Table K-1, subject to the Market Concentration Cap.

26.54.3.2 Adjustment to Starting Point

The ISO shall conduct a Credit Assessment of the Customer and shall determine the amount of Unsecured Credit that it shall grant to the Customer by adjusting the Customer's starting point in accordance with the following table:

Starting Point Adjustment

Score Bucket	Public Score Range	Private Score Range	Starting Point Adjustment
1	0.00 – 0.33	0.00 – 0.31	0%
2	0.34 – 0.40	0.32 – 0.39	-20%
3	0.41 – 0.45	0.40 – 0.43	-50%
4	0.46 – 0.50	0.44 – 0.48	-80%
5	0.51+	0.49+	-100%

26.54.3.3 Adjustment to Unsecured Credit

- (a) In the event of a change in a Customer's (1) Tangible Net Worth, and/or (2) agency rating, the ISO shall recalculate the Customer's starting point and Unsecured Credit amount in accordance with Sections 26.54.3.1 and 26.54.3.2 of this Attachment K.
- (b) The ISO may conduct a Credit Assessment of a Customer at any time and adjust the amount of Unsecured Credit granted to the Customer in accordance with the following table:

Unsecured Credit Adjustment

Current Credit Assessment Score Bucket						
Prior Credit Assessment Score Bucket	Score Bucket	1	2	3	4	5
	1	0%	-20%	-50%	-80%	-100%
	2	25%	0%	-38%	-75%	-100%
	3	100%	60%	0%	-60%	-100%
	4	400%	300%	150%	0%	-100%
	5	N/A	N/A	N/A	N/A	N/A

26.54.3.4 Restoration of Unsecured Credit

A Customer that is subject to a 100% reduction of Unsecured Credit shall not be eligible for Unsecured Credit again until the Customer demonstrates two consecutive quarters of financial performance that would otherwise have qualified the Customer for Unsecured Credit in accordance with Sections 26.54.3.1 and 26.54.3.2 of this Attachment K.

26.54.3.5 Credit Assessment

- (a) In performing a Credit Assessment, the ISO shall evaluate specified indicators of credit risk pertaining to a Customer, which indicators will vary depending on whether the Customer is categorized by the ISO as a private entity or a public entity. The ISO shall categorize a Customer as private or public, for Credit Assessment purposes, in accordance with the following criteria:

Primary Criteria	Secondary Criteria	Credit Assessment Category
Standalone public trading company	None	Public
Subsidiary of a public company with its parent company as guarantor	None	Public
Subsidiary of a public company	With assets greater than US\$10B	Public
Subsidiary of a public company	Contributes 50% or more of its parent company's revenues or accounts for 50% or more of its assets	Public
Subsidiary of a public company	Contributes less than 50% of its parent company's revenues or represents less than 50% of its assets	Private
Does not satisfy the criteria listed above	None	Private

- (b) The ISO shall determine the Credit Assessment score for a Customer based upon the market and financial indicators and weightings, as appropriate, set forth below.

Public Entity Indicators	Weight
▪ Market Indicators	
• Absolute CDS Spread	21.3%
• Relative Stock Decline from 3 month high	4.3%
• Stock Return Volatility (3 month std. deviation)	12.7%
▪ Performance	
• Revenue/Market Cap	12.7%
• Retained Earnings/Assets	8.5%
▪ Debt Coverage	
• Total Debt/EBITDA	12.7%
▪ Leverage	
• Debt/(Total Debt + Equity)	8.5%
▪ Liquidity	
• Cash/Assets	4.3%
▪ Qualitative Assessment	15.0%

Private Entity Indicators	Weight
▪ Performance	
• Return on Assets	17.5%
• Profit Margin	10.5%
▪ Debt Coverage	
• Total Debt/EBITDA	17.5%
▪ Leverage	
• Total Debt/Total Assets	17.5%
▪ Liquidity	
• Cash/Assets	7.0%
▪ Qualitative Assessment	30.0%

- (c) If one or more of the indicators listed above does not exist for a Customer, then the ISO shall, in its sole discretion, reallocate the weight attributed to that indicator either (1) to the remaining indicators proportionately, or (2) entirely to the qualitative assessment indicator.
- (d) The qualitative areas evaluated shall include, but shall not be limited to, the following (as applicable): (1) Affiliate financial and market indicators, (2) ratemaking ability and legal right to fully recover end-user costs, (3) industry characteristics, (4) risk policies and procedures, (5) management quality, (6) ability to access funding in difficult market conditions, and (7) historical

relationship and payment history with the ISO. A Transmission Owner that can recover end-user costs pursuant to authority granted by the PSC will receive a qualitative assessment score of no worse than five.

26.54.3.6 Public Power Entities

The following additional provisions shall apply to the determination of a Customer's Unsecured Credit:

- (a) A Public Power Entity shall qualify for one million dollars (\$1M) in Unsecured Credit, without regard for its Tangible Net Worth or Credit Assessment. ~~Once Market Participants approve the indexing methodology for adjusting this dollar limit, then the indexing methodology will be set forth in ISO Procedures and this dollar limit will be adjusted annually in accordance with that methodology.~~

Municipal electric systems that operate through a joint action agency or a similar municipal affiliation agreement may aggregate their Unsecured Credit amounts of one million dollars (\$1M) per member such that the joint action agency will have an Unsecured Credit amount subject to the Market Concentration Cap equal to the total of the Unsecured Credit amounts of each individual member. Each such agency will qualify for such aggregated Unsecured Credit treatment subject to the ISO's review of the particular affiliation agreement and the ISO's review of documentation submitted by the agency to demonstrate that it has been formed under the pertinent sections of the New York State Municipal Law.

- (b) In lieu of a one million dollar (\$1M) grant of Unsecured Credit, a Public Power Entity may request Unsecured Credit based on its Tangible Net Worth and Credit Assessment. In such case, the ISO will consider the Public Power Entity a private entity for Credit Assessment purposes.

~~(e) — At its request, a Public Power Entity that (1) is an Investment Grade Customer, (2) fulfills the additional reporting requirements set forth below, and (3) uses its Unsecured Credit to meet its Native Load Credit Requirement only, may qualify for Unsecured Credit, without regard to its Tangible Net Worth or Credit Assessment, equal to the lesser of (x) sixty million dollars (\$60M), or (y) its Native Load Credit Requirement. Once Market Participants approve the indexing methodology for adjusting this dollar limit, then the indexing methodology will be set forth in ISO Procedures and this dollar limit will be adjusted annually in accordance with that methodology.~~

~~To fulfill the additional reporting requirements, a Public Power Entity must submit either (1) quarterly financial statements within 60 days of quarter end that have been certified for accuracy by a senior officer, or (2) if quarterly financial statements are not typically prepared, then (a) a copy of the current year adopted budget prior to the start of the of the Customer's fiscal year that has been certified for accuracy by a senior officer, and (b) within sixty (60) days of quarter end, a statement from a senior officer certifying that actual costs have not exceeded budgeted costs by greater than 10%.~~

26.54.4 Affiliate Guarantors, Affiliate Guarantees

An Affiliate guarantor shall be subject to the ISO's financial assurance requirements as if the Affiliate guarantor were a Customer and shall be assigned a level of Unsecured Credit, if any.

~~An~~ Affiliate guarantee must be in a form acceptable to the ISO and issued by an Investment gGrade U.S. or Canadian Affiliate. A Customer's failure to provide a source of collateral in an amount sufficient to secure its obligations to the ISO fifty (50) days prior to the termination of an Affiliate guarantee, which source of collateral shall be guaranteed to remain in

Comment [A3]: This provision has been relocated from Section 26.5.1.3.

effect for a period of not less than one (1) year, shall be a condition of default enabling the ISO to immediately demand payment in the full amount of the Affiliate guarantee.

26.54.5 Requests for Changes, Appeals

Requests for changes to the amount of a Customer's Unsecured Credit shall be made in writing to the ISO Credit Manager. Appeals of any decision regarding a Customer's Unsecured Credit shall be made in writing to the ISO's Chief Financial Officer and shall include all necessary supporting documentation. The Chief Financial Officer shall determine all appeals within ten (10) business days.

26.65 ~~Additional Security~~ Use of Collateral

A Customer shall be required to provide collateral in an acceptable form in accordance with Section 26.6.1, to support its obligations to the ISO to (i) satisfy any credit requirement for bidding on or holding TCCs ~~incurred on or after November 12, 2009~~, and (ii) to the extent that its Operating Requirement and/or Bidding Requirement exceed(s) the total of its Unsecured Credit plus and any existing posted collateral ~~by more than \$10,000. The ISO shall also not accept an Affiliate guarantee to satisfy any credit requirement for bidding on or holding TCCs incurred on or after November 12, 2009. Notwithstanding the preceding sentences, a Customer may use Unsecured Credit to satisfy its credit requirement for holding Fixed Price TCCs obtained pursuant to Attachment M of the OATT.~~

26.65.1 Acceptable Collateral

26.65.1.1 Cash deposit

A cash deposit shall be held in escrow by the ISO, with actual interest earned on the deposit accrued to the Customer's account.

26.65.1.2 Letter of credit

A letter of credit shall be in a form acceptable to the ISO and issued or guaranteed by an approved U.S. or Canadian commercial bank with a minimum "A" rating from Standard & Poor's, Fitch, Moody's, or Dominion. A Customer's failure to provide a source of collateral in an amount sufficient to secure its obligations to the ISO fifty (50) days prior to the termination of a letter of credit, which source of collateral shall be guaranteed to remain in effect for a period of not less than one (1) year, shall be a condition of default enabling the ISO to immediately draw upon the full value of the letter of credit.

~~26.5.1.3~~ **Affiliate Guarantee**

Comment [A4]: This section has been moved to fall within the Unsecured Credit provision (see Section 26.4.4).

~~An Affiliate guarantee must be in a form acceptable to the ISO and issued by an investment grade U.S. or Canadian Affiliate. A Customer's failure to provide a source of collateral in an amount sufficient to secure its obligations to the ISO fifty (50) days prior to the termination of an Affiliate guarantee, which source of collateral shall be guaranteed to remain in effect for a period of not less than one (1) year, shall be a condition of default enabling the ISO to immediately demand payment in the full amount of the Affiliate guarantee.~~

~~26.65.1.34~~ **Surety Bonds**

A surety bond shall be in a form acceptable to the ISO, payable immediately upon demand without prior demonstration of the validity of the demand, and issued by a U.S. Treasury-listed surety with a minimum "A" rating from A.M. Best. A Customer's failure to provide a source of collateral in an amount sufficient to secure its obligations to the ISO fifty (50) days prior to the termination of a surety bond, which source of collateral shall be guaranteed to remain in effect for a period of not less than one (1) year, shall be a condition of default enabling the ISO to immediately demand payment of the full value of the surety bond.

~~26.65.1.45~~ **Netting of Amounts Receivable**

~~Upon written notice to the ISO, a~~ Customer may elect to treat as cash collateral the amount that the ISO determines will be owed to the Customer as of the day after the next regular ~~weekly~~ monthly payment to the Customer and that will be payable to the Customer in the following regular ~~weekly~~ monthly payment; ~~provided, however~~ that (i) any such payment to the Customer may be adjusted by the ISO as necessary to correct for any error in this determination, ~~and (ii) the Customer first enter into a security agreement with the ISO in a form acceptable to the ISO. At a minimum, the security agreement must grant to the ISO a continuing, first priority~~

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security interest in the Customer's ISO receivables and authorize the ISO to file financing statements, as necessary, at Customer's expense, to protect the ISO's interest.

26.65.2 Cash Collateral Investment Alternatives

26.65.2.1 Investment Alternatives

A Customer may elect to deposit some or all of its cash collateral it has posted with the ISO to satisfy its Operating Requirement into one or both of two bond funds: a short-term bond fund ("Short-Term Bond Fund") and an intermediate-term bond fund ("Intermediate-Term Bond Fund") (each a "Bond Fund"). A Customer's election shall be in writing and shall not be changed more than twice each year.

26.65.2.2 Additional Premium

A Customer electing to deposit cash collateral into a Bond Fund shall be required to also deposit a premium above the base amount of cash collateral to protect against fluctuations in the value of the Bond Fund. A 5% premium shall be required for investments in the Short-Term Bond Fund. A 10% premium shall be required for investments in the Intermediate-Term Bond Fund.

26.65.2.3 ISO Monitoring

The ISO shall monitor the value of the Bond Funds at least once each week. If at any time the value of the Customer's account in a Bond Fund reduces by an amount equal to fifty percent (50%) of the premium required for participation in that Bond Fund, or more, the ISO shall provide the Customer with a notice requesting additional cash collateral to restore the required balance in the Bond Fund. If a Customer fails to provide the additional collateral by 4:00 p.m. on the business day following the NYISO's notice requesting additional cash

collateral, the ISO may immediately liquidate the Customer's Bond Fund deposit and transfer the balance to a standard cash collateral deposit account.

26.65.2.4 Example

Assume a Customer has an Operating Requirement of \$300 and elects to place \$100 in the standard cash collateral deposit account; \$100 in the Short-Term Bond Fund; and \$100 in the Intermediate-Term Bond Fund. As such, the Customer would be required to place \$100 in the standard cash collateral deposit account. The Customer would be required to place \$100 plus \$5 (the 5% required premium) for a total of \$105 to participate in the Short-Term Bond Fund. The Customer would be required to place \$100 plus \$10 (the 10% required premium) for a total of \$110 to participate in the Intermediate-Term Bond Fund. Assume further that upon the ISO monitoring, it discovers that the value of the Customer's Short-Term Bond Fund decreased to \$102.50 while the value of the Intermediate-Term Bond Fund remained unchanged. The ISO would then notify the Customer to provide an additional \$2.50 of collateral such that the 5% premium would be met for the Short-Term Bond Fund. If the Customer failed to timely provide the additional collateral, the ISO may then liquidate the \$102.50 balance in the Short-Term Bond Fund and place it in a standard cash collateral deposit account. The Intermediate-Term Bond Fund would remain unaffected.

~~26.5.3 Pay-down Agreement~~

~~In lieu of providing any collateral or additional collateral otherwise required by the ISO's creditworthiness requirements, a Customer may execute a pay-down agreement with the ISO pursuant to which the Customer shall, upon written demand by the ISO, pay down the amount by which its Operating Requirement, as calculated pursuant to Article 26.3 of this Attachment K, exceeds the amount of its Unsecured Credit and any existing collateral. The ISO shall accept~~

~~payment from a Customer at any time, but such payment shall eliminate the Customer's collateral requirements only if the payment is made pursuant to a pay-down agreement.~~

26.65.34 Alternative Security Arrangements

Alternative security arrangements substantially similar to the credit requirements set forth in this Attachment K may be made in exigent circumstances to protect the financial position of the ISO if proposed by the Customer and approved by the ISO.

26.76 Additional Financial Assurance Policies for Virtual Transactions

26.76.1 ISO Monitoring

The ISO shall monitor the Virtual Transaction Bids submitted by a Customer. If the credit support required for any batch of Virtual Transaction Bids submitted by a Customer exceeds the amount of the Customer's available credit support for Virtual Transactions, then all of the Customer's Virtual Transaction Bids in that batch of Bids shall be rejected by the ISO.

26.76.2 Suspension

If, at any time ~~during the regular monthly billing cycle~~, the net amount owed to the ISO by a Customer as a result of Virtual Transactions reaches fifty percent (50%) of the credit support provided by the Customer to support its Virtual Transactions, then the ISO shall attempt to contact the Customer to request either payment or additional credit support in the amount then owed by the Customer as a result of its Virtual Transactions.

If the day after the ISO's request stated above falls on a business day and the Customer fails to make payment or provide additional credit support as described above by 4:00 p.m. on that next business day, then the ISO may immediately suspend the Customer's authorization to engage in Virtual Transactions until payment or provision of its required amount of credit support using Unsecured Credit and/or collateral.

If the day after the ISO's request does not fall on a business day, then the ISO may issue a demand for credit support and immediately suspend the Customer's authorization to engage in Virtual Transactions until the Customer makes payment or provides its required amount of credit support using Unsecured Credit and/or collateral.

If, at any time ~~during the regular monthly billing cycle~~, the amount owed to the ISO by a Customer as a result of its Virtual Transactions reaches one hundred percent (100%) of the credit support provided by the Customer to support its Virtual Transactions, then the ISO may

cancel any pending Day-Ahead Bids before they are accepted and may immediately suspend the Customer's authorization to engage in Virtual Transactions until the Customer makes payment or provides its required amount of credit support using Unsecured Credit and/or collateral.

26.87 Additional Financial Assurance Policies for Demand Side Resources Offering Ancillary Services

26.87.1 Suspension

- (i) If, at any time ~~during the regular monthly billing cycle~~, the amount owed to the ISO by a Demand Side Resource offering Ancillary Services as a result of its market activity reaches fifty percent (50%) of the credit support provided by the Demand Side Resource offering Ancillary Services to support its market transactions, the ISO shall attempt to contact the Demand Side Resource to request either payment or additional credit support in the amount then owed by the Demand Side Resource to support its market transactions.
- (ii) If the day after the ISO's request described above falls on a business day and the Demand Side Resource fails to make payment or provide additional credit support as described above by 4:00 p.m. on the day after the ISO's request described above, the ISO may immediately suspend the Demand Side Resource's authorization to engage in market transactions until payment or provision of its required amount of credit support using Unsecured Credit and/or collateral.
- (iii) If the day after the ISO's request does not fall on a business day, the ISO may issue a demand for credit support and immediately suspend the Demand Side Resource's authorization to engage in market transactions until the Demand Side Resource makes payment or provides its required amount of credit support using Unsecured Credit and/or collateral.
- (iv) If, at any time ~~during the regular monthly billing cycle~~, the amount owed to the ISO by a Demand Side Resource as a result of its market transactions reaches one hundred percent (100%) of the credit support provided by the Demand Side Resource to support its market transactions, the ISO may cancel any pending

Day-Ahead bids and may immediately suspend the Demand Side Resource's authorization to engage in market transactions until the Demand Side Resource makes payment or provides its required amount of credit support using Unsecured Credit and/or collateral.

26.98 Additional Financial Assurance Policies for Wholesale Transmission Service Charges

26.98.1 Application of Security

In the event a Transmission Owner declares a certain WTSC overdue and satisfies the requirements specified in Section 26.98.2 below, the NYISO will reimburse the Transmission Owner for part, or all, of the unpaid amount.

To the extent a Market Participant's Unsecured Credit does not satisfy the Market Participant's Operating Requirement, the NYISO will collect and hold collateral calculated pursuant to the WTSC Component of the Operating Requirement to secure payments owed by Customers to Transmission Owners. Any security held by the ISO for a Customer in excess of the amount collected pursuant to the WTSC Component of the Operating Requirement shall be available to secure WTSC only to the extent the ISO determines that such collateral will not be necessary to secure any payment obligations to the ISO, including true-up payments and other anticipated invoice adjustments. The ISO shall have access to any collateral collected pursuant to the WTSC Component of the Operating Requirement only to the extent that the ISO determines such collateral is not necessary to secure WTSC payment obligations to Transmission Owners.

26.98.2 Prerequisites to NYISO Action

The following conditions must be fully satisfied before the NYISO takes action to address a WTSC nonpayment:

- 26.98.2.1 The WTSC payment must be at least ten (10) days overdue, as measured from the due date on the invoice sent to the Customer by the Transmission Owner;

26.98.2.2 The Transmission Owner must have issued a late notice and demand letter to the Customer specifying both the amount and period by which the WTSC payment is overdue;

26.98.2.3 The Transmission Owner must have made an additional, informal attempt to collect the overdue WTSC payment from the Customer which may be, without limitation, a telephone call or meeting with appropriate personnel (the method of such additional informal attempt shall be at the Transmission Owner's discretion); and

26.98.2.4 The Transmission Owner must provide to the ISO, by certified mail or other verifiable delivery method, a copy of the initial invoice sent to the Customer, a copy of the late notice and demand letter with proof of receipt by the Customer, an indemnification of the ISO regarding the liabilities discussed in Section 26.98.3 below, a request that the NYISO draw upon available collateral to satisfy the default, and a sworn statement by an officer of the Transmission Owner stating: (a) that the WTSC payment is due and owing, (b) the period by which the WTSC payment is overdue, (c) a recitation of the Transmission Owner's collection efforts (including the additional, informal attempt to collect the debt).

26.98.3 NYISO Action

On the first business day after the ISO has received the notice that satisfies the requirements listed in Section 26.98.2.4 above, the ISO: (i) shall send a final demand for payment of the WTSC to the Customer within two (2) business days; (ii) shall initiate a draw upon available collateral for the benefit of the affected Transmission Owner if the WTSC due is

not paid within two (2) business days of the letter; and (iii) may begin termination proceedings in accordance with the NYISO tariffs.

26.98.4 Transmission Owner Indemnification to the NYISO

As a prerequisite for ISO action listed in Section 26.98.3 above, the Transmission Owner will indemnify and hold the ISO harmless against liability arising out of the use of security to satisfy a WTSC nonpayment, any proceeding to terminate service, or termination of service to a customer except to the extent the dispute arises out of the ISO's reporting to the Transmission Owner of whether the underlying wheel through, internal wheel or export transaction(s) actually occurred and the details of the transaction.

26.109 Request for Additional Credit Support

If, at any time, the ISO requests additional credit support from a Customer to meet a shortfall, the Customer shall, within two (2) business days from the date of the request, or any shorter time period specified by the ISO or otherwise required by the ISO Tariffs, allocate Unsecured Credit and/or post collateral in an amount sufficient to cover the shortfall.

26.11 Retention of a Withdrawing Customer's Collateral

To the extent that a Customer's credit requirements are met with a cash deposit or a letter of credit, the ISO shall retain a portion of that collateral upon the Customer's withdrawal from the ISO-Administered Markets to secure any remaining financial obligations, including true-up payments or other invoice adjustments. The amount retained by the ISO shall be determined according to the following formula:

$$\text{RCC} = (\text{AFA} \times \text{F}) + (\text{ASA} \times \text{S})$$

where:

RCC = Retained Customer Collateral. The amount of a Customer's cash deposit or letter of credit to be retained following the Customer's withdrawal from the ~~NY~~ISO-~~a~~Administered ~~m~~Markets.

AFA = Average adjustment to the Customer's initial invoices in its four-month true-ups calculated over the prior six months.

F = Number of four-month true-ups remaining until all of the Customer's monthly invoices are finalized by the ISO.

ASA = Average adjustment to the Customer's initial invoices in its six-month true-ups calculated over the prior six months.

S = Number of six-month true-ups remaining until all of the Customer's monthly invoices are finalized by the ISO.

26.120 Material Adverse Change

The amount of Unsecured Credit granted to a Customer, if any, and the amount of the Customer's Operating Requirement shall be subject to change, at the discretion of the ISO, in the event that there is a material adverse change affecting the risk of nonpayment by the Customer, which includes, but is not limited to: (a) a material change in financial status pursuant to Section 26.2.1.4 of this Attachment K, (b) a downgrade of an Equivalency Rating, (c) a significant change in the Customer's "Expected Default Frequency (EDF)" as determined by Moody's KMV CreditEdge, (d) a significant variation in the Customer's Credit Assessment, (e) a significant increase in a Customer's credit default swap (CDS) spreads, or (f) a significant decline in a Customer's market capitalization. In the event the ISO invokes its rights pursuant to this Section 26.12, the ISO will provide the affected Customer with a written explanation of the reasons the ISO declared a material adverse change.

Table K-1 Tangible Net Worth Credit Matrix

Customer Rating				Starting Point for Determining Unsecured Credit	
Senior Long-term Unsecured Debt Rating		Issuer Rating or Equivalency Rating		(% of Tangible Net Worth)	
S&P, Fitch, and Dominion	Moody's	S&P, Fitch, Dominion, and NYISO	Moody's		
A+ or higher	A1 or higher	AA- or higher	Aa3 or higher	7.5%	
A	A2	A+	A1	6.5%	
A-	A3	A	A2	5.0%	
BBB+	Baa1	A-	A3	4.0%	
BBB	Baa2	BBB+	Baa1	2.5%	
BBB-	Baa3	BBB	Baa2	1.5%	
BB+ or lower	Ba1 or lower	BBB- or lower	Baa3 or lower	0%	

Appendix K-1 - Form Of Customer Prepayment Agreement

THIS PREPAYMENT AGREEMENT, effective as of [date] (“Prepayment Agreement”) is entered into by and between the New York Independent System Operator, Inc. (“NYISO”) and [full legal name of customer] (“Customer”). Capitalized terms used and not otherwise defined herein shall have the meaning ascribed to those terms in the Open Access Transmission Tariff (“OATT”) or the Market Administration and Control Area Services Tariff (“Services Tariff”), as context requires.

1. Prepayment to Reduce Operating Requirement. Customer agrees to make a payment each week for purchases of Energy and Ancillary Services (“Prepayment”) in order to reduce the Energy and Ancillary Services Component of its Operating Requirement pursuant to Section 26.43.2.1 of Attachment K of the Services Tariff.
2. Prepayment Amount. The amount of each Prepayment (“Prepayment Amount”) shall be the NYISO’s reasonable estimate, based on the charges incurred by Customer during the previous week, of the charges that Customer will incur during the ~~following next calendar~~ week for purchases of Energy and Ancillary Services in the NYISO-administered markets. The initial Prepayment Amount is \$[amount]. NYISO shall inform Customer of any change in the Prepayment Amount not later than 11:00 A.M. EST on the last business day prior to the day on which the next Prepayment is due. Amounts owed to Customer by NYISO in regular ~~monthly~~ weekly settlements shall not reduce or offset the Prepayment Amount.
3. Manner and Timing of Payment. Customer shall make each Prepayment not later than 4:00 P.M. EST on the ~~second~~ first business day ~~after the NYISO requests Prepayment of the week~~ by wire transfer , or other payment method, if any, authorized by ISO Procedures, to the account designated by NYISO.
4. Supplemental Payment. In the event that NYISO determines that a Prepayment is less than the charges incurred or estimated to be incurred by Customer for purchases of Energy and Ancillary Services in the week for which the Prepayment is made, Customer shall make a supplemental payment upon written demand by NYISO. NYISO shall specify in its demand the amount of the supplemental payment and the time for such payment to be made; *provided, however,* that the payment shall not be due sooner than 4:00 P.M. EST on the next business day.
5. Overpayment. In the event that NYISO determines that a Prepayment exceeds the charges incurred or estimated to be incurred by Customer for purchases of Energy and Ancillary Services in the week for which the Prepayment is made, NYISO shall credit the difference toward Customer’s next Prepayment and shall notify Customer of the revised Prepayment Amount.
6. Termination. Customer may terminate this Prepayment Agreement upon ten (10) days written notice to NYISO. NYISO may terminate this Prepayment Agreement immediately upon written notice to the Customer in the event that Customer fails to perform in strict accordance with the terms hereof. In addition, this Prepayment Agreement shall terminate upon any amendment of the OATT or the Services Tariff that eliminates the prepayment mechanism thereunder or requires material modification of this Prepayment Agreement.

7. Regular ~~Monthly~~Weekly Settlements. Nothing in this Prepayment Agreement shall alter the obligation of Customer or NYISO to pay amounts owed in accordance with the NYISO's regular ~~monthly~~weekly settlement process pursuant to the terms of the OATT and the Services Tariff, which amounts shall be net of payments made pursuant to this Prepayment Agreement.

8. Interest. Customer shall not earn interest on its Prepayments. NYISO shall apply any interest actually earned on Prepayments to offset NYISO costs otherwise recovered through Schedule 1 of the OATT and Rate Schedule 1 of the Services Tariff.

9. Communications. All communications pursuant to this Prepayment Agreement shall be in writing, deemed effective when received, and delivered by hand with receipt of delivery, registered mail, or facsimile with confirmation of receipt to the following addresses:

NYISO:
Attn: Credit Manager
New York Independent System Operator, Inc.
10 Krey Boulevard
Rensselaer, New York 12144
Fax: (518) 356-7505

Customer:
Attn: _____

Fax: _____

NYISO or Customer may change the address provided for receipt of communications pursuant to this Prepayment Agreement by providing written notice to the other party.

10. Expenses. Customer shall pay all reasonable costs incurred by NYISO to enforce this Prepayment Agreement, including attorney fees and expenses.

11. Amendment and Waiver. The terms and provisions of this Prepayment Agreement may not be amended or waived except in writing and signed by NYISO and Customer.

12. Entire Agreement. This Prepayment Agreement embodies the entire agreement between NYISO and Customer with respect to the matters set forth herein, and supersedes all prior such agreements.

13. Severability. Should any provision of this Prepayment Agreement be determined by a court of competent jurisdiction to be unenforceable, all of the other provisions shall remain effective.

14. Choice of Law; Jurisdiction; Venue; and Service of Process. This Prepayment Agreement shall be governed by the laws of the State of New York without regard to conflict of laws principles. Customer irrevocably submits to the jurisdiction of any New York court or any United States court sitting in New York over any action or proceeding arising out of or relating to this Prepayment Agreement and irrevocably agrees that all claims in such action or proceeding may be heard and determined by such court. Customer agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the

judgment or in any other manner provided by law. Customer waives any objection to venue on the basis of forum non conveniens. Customer irrevocably consents to the service of process in any action or proceeding by the mailing of copies of such process to Customer at its address set forth herein. Customer agrees that any action or proceeding brought against NYISO shall be brought only in a New York court or a United States court sitting in New York. Nothing herein shall affect the right of NYISO to bring any action or proceeding against the Customer or its property in the courts of any other jurisdictions.

15. Waiver of Jury Trial. CUSTOMER IRREVOCABLY, VOLUNTARILY, AND WITH ADVICE OF COUNSEL WAIVES ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION ARISING IN CONNECTION WITH THIS PREPAYMENT AGREEMENT.

IN WITNESS WHEREOF, NYISO and Customer have caused this Prepayment Agreement to be executed by their respective authorized officials.

New York Independent System Operator, Inc.

By:
Name:
Title:

[Customer]

By:
Name:
Title: