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.

I. Reporting Requirements

A. All Customers. All Customers shall be required to comply with the reporting requirements in this Section I.A.

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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 (e) restatement of prior financial statements.

(v) 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 (15%) percent or more above its peak Load during the Prior Equivalent Capability Period.

B. Customers Requesting Unsecured Credit. In addition to the reporting requirements in Section I.A, 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 I.B.

(i) 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.

(ii) 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.

(iii) 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.

(iv) Government Entities. Notwithstanding Section I.B(i) 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.

II. Investment Grade Customers

A. 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.

B. 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 II.A 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.

C. 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.

III. Operating Requirement

A. Purpose and Function. A Customer shall be required to allocate Unsecured Credit and/or provide collateral in an amount equal to or greater than its Operating Requirement. The Operating Requirement shall be determined separately from the Customer's collateral requirement for Virtual Transactions.

B. **Calculation.** 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 Bid Component; and (v) the WTSC Component, where:

(i) **Energy Component.** The Energy and Ancillary Services Component shall be equal to:

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

$$\frac{\text{Basis Amount for Energy and Ancillary Services}}{\text{Days in Basis Month}} \times 50$$

\- or -

$$\frac{\text{Total Charges Incurred for Energy and Ancillary Services for Previous Ten (10) Days}}{10} \times 50$$

(b) For Customers operating under a prepayment agreement, the greater of either:

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

\- or -

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

~~For Transmission Customers with a prepayment agreement, the result of a reasonable estimate of the net amount that the Transmission Customer owes the ISO as a result of true-ups to prior invoices minus the amount of a customer's average weekly prepayment, as may be adjusted by the NYISO from time to time.~~

(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: EPL x 720 x (AEP x 1.1)

where: EPL = estimated peak Load for the Capability Period

AEP = average Energy price during the Prior Equivalent Capability Period

(ii) 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.

(iii) TCC Component. The TCC Component shall be equal to the greater of either:

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(a) The amount of the Primary Holder's portfolio creditworthiness requirement based on the clearing prices of each TCC in the portfolio as determined by the following formula:

$$\sum_{n \in N} \{IACn\}$$

where: IAC = the initial amount of credit support required based on the Auction clearing price of TCC_n, which shall be 100% of the clearing price of a one month TCC with a positive market clearing price, 50% of the clearing price of a six month TCC with a positive market clearing price, 25% of the clearing price of a twelve month or longer TCC with a positive market clearing price, and 100% of the absolute value of the Auction clearing price of a TCC with a negative market clearing price

N = the set of unexpired TCCs held by the Primary Holder.

- 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:

$$\sum_{n \in N} \left\{ \frac{NAPn}{3} \times RMn \right\}$$

where: NAP = the net amount of Congestion Rents (positive or negative) between the POI and POW composing each TCC_n during the previous three months

RM = the remaining number of months in the life of TCC_n; *provided, however,* that in the case of Grandfathered TCCs, RM shall equal the remaining number of months in the life of the longest duration TCC sold in a NYISO-administered Auction then outstanding

N = the set of TCCs held by the Primary Holder.

(iv) **Bid Component**. The Bid Component shall be an amount equal to the sum of: (i) the amount of bidding authorization that the Customer has requested for use in ISO-administered TCC auctions, (ii) the amount of bidding authorization that the Customer has requested for use in ISO-administered UCAP auctions, and (iii) five (5) days prior to any UCAP Deficiency Procurement Auction, the maximum amount that the Customer may be required to pay for UCAP in the upcoming Deficiency Procurement Auction.

Prior to participation in any ISO-administered TCC auction, a Customer shall be required to have bidding authorization in an amount equal to or greater than the sum of: (i) an amount equal to all positive bids to be submitted in the auction to purchase TCCs and (ii) an amount equal to the absolute value of all negative offer prices to be submitted for sales of TCCs. Prior to participation in an ISO-administered UCAP auction, a Customer shall be required to have bidding authorization in an amount equal to or greater than all bids to purchase UCAP. A Customer shall not be permitted to submit bids in an ISO-administered auction for TCCs or UCAP in excess of its bidding authorization.

(v) **WTSC Component**. The WTSC Component shall be equal to the greater of either:

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

- or –

$$\frac{\text{Total Charges Incurred for WTSC for Previous Thirty (30) Days}}{30} \times 50$$

C. Prepayment Agreement. Subject to the ISO's credit analysis and approval, a Customer may execute a prepayment agreement with the ISO, in the form provided in Appendix K-1, pursuant to which the Customer may reduce its Energy and Ancillary Services Component, as provided in Section III.B.(i) of this Attachment K, by agreeing to make weekly prepayments in amounts to be determined by the ISO for all purchases of Energy and Ancillary Services. A Customer may prepay for services at any time, but prepayment shall reduce the Customer's Operating Requirement only if it is made pursuant to a prepayment agreement.

IV. Unsecured Credit

A Customer may use Unsecured Credit to satisfy part or all of its Operating Requirement. 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.

A. Eligibility. An Investment Grade Customer may be eligible to receive Unsecured Credit. Neither a Non-Investment Grade Customer nor an Unrated Customer shall be eligible to receive Unsecured Credit.

B. Market Concentration Cap. A Customer's Unsecured Credit shall not exceed twenty (20%) percent of the total amount of the ISO's accounts receivable in the ISO-administered markets in the month during the previous calendar year in which the sum of the following is highest: (i) one and one half times the Energy and Ancillary Services purchases in the ISO markets, (ii) amounts then-owed (billed and unbilled) for UCAP purchased in the ISO-administered auctions, and (iii) total TCC auction sales. The ISO may adjust this market concentration cap to reflect changes in prevailing Energy prices.

C. Determination of Unsecured Credit. The starting point for determining the amount of Unsecured Credit to be granted to an Investment Grade Customer, except as provided otherwise in Sections IV.C.(i) and IV.C.(ii) of this Attachment K, shall be a percentage of its Tangible Net Worth, as indicated on the matrix contained in Table K-1. The ISO shall conduct a Credit Assessment of the Customer and may adjust the starting point upward by up to ten (10%) percent or downward by up to one hundred (100%) percent to determine the amount of Unsecured Credit that it shall grant to the Customer.

In the Credit Assessment, the ISO shall evaluate recognized indicators pertaining to three quantitative areas and one qualitative area of the Customer's financial profile. The quantitative areas evaluated shall be: (i) liquidity, (ii) leverage and debt coverage, and (iii) performance and profitability. The qualitative evaluation shall include an assessment of the Customer's cash flow, credit collection history, available lines of credit, bond spreads, and other relevant indicators. The ISO shall then compare the Customer's evaluations in the three quantitative areas against evaluations of the Customer's industry peer group. The peer group shall be determined using identical or closely-related primary SIC codes. Based on this comparison, the ISO shall assign a value of 1.0 (highest) to 6.0 (lowest) to each of the three areas of comparison. The ISO shall also assign a value of 1.0 to 6.0 based on the Customer's qualitative evaluation. To determine an overall Credit Assessment score for the Customer, the ISO shall then sum the Customer's weighted scores in each of the four areas, with liquidity weighted at 55% and the other three areas weighted at 15% each. The following overall Credit Assessment scores shall correspond with the adjustments to the Customer's starting point for Unsecured Credit shown below, subject to the Market Concentration Cap:

Total Score	Adjustment
1.00 - 1.83	up to 10% increase
1.84 - 2.66	up to 5% increase
2.67 - 3.50	none
3.51 - 4.34	up to 25% reduction
4.35 - 5.17	up to 75% reduction
5.18 - 6.00	up to 100% reduction

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

(i) The ISO may use working capital for LIPA or accumulated net revenues for Tangible Net Worth in evaluating.

(ii) The starting point for the ISO's Credit Assessment of a municipal electric system shall be one million ($1,000,000) dollars, without regard for its tangible net worth. At its request, a municipal electric system may submit to a tangible net worth test to determine its starting point in lieu of a one million ($1,000,000) dollar starting point. Municipal electric systems that operate through a joint action agency or a similar municipal affiliation agreement may aggregate the Unsecured Credit starting point of one million ($1,000,000) dollars per member such that the joint action agency will have an Unsecured Credit starting point equal to the total of the Unsecured Credit starting points of each individual member. Each such agency will qualify for such aggregated Unsecured Credit starting point 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.

(iii) In the event of a change in a Customer's senior long-term unsecured debt rating or issuer rating, the ISO shall recalculate the amount of Unsecured Credit granted to the Customer.

D. **Affiliate Guarantors.** 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. The Tangible Net Worth of an Affiliate guarantor shall be determined exclusive of intercompany assets and liabilities between the Affiliate guarantor and the beneficiary Customer.

E. **Effect of Late Payments.** The ISO may reduce or cancel a Customer's Unsecured Credit for up to twelve (12) months if the Customer is late in making any payment to the ISO twice in any twelve (12) month period.

F. **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.

V. Additional Security

A Customer shall be required to provide collateral to support its obligations to the ISO if its Operating Requirement exceeds the total of its Unsecured Credit and any existing collateral by more than $10,000.

A. Acceptable Collateral.

(i) 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.

(ii) 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.

(iii) Affiliate Guarantee. 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.

(iv) **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.

(v) **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 monthly payment to the Customer and that will be payable to the Customer in the following regular monthly payment, provided that any such payment to the Customer may be adjusted by the ISO as necessary to correct for any error in this determination.

B Cash Collateral Investment Alternatives

(i) 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.

(ii) 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.

(iii) **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 (50%) percent 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.

(iii) **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.

C. 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 III 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.

D. 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.

VI. Financial Assurance for Virtual Transactions

A. ~~Acceptable Collateral~~Amount of Credit Support. ~~In addition to the other creditworthiness requirements contained in this Attachment K, a Virtual Transaction Customer shall provide collateral in the form of a cash deposit, irrevocable letter of credit, or any net amount receivable to the Customer (pursuant to section V.A.(v) of this Attachment K) in an amount determined according to this Article VI.~~ The amount of ~~collateral~~credit support required ~~to support~~for Virtual Transactions is the product of the MWh that the Virtual Transaction Customer has applied to be authorized to bid per day and the amount of ~~collateral~~credit support required per MWh, as provided by this Article VI. The amount of ~~collateral~~credit support required per MWh is equal to two times the highest differential between the Day-Ahead and Real-Time Energy market prices in the NYCA at the 97th percentile over the previous ninety days. The amount of ~~collateral~~credit support that a Virtual Transaction Customer is required to provide per MWh shall be adjusted whenever there is an increase or decrease of ten (10%) percent or more since the amount was last determined.

B. Acceptable Credit Support. In addition to the other creditworthiness requirements contained in this Attachment K, a Virtual Transaction Customer shall provide its required amount of credit support using Unsecured Credit (pursuant to Article IV of this Attachment K), and any of the forms of Acceptable Collateral (pursuant to section V.A of this Attachment K), or any combination thereof.

~~B~~C. ISO Monitoring. The ISO shall monitor the bids submitted by a Virtual Transaction Customer. If the number of MWhs bid submitted by a Virtual Transactions

Customer in any given day exceeds the number of MWhs that the Virtual Transactions Customer is authorized to bid, all of the Virtual Transaction Customer's bids for that day shall be rejected by the ISO.

~~C~~D. Suspension. If, at any time during the regular monthly billing cycle, the amount owed to the ISO by a Virtual Transactions Customer as a result of Virtual Transactions reaches fifty (50%) percent of the ~~collateral~~credit support provided by the Virtual Transaction Customer to support its Virtual Transactions, the ISO shall attempt to contact the Virtual Transactions Customer to request either payment or additional ~~collateral~~credit support in the amount then owned by the Virtual Transactions Customer as a result of Virtual Transactions. If the Virtual Transactions Customer fails to make payment or provide additional ~~collateral~~credit support as described above by 4:00 p.m. on the next business day, the ISO may immediately suspend the Virtual Transaction Customer's authorization to engage in Virtual Transactions until payment ~~or additional collateral~~ or provision of its required amount of credit support using Unsecured Credit (pursuant to Article IV of this Attachment K), and any of the forms of Acceptable Collateral (pursuant to section V.A of this Attachment K), or any combination thereof is provided as required by this Article V.

VII. Financial Assurance for Wholesale Transmission Service Charges

A. Application of Security. In the event a Transmission Owner declares a certain WTSC overdue and satisfies the requirements specified in Section VII.B 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.

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

(i) 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;

(ii) 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;

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(iii) 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

(iv) 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 VII.C 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).

C. NYISO Action. On the first business day after the ISO has received the notice that satisfies the requirements listed in Section VII.B(iv) 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.

D. Transmission Owner Indemnification to the NYISO. As a prerequisite for ISO action listed in Section VII.C 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.

VIII. 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.

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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%

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Substitute Original Sheet No. 507A

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 III.B.(i) of Attachment W of the OATT and Section III.B.(i) 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 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 settlements shall not reduce or offset the Prepayment Amount.

3. Manner of Payment. Customer shall make each Prepayment not later than 4:00 P.M. EST on the first ~~last~~ business day of the week by wire transfer 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 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 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.
290 Washington Avenue Extension
Albany, New York 12203
Fax: (518) 356-7582

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: