



March 26, 2010

VIA HAND DELIVERY

Honorable Kimberly D. Bose, Secretary
Honorable Nathaniel J. Davis, Sr., Deputy Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

**Re: ISO New England Inc. and New England Power Pool, Docket No. ER10-____-000;
Revisions to Financial Assurance Policy and Billing Policy**

Dear Secretary Bose and Deputy Secretary Davis:

Pursuant to Section 205 of the Federal Power Act,¹ ISO New England Inc. (the “ISO”) and the New England Power Pool (“NEPOOL”) Participants Committee (together, the “Filing Parties”)² hereby submit an original and six copies of this transmittal letter and amendments (“Amendments”) to the ISO New England Financial Assurance Policy (the “Financial Assurance Policy”)³ and the ISO New England Billing Policy⁴ (the “Billing Policy” and together with the Financial Assurance Policy, the “Policies”). The Amendments are a package of revisions intended to increase the efficiency of the New England energy markets by further limiting the Pool’s exposure in case of payment default by a Market Participant and by making other changes, including: (i) providing for twice-weekly, rather than weekly, settlement for certain charges; (ii) eliminating the use of unsecured credit for Market Participants that do not serve retail load at government-established rates; (iii) reallocating the costs of defaults where unsecured credit is still used; (iv) segregating the billing and collateralization of transmission charges from other ISO charges; and (v) improving the quality of security that is provided

¹ 16 U.S.C. § 824(d) (2000 and Supp. V 2006).

² Capitalized terms used but not defined in this filing are intended to have the meaning given to such terms in the ISO New England Inc. Transmission, Markets and Services Tariff, FERC Electric Tariff No. 3 (“Tariff”), the Second Restated New England Power Pool Agreement, and the Participants Agreement.

³ Exhibit IA to Section I of the Tariff.

⁴ Exhibit ID to Section I of the Tariff.

pursuant to the Policies. The Amendments were driven by the ISO's conviction that the existing financial assurance provisions of the ISO Tariff needed to be changed and improved to lessen the risk of nonpayment across a broad range of possible scenarios and, by so doing, assuring the liquidity of the markets, even in the most difficult financial times. At the end of the extended stakeholder process (described in Part V below), in which the ISO and NEPOOL worked together to address stakeholder concerns, NEPOOL voted to support these changes.

In addition to support for the Amendments provided by the Filing Parties jointly in this transmittal letter, the ISO submits with this filing the Joint Testimony of Robert C. Ludlow, the ISO's Chief Financial and Compliance Officer, and Jeffrey B. Iafrati, the ISO's Market and Credit Risk Manager (the "Joint Ludlow/Iafrati Testimony"), which is sponsored solely by the ISO. The Filing Parties request that the Amendments become effective on or after December 1, 2010, with sixty days' notice to be provided by the ISO, as discussed in Part VI of this transmittal letter.

This transmittal letter addresses the significant substantive revisions made by the Amendments, with an emphasis on those that were the subject of discussion during the stakeholder process. The Amendments include a number of other revisions to the Policies that are intended either to make conforming changes, or to clarify the language in the Policies. The Filing Parties have not addressed each of these changes individually.

I. INTRODUCTION

A. Background

In the late 1990s, the New England states restructured the electric industry in the region, and the ISO became the administrator of the New England energy markets. Historically, vertically-integrated utilities in New England generated, transmitted, and sold electricity to the end-use customers. Under that model, credit and risk management issues were fairly straightforward, because the utilities charged customers all of their costs, including the costs associated with the risks of non-payment, pursuant to regulated rates. If a customer failed to pay its bill, the cost of that default was socialized among the utilities' other customers. Accordingly, at the wholesale level, NEPOOL Participants could be assured that, so long as retail rates were set at levels that permitted the recovery of costs, their fellow Participants should have adequate cash available to pay their NEPOOL Charges.

The restructuring of the New England electric industry resulted in a new wholesale transactional structure under which generators sell electricity (including energy, capacity, and ancillary services) into the wholesale market, and suppliers (either affiliated with the generators or as completely separate entities) sell electricity to the end-use customers. The transmission and distribution utilities deliver the electricity to the customers but, under most state laws, do not own the generation that made that power or entered into an intermediary market transactions

with respect to that power.⁵ In this structure, the ISO functions as the market administrator, billing and collecting payments from wholesale electricity buyers and forwarding payments to the wholesale sellers. The ISO also bills and collects the regional transmission rate on behalf of the Transmission Owners that provide transmission service, an administrative function performed pursuant to the Transmission Operating Agreement with the New England Participating Transmission Owners.

One of the ISO's primary responsibilities as the regional transmission organization ("RTO") for New England is the efficient administration of the wholesale electricity markets. In order to fulfill that responsibility, the ISO must have sufficient funds to clear transactions in a timely manner. This is complicated somewhat by the fact that in New England, unlike with other RTOs, the generators, suppliers and retail load serving entities are to a very substantial extent unaffiliated, so that the wholesale power market transactions involve money changing hands, as opposed to funds moving from one part of an organization to another. An unsecured default by a Market Participant would leave the ISO without the funds needed to clear those transactions, and under the Policies as currently written, the cash shortfall resulting from such a default would be borne by all Market Participants with market activity during the billing period in which the default occurs.

In the early days of the ISO's operation, the credit policies and risk management mechanisms provided that uncovered payment defaults were socialized among all Market Participants with settlement activity during the billing period during which the default occurred. In June 2004 (when the Commission solicited comments in advance of its Technical Conference on Credit-Related Issues), the ISO was billing all markets monthly, and as a result, the bid to payment cycle (that is, the timeframe from the date of the bid to the date of payment) for energy market obligations was more than 50 days. At that time, the unsecured credit limits were capped at \$125 million for each qualified participant.

NEPOOL and the ISO have worked together in recent years to reduce credit risk in the markets and to ensure that buyers are required to provide the right amount and form of financial assurance to back their obligations to pay, thereby better ensuring that sellers are paid.⁶ The

⁵ Because of almost complete generation divestiture in New England, and because of state laws barring transmission owners from selling electricity, the transmission owning utilities play little role in the region's wholesale electricity markets.

⁶ In 2004, a weekly billing period and a shortened settlement cycle were implemented. See New England Power Pool, 107 FERC ¶ 61,201 (2004) (the "Weekly Billing Order"). In 2006: (i) the settlement cycle was shortened further; (ii) calculation timetables were improved through software upgrades; (iii) requirements of the Policies were better aligned with actual risk exposure from virtual energy bidding and Financial Transmission Rights transactions; and (iv) a user interface was provided to allow customers to actively monitor their financial and collateral positions, and enhance their compliance with applicable requirements (the "2006 Changes"). See ISO New England Inc., 115 FERC ¶ 61,054 (2006). In December of 2008, changes to the Billing Policy that allowed the ISO to accelerate the billing of Energy Charges were filed. These changes were accepted in a letter order issued on February 6, 2009 in ISO New England Inc. and New England Power Pool Participants Committee, Docket No. ER09-454-000. In addition, in April of 2009, the Filing Parties filed amendments to the Policies that shortened the billing cycle, accelerated payment to net sellers, and accelerated the time when a Market Participant's

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Policies now provide for weekly billing of hourly energy markets, with an additional two business days for final payment. As a result, the average bid to payment cycle for energy market obligations has been reduced to 14 days. Also, largely as a result of the reduced billings that resulted from the move to weekly invoicing, unsecured credit limits have been reduced to a maximum of \$75 million per qualifying Market Participant. The shortened settlement cycle has also greatly reduced the level of credit exposure. This has in turn enabled the ISO to adjust its financial assurance calculation methodologies to better reflect the actual credit risk that a Market Participant represents at any particular moment.⁷ This has further reduced the financial assurance burden placed upon New England's Market Participants.⁸

The Amendments identify additional changes to the credit and risk management practices that will reduce still further the financial assurance burden on New England's Market Participants and the risks to the New England electricity markets of payment defaults. First, the magnitude of the default risk and the amount of financial assurance required is reduced by further shortening the billing and payment cycle. Second, under the current rules, the risks and costs of a payment default where unsecured credit is used are socialized among all Market Participants with settlement activity during the billing period in which the default occurs. Spreading the risk of unsecured credit in this manner provides Market Participants with the opportunity, and an undesirable incentive, to behave in a way that increases the risks associated with a default. Furthermore, the availability of unsecured credit in the Pool settlement may facilitate the "sleeving" of bilateral transactions, by which the credit risk associated with private contracts is inappropriately shifted to the Pool as a whole. These issues can be addressed by minimizing the use of unsecured credit and, where it is used, by reallocating the costs of a payment default among those parties using unsecured credit. Third, certain changes in the quality of the security that is provided pursuant to the Policies are possible by enhancing the requirements associated with letters of credit and proof of financial viability. Each of these issues is discussed in more detail below.

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suspension from the markets for a Payment Default is effected under the Policies. These changes were accepted in a letter order issued on April 29, 2009 in ISO New England Inc. and New England Power Pool Participants Committee, Docket No. ER09-932-000.

⁷ More specifically, the 2006 Changes added a more detailed calculation of a Market Participant's "Obligations" on which its financial assurance requirement is based. For Non-Municipal Market Participants, for example, the calculation elements have been figures relating to Hourly Charges, Non-Hourly Charges, the amount of unsettled Increment Offers and Decrement Bids, FTR bids/awards/settlements, and disputed amounts.

⁸ These efforts have resulted in lowering the amount of Market Participants' financial assurance requirements from a maximum of approximately 109 days' worth of hourly activity under monthly billing to approximately 18 days, which is the maximum amount today.

B. Overview of the Amendments

1. Shortening the Billing and Payment Cycle

One of the primary ways to reduce credit risk in the markets is to shorten the billing and payment cycle. Shortening that cycle reduces credit risk in the first instance because the amounts outstanding are smaller due to the shorter intervals between payment dates. As mentioned above, the change from monthly billing to weekly billing for hourly energy markets effectuated in July 2004 significantly reduced the outstanding number of days billed and the total amount of financial assurance required of all Market Participants at any given time. The Amendments presented here will further shorten the cycle for billing and payment for Hourly Charges from once each week to twice each week. This will further reduce the total outstanding liability of participants in the New England energy markets and, therefore, the exposure for non-payment of Hourly Charges. Shortening the billing cycle reduces credit requirements and default exposure by lowering the amount of each bill.

2. Separate Financial Assurance Requirements of ISO Charges and Transmission Charges

Currently, ISO Charges and Transmission Charges are collateralized by the same financial assurance.⁹ Under the Amendments, ISO Charges and Transmission Charges will be accounted for and collateralized separately in order to properly differentiate between charges related to market activity (ISO Charges) and charges that essentially reflect an administrative billing and collection function of the ISO on behalf of Transmission Owners (Transmission Charges). This distinction is important in that it will: (i) allow the imposition of different credit limit calculations to these different types of charges; and (ii) facilitate the proper allocation of payment defaults associated with the use of unsecured credit. These are both also important elements of the Amendments, as discussed in more detail below.

3. Elimination of Uses of Unsecured Credit

As stated above, a primary way to reduce credit risk in the markets is to minimize the use of unsecured credit. To this end, the Amendments eliminate the use of unsecured credit, except in the case of certain load-serving entities, and for such entities, only with respect to their native load obligations. Such entities are entitled to recover those costs through governmentally established rates and therefore have a different risk profile than rest of the market. Additionally, due to the unique characteristics and risks inherent in the auctions for Financial Transmission Rights (“FTRs”), the Amendments completely eliminate the use of unsecured credit for FTRs, without exception. The Amendments also eliminate all uses of corporate guarantees as financial assurance.¹⁰

⁹ Since Transmission Charges are billed monthly, the weekly bills that include only hourly energy charges do not include Transmission Charges.

¹⁰ Like all of the Amendments, this elimination of most uses of unsecured credit will not become effective until on or after December 1, 2010. Before it can be implemented, the ISO must: (i) make
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4. Reallocation of the Costs of Payment Defaults Associated with Unsecured Credit

Because the use of unsecured credit is retained in limited cases and because it is possible for Market Participants to incur payment obligations that exceed their posted collateral, the issues with socializing payment defaults mentioned above persist to a limited extent. To further reduce the undesired effects of these issues, the Amendments revise allocation payment shortfall methodologies in the Policies such that any shortfalls caused by a payment default by unsecured Market Participants are more narrowly targeted to the Market Participants using unsecured credit. Specifically, except in limited circumstances, the costs associated with a default by an Unsecured Municipal Market Participant will be shared by other Unsecured Municipal Market Participants, and the costs associated with a default by an Unsecured Non-Municipal Market Participant will be socialized to the pool of Unsecured Non-Municipal Market Participants.

5. Changes to Improve the Quality of Security Provided, and Other Changes

The Amendments include several other provisions designed to tighten the financial assurance requirements under the Policies. For example, (i) the definition of “Investment Grade Rating” (one of the criteria for an entity to qualify to use unsecured credit where its use is still permitted) is revised to be more conservative; (ii) new requirements are imposed for a bank to be eligible to provide a letter of credit and new limits are placed on the amount of financial assurance that may be provided through letters of credit from a single entity; and (iii) certain existing financial assurance and other provisions are extended to Municipal Market Participants, which are currently exempt from those provisions. Finally, implementation of the Amendments will allow the ISO to discontinue purchasing third-party credit protection.

6. Summary

The Amendments are the result of the ISO’s strongly held and longstanding view that improved credit protections in the New England electricity markets are a necessary feature of well-functioning markets under a broad range of potential scenarios. After the FTR defaults in the PJM market and the 2008 financial crisis, the ISO worked closely with stakeholders to implement changes in the Policies that would lessen default risks across the markets. During the discussions with stakeholders, a variety of changes were made to the ISO’s initial proposal to address specific concerns raised by stakeholders. The ISO’s initiative, as shaped through the extensive stakeholder process described in Part V below, received broad support among NEPOOL Participants.

The Filing Parties submit that the proposed changes are just and reasonable and not unduly discriminatory. As noted above, implementation of the Amendments will increase the

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substantial changes to its software and business processes (described in Parts IV.A and IV.B below); and (ii) implement changes to the Marginal Loss Revenue Fund allocation methodology (described in Part VI below).

efficiency of the New England Markets by further limiting the Pool's exposure in case of payment default by a Market Participant and by making certain other changes to the Policies. Additionally, the Amendments will reduce financial assurance requirements for Market Participant and the costs associated with providing that financial assurance, and will eliminate credit insurance policy premiums, which will further reduce financial obligations for participants in the New England markets. In sum, the Amendments promote a more rigorous, structural approach towards credit risk management in the New England markets.

II. DESCRIPTION OF THE FILING PARTIES; COMMUNICATIONS

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

NEPOOL is a voluntary association organized in 1971 pursuant to the New England Power Pool Agreement, and it has grown to include more than 420 members. The NEPOOL Participants include all of the electric utilities rendering or receiving service under the Tariff, as well as independent power generators, marketers, load aggregators, brokers, consumer-owned utility systems, end users, developers, demand resource providers, and a merchant transmission provider. Pursuant to revised governance provisions accepted by the Commission,¹¹ the NEPOOL Participants act through the NEPOOL Participants Committee. The Participants Committee is authorized by Section 6.1 of the Second Restated NEPOOL Agreement and Section 8.1.3(c) of the Participants Agreement to represent NEPOOL in proceedings before the Commission. Pursuant to Section 2.2 of the Participants Agreement, "NEPOOL provides the sole Participant Process for advisory voting on ISO matters and the selection of ISO Board members, except for input from state regulatory authorities and as otherwise may be provided in the Tariff, TOA and the Market Participant Services Agreement included in the Tariff."

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

¹¹ *ISO New England Inc., et al.*, 109 FERC ¶ 61,147 (2004).

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III. STANDARD OF REVIEW

The Amendments are submitted pursuant to Section 205 of the Federal Power Act, which “gives a utility the right to file rates and terms for services rendered with its assets.”¹³ Under Section 205, the Commission “plays ‘an essentially passive and reactive’ role”¹⁴ whereby it “can reject [a filing] only if it finds that the changes proposed by the public utility are not ‘just and reasonable.’”¹⁵ The Commission limits this inquiry “into whether the rates proposed by a utility

¹² Due to the joint nature of this filing, the Filing Parties respectfully request a waiver of Section 385.203 of the Commission’s regulations to allow the inclusion of more than two persons on the service list in this proceeding.

¹³ *Atlantic City Elec. Co. v. FERC*, 295 F.3d 1, 9 (D.C. Cir. 2002).

¹⁴ *Id.* at 10 (quoting *City of Winnfield v. FERC*, 744 F.2d 871, 876 (D.C. Cir. 1984).

¹⁵ *Id.*

are reasonable – and [this inquiry does not] extend to determining whether a proposed rate schedule is more or less reasonable than alternative rate designs.”¹⁶ The Amendments “need not be the only reasonable methodology, or even the most accurate.”¹⁷ As a result, even if an intervenor or the Commission develops an alternative proposal, the Commission must accept this Section 205 filing if it is just and reasonable.¹⁸

IV. DESCRIPTION OF THE AMENDMENTS

A. Shortening the Billing and Payment Cycle

A primary feature of the Amendments presented here is the further shortening of the billing and payment cycle for Hourly Charges to twice each week, instead of only once each week.¹⁹ Shortening the billing and payment cycle reduces credit risk in the markets and the need for financial assurance in the first instance because the amounts outstanding are smaller due to the shorter intervals between payment dates. Shortening the settlement processes in this manner (1) lowers financial assurance requirements, (2) reduces the amount of unsecured credit outstanding within the Pool at any point in time, and correspondingly the potential exposure of a defaulting entity, (3) reduces the amount of outstanding unbilled settlements; and (4) provides for earlier identification of possible defaults.²⁰

In July 2004, the ISO effectuated a change from monthly billing to weekly billing for hourly energy markets, and experienced the benefits expected by the Commission in the Weekly Billing Order.²¹ Further shortening the cycle for billing and settling Hourly Charges to twice each week will further reduce the total outstanding liability of participants in the New England energy markets and, therefore, the exposure for non-payment of Hourly Charges.

B. Separate Collateralization of ISO Charges and Transmission Charges

Currently, the Policies do not distinguish between ISO Charges and Transmission Charges – they are collateralized by the same financial assurance and included on the same monthly bill. Under the Amendments, ISO Charges and Transmission Charges will be

¹⁶ *City of Bethany v. FERC*, 727 F.2d 1131, 1136 (D.C. Cir. 1984).

¹⁷ *Oxy USA, Inc. v. FERC*, 64 F.3d 679, 692 (D.C. Cir. 1995).

¹⁸ *Cf. Southern California Edison Co., et al.*, 73 FERC ¶ 61,219 at 61,608 n. 73 (1995) (“Having found the Plan to be just and reasonable, there is no need to consider in any detail the alternative plans proposed by the Joint Protesters.” (citing *City of Bethany*, 727 F.2d at 1136)).

¹⁹ All Non-Hourly Charges will continue to be billed and settled on a monthly basis.

²⁰ The notice of proposed rulemaking recently issued by the Commission recognizes these benefits. *See Credit Reforms in Organized Wholesale Electric Markets*, 130 FERC ¶ 61,055, at P 13 (2010) (the “Credit NOPR”).

²¹ *See Weekly Billing Order* at P 1 (“This order benefits customers by reducing the amount of collateral required from market participants and the exposure of NEPOOL to a default by one of those participants.”).

accounted for and collateralized separately.²² The primary reason for this change is that ISO Charges are related to market activity, while Transmission Charges (which are often paid among different parts of the same entities – such as a distribution company paying itself or its affiliated transmission company) essentially reflect an administrative billing and collection function on behalf of Transmission Owners in New England, pursuant to the Transmission Operating Agreement, and have no real relationship to the ISO Charges. Given the differing nature of these charges, it is just and reasonable that they be treated separately in the Policies, both by making them subject to different credit limit calculations, as discussed in more detail below in Part IV.C.1, and by, separating these two types of charges in the revised payment default allocation provisions, discussed below in Part IV.D.

In connection with the separation of ISO Charges and Transmission Charges, the Amendments include a number of conforming revisions to the Billing Policy as follows: (1) amendment to permit prepayment of ISO Charges and Transmission Charges separately;²³ (2) revision to the set-off provisions to reflect that amounts due for ISO Charges will first be applied to ISO Charges and then, to the extent of any excess, to Transmission Charges, and that amounts due for Transmission Charges will first be applied to Transmission Charges and then, to the extent of any excess, to ISO Charges;²⁴ (3) clarification regarding application of suspension provisions to both ISO Charges and Transmission Charges consistent with the priority of payments set forth in Section 3.3(a) of the Billing Policy;²⁵ (4) inclusion of a new procedure for application of partial payments of combined Invoices for ISO and Transmission Charges consistent with the priority of payments set forth in Section 3.3(a) of the Billing Policy;²⁶ (5) inclusion of a new procedure for application of financial assurance between Transmission Charges and ISO Charges;²⁷ (6) establishment of a late payment account relating to Transmission Charges (“Transmission Late Payment Account”) with substantially the same provisions as the Late Payment Account relating to ISO Charges;²⁸ (7) clarifying revisions to the Shortfall Funding Arrangement provisions reflecting the split of ISO Charges and Transmission Charges;²⁹ and (8) inclusion of new provisions permitting weekly billing for Transmission

²² See generally Section 2 of the revised Billing Policy. The separation creates two categories of charges:

- (1) Transmission Charges, collected under Schedule 1 (Scheduling and Dispatch Surcharge), Schedule 8 (Through or Out Service Revenues) and Schedule 9 (Regional Network Service); and
- (2) ISO Charges, including all amounts billed by the ISO that are not Transmission Charges as defined in (1) above.

²³ See Section 3.1(e) of the revised Billing Policy.

²⁴ See Section 3.6 of the revised Billing Policy.

²⁵ See Section 3.7 of the revised Billing Policy.

²⁶ See Section 3.9 of the revised Billing Policy.

²⁷ See Section 3.10 of the revised Billing Policy.

²⁸ See Section 4 of the revised Billing Policy.

²⁹ See Section 5 of the revised Billing Policy.

Charges under certain circumstances in a similar manner to those currently in place that permit weekly billing of Non-Hourly Charges.³⁰

C. Elimination of Most Uses of Unsecured Credit

Another primary feature of the Amendments is the elimination of the use of unsecured credit in most instances. Minimizing the use of unsecured credit is also a key way to reduce credit risk in the markets and to reduce the inefficiencies associated with the broad socialization of the risks and costs of uncovered payment defaults.³¹

During 2009, on average, over 80 percent of the total financial assurance requirements for all Market Participants for all New England market and transmission charges were covered by the use of collateral (*i.e.*, cash or letters of credit), leaving less than 20 percent, on average, being covered by the use of unsecured credit. For that 20 percent of the total payment obligations that are unsecured, as well as any payment obligation of a Market Participant that exceeds its posted collateral, the risks and costs of a payment default are, under the current rules, socialized among all Market Participants with settlement activity during the billing period for which the default occurred. Thus, virtually all Market Participants³² share in the risks and costs of a payment default of an individual participant using unsecured credit. Continuing the current practice of requiring the mutualization of risk among Market Participants who have no choice about taking on the default risk of parties using unsecured credit is imposing a burden on parties who themselves are required to provide security for their market positions.

Allowing Market Participants to satisfy their financial assurance requirements associated with ISO Charges through unsecured credit has highlighted two specific areas where risk may be inappropriately shifted from individual participants to the Pool as a whole. The first concern is that undue reliance on unsecured credit can lead to greater risk-taking. Entities allowed to use unsecured credit may increase their unsecured market positions beyond their capacity, or willingness, to pay.

The second concern relates to the sleeving of bilateral transactions, by which the credit risk associated with private contracts is effectively shifted to the Pool. While participation in the New England energy markets and the amount of obligations met through the use of unsecured

³⁰ See Section 7 of the revised Billing Policy.

³¹ The Commission has recently approved tariff revisions filed by California ISO and PJM reducing unsecured credit levels in connection with shortening of settlement periods. See *Cal. Indep. Sys. Operator Corp.*, 126 FERC ¶ 61,285 (2009) (accepting revisions to CAISO's tariff to, among other things, decrease the maximum unsecured credit limit from \$250 million to \$150 million, effective March 31, 2009); *Cal. Indep. Sys. Operator Corp.*, 129 FERC ¶ 61,142 (2009) (finding that CAISO's proposal to further reduce its unsecured credit limit to \$50 million was justified because it will decrease the CAISO market participants' exposure to default risk); see also *PJM Interconnection, L.L.C.*, 127 FERC ¶ 61,017 (2009) (accepting PJM's proposal to reduce its unsecured credit allowance from \$150 million to \$50 million and to eliminate the use of unsecured credit for FTR transactions).

³² Approximately 90 percent of the Market Participants have settlement activity in any billing period.

credit have both increased since the implementation of weekly billing in 2004, there has been a sharp decline in the submittal of internal bilateral transactions to the ISO.³³ The ISO is concerned that one of the reasons for this decline is that parties to the contracts are choosing to sleeve the large majority of the credit risk associated with such transactions by shifting the majority of the payment obligation under the bilateral arrangements to the ISO's settlement and billing function. Specifically, some Market Participants are: (i) entering into bilateral transactions on a purely financial basis, (ii) not submitting those transactions to the ISO, (iii) bidding for and offering the energy products they have contracted for through the New England spot markets, and (iv) settling their bilateral contractual arrangements based on the difference between contract prices and the applicable spot price. While as a general matter this practice should be of no concern to the ISO or other Market Participants, where unsecured credit in the ISO markets is used to satisfy the financial assurance requirements associated with the bilateral market activity outside of the ISO markets, the costs of a default associated with the transaction are borne inappropriately by all Market Participants, rather than by the parties to the bilateral contract.

The Amendments contained in the instant filing will largely address these concerns by eliminating the use of unsecured credit in most of the instances in which it is currently permitted. Again, only about 20 percent of the total financial assurance requirement in New England is currently met using unsecured credit; the Amendments presented here will reduce that number significantly, and (as discussed in more detail below), will only retain the use of unsecured credit in narrow and justifiable circumstances. As part of this change, the use of unsecured credit for FTRs will be completely eliminated, without exception.³⁴ These changes will largely minimize mandatory risk-sharing among all Market Participants and will increase the assurance that the ISO will be able to settle the markets in the event of a payment default. The changes relate only to transactions within the ISO-settled markets and will have no impact on the credit terms that Market Participants negotiate in their own bilateral arrangements.

1. Exception for Certain Municipal Utilities and Transmission Owners

For the reasons described above, the Amendments eliminate the use of unsecured credit for most Market Participants. A small number of participants, however, will be permitted to use unsecured credit in a narrow set of circumstances. Specifically, certain municipal utilities and transmission owners will be permitted to use unsecured credit, but only in connection with their obligation to serve native load. As further explained in the Joint Ludlow/Iafrati Testimony, these entities are entitled to recover their costs for native load service through governmentally established retail rates and, accordingly, are able to provide a form of financial security (i.e., the ability to request a retail rate increase to cover increased costs) that is unavailable to other

³³ During 2004, the sum of all bilateral submittals equaled greater than 80% of the total real-time load obligation in New England. This percentage has fallen to just over 40% in 2009.

³⁴ In the Credit NOPR, the Commission has proposed to eliminate the use of unsecured credit in FTR markets. Credit NOPR at P 23. Also, the Commission recently approved PJM's proposed elimination of unsecured credit for future trading of the PJM equivalent to Financial Transmission Rights trading. See PJM Interconnection, L.L.C., *supra* at n. 31, at PP 36-37.

participants in the New England energy markets.³⁵ As such, the risk of default by such entities is materially different from other Market Participants. The ISO proposed, and NEPOOL agreed, to treat these entities differently in the Amendments. These entities will also not be permitted to use unsecured credit in association with any other market activity (such as FTR obligations).

The use of unsecured credit in this manner will be available to three types of entities: Municipal Market Participants,³⁶ T&D Companies,³⁷ and Non-Market Participant Transmission Customers.³⁸ Furthermore, to be eligible to use unsecured credit pursuant to this exception, the entity must be considered “Qualifying;” that is, the entity must have an Investment Grade Rating or must be an Unrated Market Participant that satisfies the Credit Threshold, as described further below.

Pursuant to the Amendments, the ISO will calculate a Market Credit Limit and a Transmission Credit Limit for each entity qualified to use unsecured credit. The Market Credit Limit will apply to ISO Charges,³⁹ and the Transmission Credit Limit will apply to Transmission Charges. (These two types of charges are discussed above in Part IV.B.) Again, unsecured credit will only be allowed to apply to financial assurance obligations that accrue in the course of serving an entity’s native load obligations.⁴⁰

³⁵ In the Credit NOPR, the Commission noted that “some market participants may pose different credit risks than others.” Credit NOPR at 11.

³⁶ Under the Amendments, “Municipal Market Participants” include any Market Participant that is either (a) a Publicly Owned Entity as defined in Section 1 of the RNA except for an electric cooperative or an organization including one or more electric cooperatives as used in Section 1 of the RNA or (b) a municipality, an agency thereof, a body politic or a public corporation (i) that is created under the authority of any state or province that is adjacent to one of the New England states, (ii) that is authorized to own, lease and operate electric generation, transmission or distribution facilities and (iii) that has been approved for treatment as a Municipal Market Participant by the ISO after consultation with the Budget and Finance Subcommittee. *See* Section II of the revised Financial Assurance Policy.

³⁷ Under the Amendments, “T&D Companies” include Market Participants that are also electric distribution utilities with one or more franchised service areas in the ISO Control Area whose retail electric rates are regulated exclusively by the public utilities commission or similar governmental body of one of the New England states (or an unregulated affiliate acting as solely as billing/payment agent for one or more T&D Companies). *See* Section II of the revised Financial Assurance Policy.

³⁸ Per Section I.2.2 of the Tariff, a Non-Market Participant Transmission Customer is a Transmission Customer that is not a Market Participant.

³⁹ What is referred to in this filing as a “Market Credit Limit” is simply called a “Credit Limit” in the Amendments. The term “Market Credit Limit” is used in this filing to better differentiate that term from the term “Transmission Credit Limit.”

⁴⁰ An entity’s Native Load Requirements will be the sum of the ISO Charges and the Transmission Charges incurred by the entity in providing service to those load assets identified by that T&D Company, Municipal Market Participant or Non-Market Participant Transmission Customer as being within the entity’s franchised retail service area (for a T&D Company or Non-Market Participant Transmission Customer) or the entity’s retail service area (for a Municipal Market Participant). A Qualifying T&D Company that is the unregulated affiliate of other Qualifying T&D Companies and that serves as billing
(continued...)

Currently, the maximum unsecured credit for market risk permitted under the Policies is \$75 million (including under corporate guarantees of other Market Participants' obligations). As indicated in the detailed descriptions below, this maximum is being revised as part of the Amendments, and separate credit limits will apply to ISO Charges (i.e., the Market Credit Limit) and Transmission Charges (i.e., the Transmission Credit Limit). Subject to these new maximums, specific unsecured credit limits are determined for each entity depending on its status, as described below.

The ISO will continue to monitor the market behavior and risk profile of these entities on an ongoing basis in order to determine whether it is appropriate to continue to permit them to use unsecured credit.

a. Market Credit Limits

The Market Credit Limit for a Municipal Market Participant with an Investment Grade Rating will be equal to the lesser of: (i) 20 percent of the participant's total aggregate outstanding ISO Charges (as defined in the Billing Policy but not including amounts due under Section 14.1 of the RNA) ("TADO"); or (ii) \$25 million.

The Market Credit Limit for a T&D Company or Non-Market Participant Transmission Customer with an Investment Grade Rating will at any time be equal to the lesser of: (i) the applicable percentage of such T&D Company's or Rated Non-Market Transmission Customer's Tangible Net Worth as specified in the revised Policies; (ii) \$50 million (a reduction from the \$75 million that may currently, if desired, be used solely for market risk); or (iii) 20 percent of TADO.

The Market Credit Limit for an Unrated T&D Company or an Unrated Non-Market Participant Transmission Company that satisfies the Credit Threshold (i.e., a series of financial tests included in the Financial Assurance Policy) will be equal to the lesser of: (i) 0.50 percent of such Unrated T&D Company's or Unrated Non-Market Participant Transmission Company's Tangible Net Worth; (ii) \$25 million; or (iii) 20 percent of TADO.

The Market Credit Limit for a Municipal Market Participant that does not have an Investment Grade Rating or for a T&D Company or a Non-Market Participant Transmission Customer that neither has an Investment Grade Rating nor satisfies the Credit Threshold will be \$0, and those participants must provide the same collateral as other Market Participants without unsecured credit.

(...continued)

and payment agent for those other Qualifying T&D Companies will be allowed to use unsecured credit limits to satisfy the Native Load Requirements of all the Qualifying T&D Companies for which it acts as billing and payment agent. Similarly, a Qualifying Municipal Market Participant that serves as billing and payment agent for other Qualifying Municipal Market Participants will be allowed to use unsecured credit limits to satisfy the Native Load Requirements of all the Qualifying Municipal Market Participants for which it acts as billing and payment agent. *See* Sections II.D, II.E, and V.B of the revised Financial Assurance Policy.

b. Transmission Credit Limits

The Transmission Credit Limit for a Qualifying Municipal Market Participant will be equal to \$25 million.

The Transmission Credit Limit for a T&D Company or a Non-Market Participant Transmission Customer that has an Investment Grade Rating will be equal to the lesser of: (i) the applicable percentage of such T&D Company's or Rated Non-Market Participant Transmission Customer's Tangible Net Worth specified in the Policies; or (ii) \$50 million.

The Transmission Credit Limit for an Unrated T&D Company or an Unrated Non-Market Participant Transmission Customer that satisfies the Credit Threshold will be equal to the lesser of: (i) 0.50 percent of such Unrated T&D Company's or Unrated Non-Market Participant Transmission Company's Tangible Net Worth; or (ii) \$25 million.

The Transmission Credit Limit for a Municipal Market Participant that does not have an Investment Grade Rating or for a T&D Company or a Non-Market Participant Transmission Customer that neither has an Investment Grade Rating nor satisfies the Credit Threshold will be \$0, and those participants must provide the same collateral as other Market Participants without unsecured credit.

2. More Conservative Investment Grade Ratings

As stated above, one of the criteria for an entity to qualify to use unsecured credit is to have an Investment Grade Rating. Under the current rules, the Investment Grade Rating can be satisfied in three ways: (i) by having a corporate investment grade rating from one or more of the Rating Agencies; (ii) if the Market Participant cannot satisfy subpart (i), then by having an investment grade rating for the Market Participant's senior unsecured debt from one or more of the Rating Agencies; or (iii) if the Market Participant cannot satisfy subpart (i) or subpart (ii), then by having a rating for the Market Participant's lowest rated senior secured debt that is at least one notch above the lowest investment grade rating from one or more of the Rating Agencies.

The Amendments revise the definition of the term "Investment Grade Rating" in two ways, both intended to take a more financially conservative approach to the Investment Grade Rating determination. First, the Amendments eliminate the possible use of senior secured debt ratings for a Market Participant that does not have a corporate rating or a rating for its senior unsecured debt. It is appropriate to eliminate this path to achieving an Investment Grade Rating because it only reflects the likelihood of default and recovery of payment after taking into account the collateral provided for the rated debt, rather than for the Market Participant itself. Second, where ratings from more than one Rating Agency are available, then the lowest rating will apply. This is a change from the current rules, where under certain circumstances, a rating other than the lowest might apply. Using the lowest available rating represents a more

conservative approach because it ensures that the Investment Grade Rating is based on the most pessimistic of the major ratings.⁴¹

3. Elimination of Corporate Guarantees

Under the current rules, a corporate guaranty from an investment grade-rated entity affiliated with a Market Participant is considered an acceptable form of financial assurance for that Market Participant. Corporate guarantees are a form of unsecured credit, in that the guarantor is not required to provide any collateral to backstop its obligations under that guarantee. With the elimination of most uses of unsecured credit, however, the Amendments also eliminate the use of corporate guarantees as financial assurance in all cases – even in the narrow circumstances where unsecured credit may still be used. This elimination of corporate guarantees as acceptable financial assurance is consistent with the general limitations on the use of unsecured credit described above. Corporate guarantees from non-Market Participants are an even more attenuated form of security than the extension of unsecured credit to the Market Participant itself, and introduce, at a minimum, increased contract risk, legal risk, and bankruptcy risk by introducing another obligor. Furthermore, when the guarantor is not a Market Participant, the ISO's ability to monitor the default risk of that entity is diminished. For these reasons, it is appropriate to eliminate the use of corporate guarantees for the provision of financial assurance in all circumstances, even where the use of unsecured credit will still be permitted.

D. Reallocation of the Costs of Payment Defaults Associated with Unsecured Credit

Complementing the curtailment of the use of unsecured credit described above, the Amendments also change how the cash shortfalls associated with payment defaults are allocated in the limited remaining cases where unsecured credit is used. As explained previously, under the current versions of the Policies, if a Market Participant using unsecured credit defaults on a payment obligation, the costs of that default are socialized among all Market Participants, including those that do not use unsecured credit. To directly address this socialization issue, as described in more detail below, the Amendments revise the allocation methodologies such that any shortfalls caused by a payment default by a Market Participant using unsecured credit will be allocated first to the set of resources also using unsecured credit, up to the credit limit for the defaulting Market Participant.⁴² Market Participants will also be able to control their exposure to unsecured default allocations through an annual election process whereby the Market Participant chooses to forgo its use of unsecured credit for the upcoming year, replacing such financial assurance with secured collateral. The allocation provisions described below apply to both ISO Charges and Transmission Charges.

⁴¹ The Commission recently approved an analogous change in *California Independent System Operator Corp.*, 126 FERC ¶ 61,285 (2009).

⁴² Payment defaults not associated with the use of unsecured credit will continue to be allocated to all Market Participants in the same manner as described in the currently-effective Billing Policy.

1. Reallocation for Unsecured Municipal Market Participants

The Amendments provide that if and to the extent that: (i) the defaulting Covered Entity is a Municipal Market Participant with a Market Credit Limit or a Transmission Credit Limit of greater than \$0 under the Policies (an “Unsecured Municipal Market Participant”); and (ii) the other procedures specified in the Billing Policy⁴³ do not yield sufficient funds to pay all amounts for ISO Charges or Transmission Charges in full on the date such payments are due, then the ISO will reduce payments to all Unsecured Municipal Market Participants owed monies for ISO Charges or Transmission Charges, as applicable, for that billing period on a pro rata basis. Such reduced payments may not exceed the defaulting Unsecured Municipal Market Participant’s applicable credit limit under the Policies, with any shortfall in excess of the credit limit of the defaulting Participant being allocated across the entire Pool similar to the existing methodology.⁴⁴ As funds attributable to the default are received by the ISO (including amounts received through financial assurances provided under the Policies or through actions or proceedings commenced against the defaulting Covered Entity) prior to the next billing period’s statements being distributed, such funds, together with any interest and late charges collected on the applicable default, will be distributed pro rata to the Unsecured Municipal Market Participants that received reduced payments as a result of the default.⁴⁵

To the extent that any amount remains unpaid to Unsecured Municipal Market Participants on the date that statements are distributed to Covered Entities in the billing period immediately following the period including the default, the amount remaining unpaid will be reallocated among all of the Unsecured Municipal Market Participants receiving statements for ISO Charges or Transmission Charges (as applicable) for the period including the default (other than the Unsecured Municipal Market Participant defaulting on its payment obligations), on a pro rata basis.⁴⁶

2. Reallocation for Unsecured Non-Municipal Market Participants

The Amendments include substantially the same reallocation procedures for Unsecured Non-Municipal Market Participants as those for Unsecured Municipal Market Participants described above. The two participant types are treated separately, however, and shortfalls related to a payment default will not be socialized between the two participant types unless that default exceeds the defaulting participant’s applicable credit limit, at which point the payment default is socialized among all Market Participants with settlement activity for the billing period at issue. That is, the costs associated with a payment default by an Unsecured Municipal Market Participant will be shared by other Unsecured Municipal Market Participants, and the costs associated with a payment default by an Unsecured Non-Municipal Market Participant will be

⁴³ Such procedures include the use of set-offs and the ISO’s ability to draw on the Late Payment Account and the Payment Default Shortfall Fund.

⁴⁴ See Section 3.3(h)(i) of the revised Billing Policy.

⁴⁵ See Section 3.3(h)(i) of the revised Billing Policy.

⁴⁶ See Section 3.3(h)(ii) of the revised Billing Policy.

socialized to the pool of Unsecured Non-Municipal Market Participants, in each case up to the applicable credit limit of the defaulting participant.

E. New Eligibility Requirements for Banks Issuing Letters of Credit and Limits on Letters of Credit from a Single Entity

The Amendments include new requirements for banks to be eligible to provide letters of credit as financial assurance to the ISO.⁴⁷ The Amendments require that each bank issuing a letter of credit be on the ISO's "List of Eligible Letter of Credit Issuers." The ISO will maintain the List of Eligible Letter of Credit Issuers on its website, and will update that list no less frequently than once each quarter. To be included on the List of Eligible Letter of Credit Issuers, a bank must either be a bank organized under the laws of the United States or any state thereof, or be the United States branch of a foreign bank, and must either:

- i) be recognized by the Chicago Mercantile Exchange ("CME") as an approved letter of credit bank; or
- ii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, then a minimum corporate rating) of an "A-" by S&P, or "A3" by Moody's, or "A-" by Fitch and have its letter of credit confirmed by a bank that is recognized by CME as an approved letter of credit issuer;⁴⁸ or
- iii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, then a minimum corporate rating) of an "A-" by S&P, or "A3" by Moody's, or "A-" by Fitch and be approved by the ISO in its sole discretion (the ISO will promptly advise the NEPOOL Budget and Finance Subcommittee of any additional bank approved by it under this provision).

If an entity that is included on the List of Eligible Letter of Credit Issuers fails to satisfy any of the criteria set forth above, the applicable Market Participant will have five Business Days from the date on which the ISO provides notice of such failure to replace the letter of credit with a letter of credit from an entity satisfying those criteria or provide other financial assurance satisfying the requirements of the Financial Assurance Policy. In the case of a letter of credit issuer that is removed from the CME list of approved letter of credit banks, the ISO, in its sole discretion, may extend the cure period to twenty Business Days. The ISO must promptly advise the Budget and Finance Subcommittee of any extension of a cure period beyond five Business Days under this provision.

In addition, no Market Participant may provide a letter of credit that has been issued or confirmed by a letter of credit issuer affiliated with that Market Participant. A letter of credit

⁴⁷ See Section X.B.2. of the revised Financial Assurance Policy.

⁴⁸ The Amendments reference the approved letter of credit issuer lists of CME and the New York Mercantile Exchange ("NYMEX"). NYMEX has merged into CME, and only one list of those approved issuers is currently kept by the combined organization.

from an issuer affiliated with the Market Participant simply shifts the risk among affiliates, which may do little to improve the likelihood of recovery of funds after a payment default.

In addition to the eligibility requirements described above, the Amendments also include new limits on the amount of financial assurance that may be provided through letters of credit from a single entity. Specifically, no entity may issue or confirm letters of credit under the Financial Assurance Policy in an amount exceeding either: (i) \$100 million in the aggregate for any single Market Participant; or (ii) \$150 million in aggregate for a group of affiliated entities. These caps are designed to lessen the risk and costs associated with too much exposure to any single letter of credit issuer, while not being so restrictive as to limit a Market Participant's access to capital.

F. Changing Requirements for Municipal Market Participants

The Amendments change certain requirements for Municipal Market Participants in order to conform them to the existing requirements for Non-Municipal Market Participants. Specifically, once the Amendments become effective, the financial assurance requirements for Municipal Market Participants will be the same as the financial assurance requirements for Non-Municipal Market Participants. In addition, the Amendments extend to Municipal Market Participants the currently existing provisions requiring that entities seeking to become Market Participants submit proof of financial viability. In the currently-effective rules, Municipal Market Participant applicants are exempted from these provisions, which require an applicant to demonstrate its ability to meet its obligations through the submission of various documents, including various financial statements and references that are the same as the materials that T&D Company and Non-Distribution Company applicants are required to provide, where such financial data for those Municipal Market Participant applicants is available. Finally, under the Amendments, the suspension provisions that currently apply to Non-Municipal Market Participants will also apply to Municipal Market Participants.

G. Elimination of Third-Party Credit Protection

The Amendments will allow the ISO to discontinue purchasing third-party credit protection. The current rules require the ISO to purchase third party credit protection to reimburse the ISO and its stakeholders for losses that may accrue as a result of a payment default by a Market Participant with an Investment Grade Rating utilizing a credit limit with the ISO. With the default allocation provisions revised as described above, the ISO and NEPOOL determined that this insurance is no longer necessary.

V. STAKEHOLDER PROCESS

As noted above, the formulation of the Amendments was driven by the ISO's conviction that the existing financial assurance provisions of the ISO Tariff needed to be changed and improved. In response to this conviction, the ISO developed a proposal for improvements to the Policies that could meet its concerns, and revised its proposal to address concerns expressed during the course of the extensive stakeholder process that ensued. At the conclusion of the stakeholder process, NEPOOL voted to support the resulting Amendments, as described below.

An impetus for the initiation of these efforts was the nearly universal concern among the ISO and NEPOOL stakeholders about the 2007 FTR payment defaults by Exel Power Resources, LLC and Power Edge, LLC in PJM. The ISO, in its role of identifying credit risks for the region, made a presentation to the NEPOOL Participants Committee in early 2008 on whether similar payment defaults relating to FTRs could arise in New England. Based on that presentation and the experiences of many of the ISO Market Participants who incurred significant losses associated with the PJM payment defaults, the ISO and the NEPOOL Budget and Finance Subcommittee (the “Subcommittee”) formed a working group in February 2008 to study the credit issues associated with the FTR Markets.

That working group met intermittently over the next seven months and, in September 2008, recommended changes (the “FTR Changes”) to the existing Financial Assurance Policies.⁴⁹ The Participants Committee approved the FTR Changes in October 2008, and they were filed with the Commission and became effective on February 1, 2009.⁵⁰

In the course of addressing these FTR-related concerns through the FTR Changes, the ISO stressed that more global changes to the Financial Assurance Policies were needed. At the same October 2008 Participants Committee meeting at which the FTR Changes were voted, the Participants Committee instructed the Subcommittee to meet to discuss the ISO’s proposal to eliminate credit limits and guarantees from the Financial Assurance Policy, to establish a list of pre-determined qualified issuing banks for letters of credit provided under the Financial Assurance Policies and to limit the amount of financial assurance requirements that could be met through a letter of credit (collectively, the “Unsecured Credit Issues”). The Subcommittee held a series of well-attended meetings on the Unsecured Credit Issues beginning in October 2008, and the Unsecured Credit Issues were the subject of a panel discussion at the semi-annual joint meeting of the Participants Committee and the ISO Board of Directors in November 2008.

In January 2009, the Subcommittee and the ISO presented to the Participants Committee a proposed term sheet of changes to the Policies to address the Unsecured Credit Issues, which included many of the changes contemplated by the Amendments. That term sheet effectively contained three different alternatives – one principally sponsored by the ISO (with support from certain NEPOOL Participants), one sponsored by the Transmission Owners, and one sponsored by a group of Suppliers and other Market Participants (who became known as the “Joint Participants”) who wanted to retain unsecured credit across the Pool. The Participants Committee reacted to the various proposals at that meeting and requested that the ISO continue to work with the Subcommittee toward a consensus position.

The discussions continued, and a revised term sheet reflecting the ISO’s proposal as modified to address numerous stakeholder concerns, which ultimately became the Amendments,

⁴⁹ Prior to October 1, 2009, ISO had separate Financial Assurance Policies for Market Participants, for Non-Market Participant Transmission Customers and for FTR-Only Customers and DRP-Only Customers. Those three Financial Assurance Policies were consolidated into the one Financial Assurance Policy currently in use (with certain amendments) on October 1, 2009. *See* delegated letter order issued in Docket No. ER09-1470-000 (August 21, 2009).

⁵⁰ *See* delegated letter order issued in Docket No. ER09-319-000 (December 24, 2008).

was adopted at the March 6, 2009 Participants Committee meeting with a vote of 71.820% of the Voting Shares.

The Joint Participants also presented a proposed term sheet at that March 6 meeting. That term sheet included: (1) a reduction in the maximum credit limit for all Market Participants who otherwise qualify (rather than just for T&D Companies and Municipal Market Participants) of \$50 million, with an aggregate \$150 million credit limit for all affiliated Market Participants; (2) the separate billing and collateralization of Transmission Charges; (3) the allocation of cash shortfalls resulting from payment defaults on Transmission Charges first to affiliates of that defaulting Market Participant to the extent of the Transmission Charges due to those affiliates, then to other Market Participants due Transmission Charges, then to the Pool as a whole using the current methodology; (4) the elimination of unsecured credit for FTR transactions and Virtual Obligations in excess of Real-Time Load Obligations or Real-Time Generation Obligations for the applicable Market Participant; (5) the elimination of the use of secured debt ratings from the Rating Agencies to establish an Investment Grade Rating; (6) the revision of the Market Rules to permit a Market Participant to submit bilateral energy contracts to the ISO that do not alter the Marginal Loss Revenue allocation that would otherwise have accrued to each party if the bilateral contract had not been submitted to the ISO; and (7) the continuation of corporate guarantees as an acceptable form of financial assurance, modifying the requirement for those guarantees to be consistent with the foregoing points.

The ISO opposed the Joint Participants' alternative term sheet on the basis that it did not adequately address the need for greater credit protections in the New England markets. The Joint Participants' term sheet failed to gain the support of the Participants Committee with a 66.225% vote in favor (a 66.667% favorable vote would have been required for the Participants Committee to support the proposal). Also, at that March 6 meeting, a proposal, also opposed by the ISO, to amend the term sheet to eliminate the change to twice weekly billing (i.e., to retain weekly billing) was, in a show-of-hands vote, not supported by the Participants Committee.

Thereafter, the ISO and NEPOOL counsel developed changes to the Policies to effectuate the NEPOOL-supported term sheet language and worked with the Subcommittee to finalize the Tariff language.

Based on that March 6 vote, the ISO and the Subcommittee presented a draft of changes to the Financial Assurance Policies that are consistent with the Amendments (without the separate allocation of payment default shortfalls between T&D Companies and Municipal Market Participants) to the Participants Committee for a vote, and that version of the Amendments was approved at the May 3, 2009 Participants Committee meeting by a vote of 81.883% of the Voting Shares. The Joint Participants' alternative draft of the Amendments, consistent with their term sheet but also including the retention of once-weekly billing, was not supported by the Participants Committee, gaining a favorable vote of 39.56% of the Voting Shares.

Additional votes after the May 1, 2009 Participants Committee meeting further altered the form of the changes to the Financial Assurance Policies that ultimately became the Amendments. First, shortly before the May 1 meeting, a Market Participant proposed the separate reallocation of cash shortfalls from payment defaults between Municipal Market

Participants and T&D Companies that is embodied in the Amendments. When this issue was raised at the May 1 Participants Committee meeting, the Committee declined to vote on the issue without reviewing specific language to implement that proposal. The Participants Committee asked the Subcommittee to work with the ISO and NEPOOL counsel to prepare that language on a schedule that would permit those changes to be considered at the June 5, 2009 Participants Committee meeting. Tariff language reflecting the proposal was approved by the Participants Committee at its June 5, 2009 meeting with only one vote in opposition.

In addition, at its June 22-23, 2009 meeting, the Participants Committee approved the consolidation of the three existing Financial Assurance Policies into a single Financial Assurance Policy. As part of that vote, the Participants Committee instructed the Subcommittee Chair to work with the ISO and NEPOOL counsel to identify and file with the Commission further amendments to that consolidated Financial Assurance Policy that reflect the resolution of the Unsecured Credit Issues approved at the prior meetings. Because this was a mechanical exercise of importing the approved changes to the three separate Policies into the consolidated Financial Assurance Policy, the Participants Committee did not require another vote on those changes. The Amendments reflect those changes.

Attachment 5 of this filing tabulates the votes that had been taken on the Amendments and leading up to the vote on the Amendments.

As the Commission is aware, the ISO and NEPOOL have made a series of joint filings⁵¹ (in addition to the consolidation filing described above) since last May proposing interim changes to the Policies. Those interim changes have required implementation prior to the point in time (*i.e.*, on or after December 1, 2010) by which the ISO could make the software and other changes necessary to implement the Amendments. Due to the foregoing factors, the ISO and NEPOOL sequenced this filing to follow the filings of those interim changes.

VI. REQUESTED EFFECTIVE DATE AND REQUEST FOR WAIVER

The Filing Parties request that the Commission accept the Amendments, as reflected in the attached Tariff sheets, to become effective on or after December 1, 2010, with sixty days' notice to be provided by the ISO to all Governance Participants and to the Commission. The significant advance notice provided by this filing is supported for the reasons described below, and hence the Filing Parties request waiver of the notice provisions of 18 C.F.R. § 35.3, which generally provide that Tariff changes may not be posted more than 120 days before they are to

⁵¹ See September 18, 2009 filing in Docket No. ER09-1721-000 (accepted in delegated letter order issued October 20, 2009); October 14, 2009 filing in Docket No. ER10-62-000 (accepted, subject to compliance filing, in delegated letter order issued November 10, 2009; December 10, 2009 compliance filing accepted in delegated letter order issued February 19, 2010); December 15, 2009 filing in Docket No. ER10-423-000 (accepted in delegated letter order issued January 27, 2010); February 16, 2010 filing in Docket No. ER10-752-000 (pending).

become effective.⁵² Notwithstanding this waiver of the 120-day maximum notice requirement, the Filing Parties request that the Commission approve the Amendments within 60 days of this filing.

There are two principal reasons for supporting the significant advance notice requested with an order approving the Amendments far in advance of their effective date. First, implementation of the Amendments will require the ISO to make substantial changes to its software and business processes. These changes will be time-consuming. If the Commission does not rule on the Amendments early, the region may be required to expend considerably more resources and possibly delay the date it can implement these changes.

Second, delaying the Amendments effective date until December provides time for Market Rule changes to the Marginal Loss Revenue Fund allocation methodology to be implemented at or near the same time. The significant restriction on the use of unsecured credit in the Amendments is, as detailed above, based in part on concerns about sleeving and the significant drop off in the number of bilateral contracts being submitted to the ISO. Some Market Participants have expressed the concern, however, that submission of bilateral contracts to the ISO could result in the loss of their share of the Marginal Loss Revenue Fund. While the two issues are not directly related, the ISO has agreed that effectuating changes that will allow the submission of bilateral contracts without reducing the allocation of the Marginal Loss Revenue Fund before the unsecured credit changes are effective will ensure that the incentives are consistent and that there are not unintended penalties associated with the submission of bilateral contracts. Discussions about revisions to the Marginal Loss Revenue Fund allocation have begun in the stakeholder process this month, with the resulting rule revisions to be filed later this year.

VII. ADDITIONAL SUPPORTING INFORMATION

Section 35.13 of the Commission's regulations generally requires public utilities to file certain cost and other information related to an examination of traditional cost-of-service rates.⁵³ However, the Amendments are not a traditional "rate" and the Filing Parties are not traditional investor-owned utilities. In light of these circumstances, the Filing Parties submit the following additional information in substantial compliance with relevant provisions of Section 35.13, and request a waiver of Section 35.13 of the Commission's regulations to the extent the content or form deviates from the specific technical requirements of the regulations.

⁵² The version of the Amendments approved by the Participants Committee last year included a phased implementation of certain of the provisions over a six-month period, ending in July 2010. The purpose of this phased approach was to provide Market Participants with time to reflect the new credit requirements in their other commercial arrangements. Since the ISO has determined that the Amendments cannot become effective until late 2010 and will provide 60 days' advance notice of that effectiveness, this phased implementation is no longer necessary.

⁵³ 18 C.F.R. § 35.13 (2008).

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

- ◆ This transmittal letter;
- ◆ Blacklined Tariff Sheets reflecting the Amendments proposed by this filing (Attachment 1);
- ◆ Clean Revised Tariff Sheets reflecting the Amendments proposed by this filing (Attachment 2);
- ◆ Joint Testimony of Robert C. Ludlow, the ISO's Chief Financial and Compliance Officer, and Jeffrey B. Iafrati, the ISO's Market and Credit Risk Manager, which is solely sponsored by the ISO (Attachment 3); and
- ◆ List of governors, utility regulatory agencies in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont, and other entities, to which a copy of this filing has been sent (Attachment 4).
- ◆ Tabulation of Participants Committee Votes on the Amendments and proposals for modifications or alternatives to provisions in the Amendments (Attachment 5).

35.13(b)(2) - As set forth in Part VI above, the Filing Parties request that the Amendments become effective, with sixty days' notice to Governance Participants and the Commission, on or after December 1, 2010.

35.13(b)(3) - Pursuant to Section 17.11(e) of the Participants Agreement, Governance Participants are being served electronically rather than by paper copy. The names and addresses of the Governance Participants are posted on the ISO's website at http://www.iso-ne.com/regulatory/ferc/nepool/gov_ptcpnts_eserved.pdf. A copy of this transmittal letter and the accompanying materials have also been sent to the governors and electric utility regulatory agencies for the six New England states that comprise the New England Control Area, the New England Conference of Public Utility Commissioners, and to the New England States Committee on Electricity. Their names and addresses are shown in Attachment 4. In accordance with Commission rules and practice, there is no need for the Governance Participants or the entities identified on Attachment 4 to be included on the Commission's official service list in the captioned proceeding unless such entities become intervenors in this proceeding.

35.13(b)(4) - A description of the materials submitted pursuant to this filing is contained in Parts IV and VII of this transmittal letter.

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

35.13(b)(6) - The ISO's approval of the Amendments is evidenced by this filing. With respect to NEPOOL's approval, as noted in Part V of this transmittal letter, these changes reflect the results of the stakeholder process required by the Participants Agreement.

35.13(b)(7) - The Filing Parties do not have knowledge of any relevant expenses or costs of service that have been alleged or judged in any administrative or judicial proceeding to be illegal, duplicative, or unnecessary costs that are demonstrably the product of discriminatory employment practices.

VIII. CONCLUSION

For the foregoing reasons, the Filing Parties respectfully request that the Commission approve the Amendments described herein without condition or change, to become effective on or after December 1, 2010, with sixty days' notice to be provided by the ISO. Please acknowledge receipt of the foregoing by date-stamping the enclosed extra copies of this filing and returning them to the courier delivering this filing.

Respectfully submitted,

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Attachment 1

EXHIBIT IA
ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

Table of Contents

Overview.....49

I. LIABILITY AND TREATMENT OF GROUPS REGARDED AS SINGLE MARKET PARTICIPANTS50

II. ~~MARKET PARTICIPANTS' REVIEW AND CREDIT LIMITS~~ FINANCIAL ASSURANCE REQUIREMENTS FOR NON-MUNICIPAL APPLICANTS AND NON-MUNICIPAL MARKET PARTICIPANTS.....52

A. Proof of Financial Viability for ~~Non-Municipal~~ Applicants.....52A

B. Ongoing ~~Financial Review and Credit Ratings~~54

1. ~~Rated~~ Provision of Financial Assurances by Non-Municipal Market Participants.....54

2. ~~Unrated~~ Credit Limit for Non-Municipal Market Participants ~~55A~~57

3. Information Reporting Requirements for Market Participants ~~56A~~60

C. ~~Credit Limits~~ Financial Assurance Requirement for Non-Municipal Market Participants..... ~~57~~62

1. Credit Limit for Non-Distribution Participants.....57

2. Credit Limit for Rated T&D Companies57

3. Credit Limit for Unrated T&D Companies.....58

4. Credit Limit for Municipal Market Participants58

D. ~~Transmission Credit Limits~~ Credit Test Calculations, Notice and Suspension from the New England Markets..... ~~59~~65

1. Transmission Credit Limit for Non-Distribution Participants ~~Credit Test Calculations and Notices~~..... ~~59~~65

2. Transmission Credit Limit for Rated T&D Companies ~~Suspension from the New England Markets~~ ~~59~~68

3. Transmission Credit Limit for Unrated T&D Companies ~~Serial Notice and Suspension Penalties~~ ~~59A~~71A

4. Transmission Credit Limit for Municipal Market Participants.....59A

E. Credit Limit Usage Limited to Native Load Requirements.....59A

F. Credit Limit for FTR-Only Customers and DRP-Only Customers60

III. ~~FINANCIAL ASSURANCE PROVISIONS FOR MUNICIPAL APPLICANTS AND MUNICIPAL MARKET PARTICIPANTS~~.....72

A. ~~Proof of Financial Viability~~73

1. ~~Municipal Applicants~~.....73

Issued by: Raymond W. Hepper
Vice President and General Counsel

Effective: With notice, on or after December 1, 2010 ~~October 1, 2009~~

Issued on: March 26, 2010 ~~July 17, 2009~~

2.	Municipal Market Participants	73 ^A
B.	Financial Statements of Municipal Applicants	74
C.	Ongoing Financial Review for Municipal Market Participants	75
D.	Other Financial Assurances for Municipal Market Participants	75
E.	Additional Financial Assurance Requirements for Certain Municipal Market Participants	79

III.	<u>MARKET PARTICIPANTS' REQUIREMENTS</u> FINANCIAL ASSURANCE <u>PROVISIONS FOR MUNICIPAL APPLICANTS AND MUNICIPAL MARKET</u> <u>PARTICIPANTS</u>	<u>6372</u>
A.	<u>Determination of Obligations</u> Proof of Financial Viability	<u>64A73</u>
1.	<u>Municipal Applicants</u>	<u>73</u>
2.	<u>Municipal Market Participants</u>	<u>73A</u>
B.	<u>Credit Test and Transmission Credit Test Calculations, Notice and</u> <u>Suspension from the New England Markets</u> Financial Statements of <u>Municipal Applicants</u>	<u>6574</u>
1.	<u>Credit Test Calculations and Notices</u>	<u>65</u>
a.	<u>80 Percent Test</u>	<u>65</u>
b.	<u>90 Percent Test</u>	<u>66</u>
c.	<u>100 Percent Test</u>	<u>66</u>
2.	<u>Suspension from the New England Markets</u>	<u>68</u>
a.	<u>General</u>	<u>68</u>
b.	<u>Load Assets</u>	<u>70A</u>
c.	<u>FTRs</u>	<u>71</u>
d.	<u>Virtual Transactions</u>	<u>71A</u>
3.	<u>Serial Notice and Suspension Policies</u>	<u>71A</u>
C.	<u>Additional Financial Assurance Requirements for Certain Municipal</u> <u>Market Participants</u> Ongoing Financial Review for Municipal Market <u>Participants</u>	<u>7975</u>
D.	Other Financial Assurances for Municipal Market Participants	75
E.	Additional Financial Assurance Requirements for Certain Municipal Market Participants	79
IV.	<u>FINANCIAL ASSURANCE REQUIREMENTS FOR CERTAIN NEW</u> <u>AND RETURNING MARKET PARTICIPANTS</u>	<u>79A</u>
V.	<u>FINANCIAL ASSURANCE REQUIREMENTS FOR NON-MARKET</u> <u>PARTICIPANT TRANSMISSION CUSTOMERS</u>	<u>79F</u>
A.	<u>Proof of Financial Viability</u>	<u>79F</u>
B.	<u>Ongoing Financial Review and Credit Ratings</u>	<u>79H</u>
1.	<u>Rated Non-Market Participant Transmission Customer</u> <u>Applicants and Transmission Customers</u>	<u>79H</u>
2.	<u>Unrated Non-Market Participant Transmission Customers</u>	<u>79H</u>
3.	<u>NMPTC Credit Limits for ISO Charges</u>	<u>79I</u>
4.	<u>NMPTC Transmission Credit Limits</u>	<u>79I.01</u>
5.	<u>Credit Limit Usage Limited to Native Load Requirements</u>	<u>79I.02</u>
C.	<u>Information Reporting Requirements for Non-Market Participant</u>	

	Transmission Customers	79I.04 79I
D.	Financial Assurance Requirement for Non-Market Participant	
	Transmission Customers	79J.01 79J
	1. Financial Assurance for ISO Charges	79J.01
	2. Financial Assurance for Transmission Charges	79K
	3. Notice of Failure to Satisfy NMPTC Financial Assurance Requirement	79K
VI.	ADDITIONAL FINANCIAL ASSURANCE PROVISIONS FOR FTR TRANSACTIONS	79L
	A. FTR Settlement Risk Financial Assurance	79L
	B. Bid Financial Assurance	80

Issued by: Raymond W. Hepper
Vice President and General Counsel
Issued on: ~~March 26, 2010~~~~July 17, 2009~~

Effective: With notice, on or after December 1, 2010~~October 1, 2009~~

<u>VI.</u>	<u>ADDITIONAL FINANCIAL ASSURANCE PROVISIONS FOR FTR</u>				
	<u>TRANSACTIONS</u>	<u>79L</u>			
	<u>A.</u>	<u>FTR Settlement Risk Financial Assurance</u>	<u>79L</u>		
	<u>B.</u>	<u>Bid Financial Assurance</u>	<u>80</u>		
	<u>C.</u>	<u>Award Financial Assurance</u>	<u>80</u>		
	<u>D.</u>	<u>Settlement Financial Assurance</u>	<u>80A</u>		
	<u>E.</u>	<u>Consequences of Failure to Satisfy FTR Requirements</u>	<u>80A</u>		
<u>VII.</u>	<u>ADDITIONAL FINANCIAL ASSURANCE PROVISIONS FOR FORWARD</u>				
	<u>CAPACITY MARKETS</u>		<u>81</u>		
	<u>A.</u>	<u>Commercial Capacity</u>	<u>81</u>		
		<u>1.</u>	<u>Transfer of Capacity Supply Obligation in Reconfiguration</u>		
			<u>Auction</u>	<u>81A</u>	
		<u>2.</u>	<u>Transfer of Capacity Supply Obligation in Bilateral Transaction</u>	<u>81A.02</u>	
		<u>3.</u>	<u>Financial Assurance Credits for Capacity Supply Obligations</u>	<u>81A.02</u>	
	<u>B.</u>	<u>Non-Commercial Capacity</u>		<u>81B</u>	
		<u>1.</u>	<u>FCM Deposit</u>	<u>81B</u>	
		<u>2.</u>	<u>Non-Commercial Capacity in Forward Capacity Auctions</u>	<u>81B.01</u>	
		<u>3.</u>	<u>Non-Commercial Capacity in Reconfiguration Auctions</u>	<u>81C</u>	
			<u>a.</u>	<u>Acquiring Capacity Supply Obligations</u>	<u>81C</u>
			<u>b.</u>	<u>Transfer of Capacity Supply Obligations</u>	<u>81D.01</u>
		<u>4.</u>	<u>Non-Commercial Capacity in Bilateral Transactions</u>		<u>81E</u>
			<u>a.</u>	<u>Acquiring Capacity Supply Obligations</u>	<u>81D.02</u>
			<u>b.</u>	<u>Transfer of Capacity Supply Obligations</u>	<u>81E</u>
		<u>5.</u>	<u>Return of Financial Assurance</u>		<u>81E.01</u> 81E
		<u>6.</u>	<u>Credit Test Amount Consequences</u>		<u>81F</u>
		<u>7.</u>	<u>Financial Assurance for Multiple Auctions and Transactions</u>		<u>81F</u>
	<u>C.</u>	<u>Loss of Capacity and Forfeiture of Financial Assurance</u>			<u>81F.01</u>
	<u>D.</u>	<u>Composite FCM Transactions</u>			<u>81H</u>
<u>VIII.</u>	<u>FINANCIAL ASSURANCE REQUIREMENTS FOR DRP-ONLY</u>				
	<u>CUSTOMERS IN DEMAND RESOURCE TRANSACTIONS</u>				<u>81L</u>
	<u>A.</u>	<u>DRP-Only Customer Financial Assurance</u>			<u>81L</u>
IX.	THIRD PARTY CREDIT PROTECTION				82
X.	ACCEPTABLE FORMS OF FINANCIAL ASSURANCE				83
	A.	Cash Deposit			83
	B.	Letter of Credit			85

Issued by: Raymond W. Hepper, Effective: With notice, on or after December 1, 2010~~October 1, 2009~~
Vice President and General Counsel

Issued on: March 26, 2010~~July 17, 2009~~

C.	Corporate Guaranty.....	86
1.	Requirements for Non Foreign Guarantors	89
2.	Requirements for Foreign Guarantors	91
D.	Special Provisions for Provisional Members.....	93C.01

Issued by: Raymond W. Hepper, Effective: With notice, on or after December 1, 2010~~October 1, 2009~~
 Vice President and General Counsel
Issued on: March 26, 2010~~July 17, 2009~~

<u>IXX.</u>	ACCEPTABLE FORMS OF FINANCIAL ASSURANCE.....	83
A.	Cash Deposit	83
B.	Letter of Credit.....	85
1.	Requirements for Banks.....	85
2.	Form of Letter of Credit.....	87
C.	Corporate Guaranty.....	86
1.	Requirements for Non Foreign Guarantors	89
2.	Requirements for Foreign Guarantors	91
<u>CD.</u>	Special Provisions for Provisional Members	93C.01
<u>XXI.</u>	MISCELLANEOUS PROVISIONS.....	94
A.	Obligation to Report Material Changes	94
B.	Weekly Payments.....	95
C.	Use of Transaction Setoffs.....	97
D.	Reimbursement of Costs	97
E.	Notification of Default	98
F.	Remedies Not Exclusive	<u>9899</u>
G.	Inquiries and Contests.....	99
H.	Forward Contract/Swap Agreement	99A
	ATTACHMENT 1 - SECURITY AGREEMENT	100
	ATTACHMENT 2 - SAMPLE LETTER OF CREDIT	111
	ATTACHMENT 3 - <u>[Reserved.]</u> CORPORATE GUARANTY	117

Issued by: Raymond W. Hepper, Effective: With notice, on or after December 1, 2010~~October 1, 2009~~
 Vice President and General Counsel

Issued on: March 26, 2010~~July 17, 2009~~

EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

Overview

The procedures and requirements set forth in this ISO New England Financial Assurance Policy (this “Policy”) shall govern all applicants for Market Participant status ~~with~~ⁱⁿ the ISO (“Applicants”), all Non-Market Participant applicants for transmission service from the ISO (“Non-Market Participant Transmission Service Customer Applicants”), all Market Participants and all Non-Market Participant Transmission Customers.¹ For purposes of this Exhibit IA, “Market Participants” include FTR-Only Customers, DRP-Only Customers, and ODR-Only Customers.

The purpose of this Policy is (i) to establish a financial assurance policy for Market Participants and Non-Market Participant Transmission Customers that includes commercially reasonable credit review procedures to assess the financial ability of an Applicant, a Non-Market Participant Transmission Service Customer Applicant, a Market Participant or a Non-Market Participant Transmission Customer to pay for service transactions under the Tariff and to pay its share of the ISO expenses, including amounts under Section IV of the Tariff, and including any applicable Participant Expenses (as such term is defined in the Billing Policy); (ii) to set forth the requirements for alternative forms of security that will be deemed acceptable to the ISO and consistent with commercial practices established by the Uniform Commercial Code that protect the ISO and the Market Participants against the risk of non-payment

¹ Capitalized terms used but not defined in this Policy are intended to have the meanings given to such terms in pertinent sections of the Tariff.

II. ~~MARKET PARTICIPANTS' REVIEW AND CREDIT LIMITS~~ ~~FINANCIAL ASSURANCE REQUIREMENTS FOR NON-MUNICIPAL APPLICANTS AND NON-MUNICIPAL MARKET PARTICIPANTS~~

Section II of the Policy contains the requirements and procedures governing Applicants and Market Participants that are not “Municipal Market Participants” or “Municipal Applicants” under this Policy. Solely for purposes of this Policy: (1) a “Municipal Market Participant” is any Market Participant that is either (a) a Publicly Owned Entity as defined in Section 1 of the RNA except for an electric cooperative or an organization including one or more electric cooperatives as used in Section 1 of the RNA or (b) a municipality, an agency thereof, a body politic or a public corporation (i) that is created under the authority of any state or province that is adjacent to one of the New England states,² (ii) that is authorized to own, lease and operate electric generation, transmission or distribution facilities and (iii) that has been approved for treatment as a Municipal Market Participant by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee; (2) a “Municipal Applicant” is an entity that has applied to become a Market Participant and otherwise satisfies the definition of “Municipal Market Participant” above; and (3) a “T&D Company” is either (x) a Market Participant that is also an electric distribution utility with one or more franchised service areas in the ISO Control Area whose retail electric rates are regulated exclusively by the public utilities commission or similar governmental body of one of the New England states or (y) the unregulated affiliate of one or more such T&D Companies that acts as agent for those T&D Companies with respect to billing

² A Municipal Market Participant created by the authority of a state or province other than one of the New England states will not be considered a Publicly Owned Entity under the RNA.

and payment under the ISO Billing Policy; (4) a “T&D Company Applicant” is an entity that has applied to Market Participants and Applicants that are not Municipal Market Participants or Municipal Applicants are referred to as “Non-Municipal Market Participants” and “Non-

Issued by: Raymond W. Hepper, Effective: With notice, on or after December 1, 2010~~October 1, 2009~~
Vice President and General Counsel
Issued on: March 26, 2010~~July 17, 2009~~

~~become a Market Participant and that otherwise satisfies the definition of “T&D Company;” (5) a “Non-Distribution Participant” is a Market Participant that is not a Municipal Market Participant or a T&D Company; and (6) a “Non-Distribution Company Applicant” is an entity that has applied to become a Market Participant and otherwise satisfies the definition of Non-Distribution Participant, Municipal Applicants,” respectively. A Non-Municipal Market Participant’s failure to meet the requirements of this section may result in suspension from participation in the New England Markets and/or termination proceedings by the ISO.~~

A. Proof of Financial Viability for ~~Non-Municipal~~ Applicants

Each ~~Non-Municipal~~ Applicant ~~must~~, T&D Company Applicant and Non-Distribution Company Applicant (collectively, the “Applicants” and each an “Applicant”) must, with its membership application and at its own expense, submit proof of financial viability, as described below, satisfying the ISO requirements to demonstrate the ~~Non-Municipal~~ Applicant’s ability to meet its obligations. Each ~~Non-Municipal~~ Applicant that intends to establish a Credit Limit or a Transmission Credit Limit (each as defined below) of greater than \$0 under Section II.C.B.2 Section II.D or Section II.E below must submit to the ISO all current rating agency reports from Standard and Poor’s (“S&P”), Moody’s and/or Fitch (collectively, the “Rating Agencies”). Each ~~Non-Municipal~~ Applicant, whether or not it intends to establish a Credit Limit or Transmission Credit Limit of greater than \$0, must submit to the ISO audited financial statements for the two most recent years, or the period of its existence, if

less than two years, and unaudited financial statements for its last concluded fiscal quarter if they are not included in such audited annual financial statements. These unaudited statements must be certified as to their accuracy by a Senior Officer³ of such ~~Non-Municipal~~ Applicant and must include in each case, but are not limited to, the following information to the extent available: balance sheets, income statements, statements of cash flows and notes to financial statements, annual and quarterly reports, and 10-K, 10-Q and 8-K Reports.⁴ In addition, each ~~Non-Municipal~~ Applicant, whether or not it intends to establish a Credit Limit or a Transmission Credit Limit, must submit to the ISO: (i) at least one (1) bank reference and three (3) utility company credit references, or in those cases where an ~~Non-Municipal~~ Applicant does not have three (3) utility company credit references, three (3) major trade payable vendor references may be substituted; and (ii) relevant information as to any known or anticipated material lawsuits, as well as any prior bankruptcy declarations by the ~~Non-Municipal~~ Applicant, or by its predecessor(s), if any; and (iii) a completed ISO credit application. In the case of certain ~~Non-Municipal~~ Applicants, some of the information and documentation described in items (i) and (ii) of the immediately preceding sentence may not be applicable or available, and alternate requirements may be specified by the ISO or its designee in its sole discretion.

³ For purposes of this Policy, “Senior Officer” means an officer of the subject entity with the title of vice president (or similar office) or higher, or another officer designated in writing to the ISO by that officer.

⁴ If any of the above-mentioned financial statements are available on the internet, the Applicant may provide instead a letter to the ISO stating where such statements may be located and retrieved by the ISO or its designee.

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

The ISO shall prepare a report, or cause a report to be prepared, concerning the financial viability of each ~~Non-Municipal~~ Applicant. In its review of each ~~Non-Municipal~~ Applicant, the ISO or its designee shall consider all of the information and documentation described in the immediately preceding paragraph. All costs incurred by the ISO in its review of the financial viability of an ~~Non-Municipal~~ Applicant shall be borne by such

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 Vice President and General Counsel
Issued on: March 26, 2010~~July 17, 2009~~

~~Non-Municipal~~ Applicant and paid at the time that such ~~Non-Municipal~~ Applicant is required to pay its first annual fee under the Participants Agreement. The report for each ~~Non-Municipal~~ Applicant shall be completed within three (3) weeks of the ISO's receipt of that ~~Non-Municipal~~ Applicant's completed application and application fee and shall be provided to the Participants Committee or its designee and the affected ~~Non-Municipal~~ Applicant.

B. Ongoing ~~Financial Review~~ and Credit Ratings

1. ~~Provision of Financial Assurances by Non-Municipal Market Participants~~

~~A Non-Municipal Market Participant that receives a credit rating from one or more of the Rating Agencies, or, if such Non-Municipal Market Participant is not rated by one of the Rating Agencies, then a Non-Municipal Market Participant that has outstanding debt rated by one or more of the Rating Agencies, is referred to herein as a "Rated Non-Municipal Market Participant." A Non-Municipal Market Participant that is not a Rated Non-Municipal Market Participant is referred to herein as an "Unrated Non-Municipal Market Participant."~~

1a. Rated Market Participants

~~For purposes of this Policy, Each Rated Non-Municipal Market Participant that does not currently have an “Investment Grade Rating,” for a Market Participant (other than an and each FTR-Only Customer or and each DRP-Only Customer) or Non-Market Participant Transmission Customer (regardless of its credit rating), must provide an appropriate form of financial assurance as described in Section X below. For purposes of this Policy, an “Investment Grade Rating” is either (a) a corporate investment grade rating from one or more of the Rating Agencies, or (b) if the Market Participant, or a Non-Market Participant Transmission Customer or Guarantor does not have a corporate rating from one of the Rating Agencies, then an investment grade rating for the Market Participant’s, or Non-Market Participant Transmission Customer’s or Guarantor’s senior unsecured debt from one or more of the Rating Agencies, or (c) if the Market Participant, Non-Market Participant Transmission Customer or Guarantor does not have a corporate rating or a rating for its senior unsecured debt from one of the Rating Agencies, then a rating for the Market Participant’s Non-Market Participant Transmission Customer’s or Guarantor’s lowest rated senior secured debt that is at least one notch above the lowest investment grade rating from one or more of the Rating Agencies. For all purposes of this Policy, if ratings from two or more of the Rating Agencies are available then the lowest such rating shall govern.~~

A Market Participant that receives a credit rating from one or more of the Rating Agencies, or, if such Market Participant is not rated by one of the Rating Agencies, then a Market Participant that has outstanding unsecured debt rated by one or more of the Rating Agencies, is referred to herein as “Rated.” A Market Participant that is not Rated is referred to

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Vice President and General Counsel

Issued on: March 26, 2010~~July 17, 2009~~

herein as “Unrated.” Each Rated Market Participant that has an “Investment Grade Rating” and each Unrated Market Participant that satisfies the “Credit Threshold” (each as referred to below) is referred to herein as “Qualifying.” Each Market Participant that is not Qualifying is referred to herein as “Non-Qualifying.”; (i) if there are two such ratings available, the lower rating shall govern; (ii) if there are three such ratings available and two of such ratings are at a comparable level, the two comparable ratings shall govern; and (iii) if there are three such ratings available and none are at comparable levels, the rating that is higher than one and lower than another shall govern.

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2b. Unrated Market Participants

Any Unrated ~~Non-Municipal~~ Market Participant that (i) has not been a Market Participant in the ISO for at least the immediately preceding 12 months; or (ii) has defaulted on any of its obligations under the Tariff (including without limitation its obligations hereunder and under the Billing Policy) during such 12-month period; or (iii) is an FTR-Only Customer or a DRP-Only Customer or (iv) does not have a Current Ratio (as hereinafter defined) of at least 1.0, a Debt-to-Total Capitalization Ratio (as hereinafter defined) of 0.6 or less, and an EBITDA-to-Interest Expense Ratio (as hereinafter defined) of at least 2.0 must provide an appropriate form of financial assurance as described

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Issued on: March 26, 2010~~July 17, 2009~~

in Section ~~IXX~~ below. An Unrated ~~Non-Municipal~~ Market Participant that does not meet any of the conditions in clauses (i), (ii), (iii) and (iv) of this paragraph is referred to herein as satisfying the “Credit Threshold”.

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

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Issued on: March 26, 2010~~July 17, 2009~~

3. Information Reporting Requirements for Market Participants

In order for the ISO to update and monitor the Credit Limit and Transmission Credit Limit of each Rated ~~Non-Municipal~~ Market Participant that has a Credit Limit of greater than \$0, each such Rated ~~Non-Municipal~~ Market Participant shall submit to the ISO, on a quarterly basis within 10 days of its becoming available and within 55 days after the end of the applicable fiscal quarter of such Rated ~~Non-Municipal~~ Market Participant, its balance sheet, which shall be certified as to its accuracy by a Senior Officer of such Rated ~~Non-Municipal~~ Market Participant and shall show sufficient detail for the ISO to calculate such Market Participant's Tangible Net Worth. In the case of certain Rated Municipal Market Participants, some of the information and documentation may not be available, and alternate requirements may be specified by the ISO. In addition, each Rated Market Participant that has a Credit Limit or Transmission Credit Limit greater than \$0 shall submit to the ISO, annually within 10 days of their becoming available and within 100 days after the end of the fiscal year of such ~~Rated~~Unrated ~~Non-Municipal~~ Market Participant, the following audited financial statements: balance sheets, income statements, statements of cash flows, and notes to financial statements, as well as copies of that ~~Rated~~Unrated ~~Non-Municipal~~ Market Participant's annual report.⁵

⁵ Where any of the above financial information is available on the internet, the Unrated Non-Municipal Market Participant may instead provide the ISO with a letter stating where such information may be located and retrieved.

In order for the ISO to update and monitor the Credit Limit and Transmission Credit Limit of each Unrated ~~Non-Municipal~~ Market Participant that has a Credit Limit or Transmission Credit Limit greater than \$0~~satisfies the Credit Threshold~~, each such Unrated ~~Non-Municipal~~ Market Participant shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 55 days after the end of the applicable fiscal quarter of such Unrated ~~Non-Municipal~~ Market Participant, its balance sheet and additional financial statements, which shall be certified as to its accuracy by a Senior Officer of such Unrated ~~Non-Municipal~~ Market Participant and shall show sufficient detail for the ISO to calculate such Unrated ~~Non-Municipal~~ Market Participant's Tangible Net Worth, Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each Unrated ~~Non-Municipal~~ Market Participant that has a Credit Limit or Transmission Credit Limit greater than \$0~~satisfies the Credit Threshold~~ shall submit to the ISO, annually within 10 days of their becoming available and within 100 days after the end of the fiscal year of such Unrated ~~Non-Municipal~~ Market Participant, the following audited financial statements: balance sheets, income statements, statements of cash flows, and notes to financial statements, as well as copies of that Unrated ~~Non-Municipal~~ Market Participant's annual report.⁶

⁶ Where any of the above financial information is available on the internet, the Unrated Non-Municipal Market Participant may instead provide the ISO with a letter stating where such information may be located and retrieved.

Each Rated ~~and Unrated Non-Municipal~~ Market Participant that has a Credit Limit of \$0 and a Transmission Credit Limit of \$0 ~~each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold~~ must submit the financial statements and other information described in this subsection if and as requested by the ISO within 10 days of such request.

C. Credit Limits

A Credit Limit shall be established for each Market Participant in accordance with this

Section II.C.

1. Credit Limit for Non-Distribution Participants

The Credit Limit of each Non-Distribution Participant shall be \$0.

2. Credit Limit for Rated T&D Companies

The Credit Limit of each Rated T&D Company shall be equal to the least of: (i) the applicable percentage of such Rated T&D Company's Tangible Net Worth as listed in the following table, (ii) \$50 million, or (iii) 20 percent (20%) of TADO:

2. Credit Limit for Non-Municipal Market Participant

~~A credit limit ("Credit Limit") shall be established for each Rated Non-Municipal Market Participant in accordance with subsection (a) below, and a Credit Limit shall be established for each Unrated Non-Municipal Market Participant in accordance with subsection (b) below. In each case, that Credit Limit shall also include the Guaranty Limit for a Market Participant Guarantor (defined below):~~

a. Credit Limit for Rated Non-Municipal Market Participants

~~As reflected in the following table, the Credit Limit of each Rated Non-Municipal Market Participant (other than an FTR-Only Customer or a DRP-Only Customer) shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated Non-Municipal Market Participant's Tangible Net Worth (as hereinafter defined) as listed in the following table, (ii) \$75~~

~~million, or (iii) 20 percent (20%) of the total aggregate obligation due (not including any amounts due under Section 14.1 of the RNA) at such time to the ISO, NEPOOL, the PTOs, the Market Participants and the Non-Market Participant Transmission Customers;~~

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 Vice President and General Counsel
Issued on: March 26, 2010~~July 17, 2009~~

by all PTOs, ~~Market Participants and Non-Market Participant Transmission Customers.~~

Investment Rating⁷		Percentage of Tangible Net Worth
S&P/Fitch	Moody's	
AAA	Aaa	5.50%
AA+	Aa1	5.50%
AA	Aa2	4.50%
AA-	Aa3	4.00%
A+	A1	3.05%
A	A2	2.85%
A-	A3	2.60%
BBB+	Baa1	2.30%
BBB	Baa2	1.90%
BBB-	Baa3	1.20%
Below BBB-	Below Baa3	0.00%

3. Credit Limit for Unrated T&D Companies

The Credit Limit of each Unrated T&D Company that satisfies the Credit Threshold shall be equal to the least of: (i) 0.50 percent (0.50% or 1/2 of 1%) of such Unrated T&D Company's Tangible Net Worth, (ii) \$25 million, or (iii) 20 percent (20%) of TADO. The Credit Limit of each Unrated T&D Company that does not satisfy the Credit Threshold shall be \$0.

⁷ ~~If a Market Participant, Non-Market Participant Transmission Customer or Guarantor has a corporate credit rating from one or more of the Rating Agencies, that rating will be its "Investment Rating." If a Market Participant, Non-Market Participant Transmission Customer or Guarantor does not have a corporate rating from one of the Rating Agencies but has senior unsecured debt rated by one or more of the Rating Agencies, the rating of that senior unsecured debt will be its "Investment Rating." If a Market Participant, Non-Market Participant Transmission Customer or Guarantor does not have a corporate rating or a rating for its senior unsecured debt from one of the Rating Agencies but has senior secured debt rated by one or more of the Rating Agencies, the rating that is one notch below the rating of its lowest rated senior secured debt will be its "Investment Rating."~~

4. Credit Limit for Municipal Market Participants

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

An entity's "Tangible Net Worth" for purposes of its Credit Limit on any date is the value,

D. Transmission Credit Limits

A credit limit for Transmission Charges (a “Transmission Credit Limit”) shall be established for each Market Participant in accordance with this Section II.D, which Transmission Credit Limit shall apply in accordance with this Section II.D.

1. Transmission Credit Limit for Non-Distribution Participants

The Transmission Credit Limit of each Non-Distribution Participant shall at all times be \$0.

2. Transmission Credit Limit for Rated T&D Companies

The Transmission Credit Limit of each Rated T&D Company shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated T&D Company’s Tangible Net Worth as listed in the following table or (ii) \$50 million:

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

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Vice President and General Counsel
Issued on: March 26, 2010~~July 17, 2009~~

~~determined in accordance with generally accepted accounting principles in the United States, of all of that entity's assets less both (i) the amount at which the liabilities of the entity would be shown on a balance sheet in accordance with generally accepted accounting principles in the United States and (ii) all of that entity's intangible assets (e.g., patents, trademarks, franchises, intellectual property, goodwill and any other assets not having a physical existence), in each case as shown on the most recent financial statements provided by such entity to the ISO.~~

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

~~The Credit Limit of each Unrated Non-Municipal Market Participant that satisfies the Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or 1/2 of 1%) of such Unrated Non-Municipal Market Participant's Tangible Net Worth, (ii) \$25 million or (iii) 20 percent (20%) of The Credit Limit of each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold shall be \$0.the total aggregate obligation due (not including any amounts due under Section 14.1 of the RNA) at such time to the ISO, NEPOOL, the PTOs, the Market Participants and the Non-Market Participant Transmission Customers by all PTOs, Market Participants and Non-Market Participant Transmission Customers.~~

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3. Transmission Credit Limit for Unrated T&D Companies

The Transmission Credit Limit of each Unrated T&D Company that satisfies the Credit Threshold shall at any time be equal to the lesser of: (i) 0.50 percent (0.50% or 1/2 of 1%) of such Unrated T&D Company's Tangible Net Worth or (ii) \$25 million. The Transmission Credit Limit of each Unrated T&D Company that does not satisfy the Credit Threshold shall be \$0.

4. Transmission Credit Limit for Municipal Market Participants

The Transmission Credit Limit for each Qualifying Municipal Market Participant shall be equal to \$25 million. The Transmission Credit Limit for each Non-Qualifying Municipal Market Participant shall be \$0.

E. Credit Limit Usage Limited to Native Load Requirements

At no time will a T&D Company or a Municipal Market Participant utilize its Credit Limit or its Transmission Credit Limit for any Obligations or Transmission Obligations (each defined below) that are not directly related to that T&D Company's or Municipal Market Participant's Native Load Requirements. For purposes of this Policy, a T&D Company's or a Municipal Market Participant's "Native Load Requirements" at any time shall be the sum of the ISO Charges and the Transmission Charges incurred by that T&D Company, or Municipal Market Participant at that time in providing service to those Load Assets (or, in the case of a Municipal Market Participant serving retail customers outside New England, those retail

customers in its service area) identified by that T&D Company or Municipal Market Participant to the ISO as being within the T&D Company's franchised retail service area or that Municipal Market Participant's retail service area. FTR Requirements are not considered Obligations that are directly related to Native Load Requirements.

~~The Credit Limit of each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold shall be \$0.~~

Fe. Credit Limit for FTR-Only Customers and DRP-Only Customers

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

3. Information Reporting Requirements for Market Participants

~~In order for the ISO to update and monitor the Credit Limit of each Rated Non-Municipal Market Participant that has a Credit Limit of greater than \$0, each such Rated Non-Municipal Market Participant shall submit to the ISO, on a quarterly basis within 10 days of its becoming available and within 55 days after the end of the applicable fiscal quarter of such Rated Non-Municipal Market Participant, its balance sheet, which shall be certified as to its accuracy by a Senior Officer of such Rated Non-Municipal Market Participant and shall show sufficient detail for the ISO to~~

[Sheet reserved for future use.]

~~calculate such Rated Non-Municipal Market Participant's Tangible Net Worth. In addition, each Rated Non-Municipal Market Participant that has a Credit Limit greater than \$0 shall submit to the ISO, annually within 10 days of their becoming available and within 100 days after the end of the fiscal year of such Rated Non-Municipal Market Participant, the following audited financial statements: balance sheets, income statements, statements of cash flows, and notes to financial statements, as well as copies of that Rated Non-Municipal Market Participant's annual report.⁸~~

~~In order for the ISO to update and monitor the Credit Limit of each Unrated Non-Municipal Market Participant that satisfies the Credit Threshold, each such Unrated Non-Municipal Market Participant shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 55 days after the end of the applicable fiscal quarter of such Unrated Non-Municipal Market Participant, its balance sheet and additional financial statements, which shall be certified as to its accuracy by a Senior Officer of such Unrated Non-Municipal Market Participant and shall show sufficient detail for the ISO to calculate such Unrated Non-Municipal~~

~~⁸ Where any of the above financial information is available on the internet, the Rated Non-Municipal Market Participant may instead provide the ISO with a letter stating where such information may be located and retrieved.~~

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~~Market Participant's Current Ratio, Debt to Total Capitalization Ratio and EBITDA to Interest Expense Ratio. In addition, each Unrated Non-Municipal Market Participant that satisfies the Credit Threshold shall submit to the ISO, annually within 10 days of their becoming available and within 100 days after the end of the fiscal year of such Unrated Non-Municipal Market Participant, the following audited financial statements: balance sheets, income statements, statements of cash flows, and notes to financial statements, as well as copies of that Unrated Non-Municipal Market Participant's annual report.⁹~~

~~Each Rated Non-Municipal Market Participant that has a Credit Limit of \$0 and each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold must submit the financial statements and other information described in this subsection if and as requested by the ISO within 10 days of such request. Failure to comply with the above is discussed in Section XI.E below.~~

C. — Financial Assurance Requirement for Non-Municipal Market Participants

~~⁹ Where any of the above financial information is available on the internet, the Unrated Non-Municipal Market Participant may instead provide the ISO with a letter stating where such information may be located and retrieved.~~

~~Each Rated Non-Municipal Market Participant that has a Credit Limit of \$0 and each Unrated Non-Municipal Market Participant that does not satisfy the Credit Threshold must submit the financial statements and other information described in this subsection if and as requested by the ISO within 10 days of such request. Failure to comply with the above is discussed in Section XI.E below.~~

III. MARKET PARTICIPANTS' REQUIREMENTS

Each ~~Non-Municipal~~ Market Participant that provides the ISO with financial assurance pursuant to this Section ~~III.H~~ must provide the ISO with financial assurance in one of the forms described in Section ~~IX.X~~ below and in an amount equal to the amount required in order to avoid suspension under Section ~~III.B.H.D~~ below (the "Market Participant Non-Municipal Financial Assurance Requirement"). A ~~Non-Municipal~~ Market Participant's Market Participant Non-Municipal Financial Assurance Requirement shall remain in effect as provided herein until the later of (a) 120 days after termination of the ~~Non-Municipal~~ Market Participant's membership or (b) the end date of all FTRs awarded to the ~~Non-Municipal~~ Market Participant and the final satisfaction of all obligations of the ~~Non-Municipal~~ Market Participant providing that financial assurance; provided, however that financial assurances required by this Policy related to potential billing adjustments chargeable to a terminated ~~Non-Municipal~~ Market Participant shall remain in effect until such billing adjustment request is finally resolved in accordance with the provisions of the Billing Policy. Furthermore and without limiting the generality of the foregoing, (i) any portion of any financial assurance provided

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under this Policy that relates to a Disputed Amount (as defined in the Billing Policy) shall not be terminated or returned prior to the resolution of such dispute, even if the ~~Non-Municipal~~ Market Participant providing such financial assurance is terminated or voluntarily terminates its MPSA and otherwise satisfies all of its obligations to the ISO and (ii) the ISO shall not return or permit the termination of any financial assurance provided under this Policy by a ~~Non-Municipal~~ Market Participant that has terminated its membership or been terminated to the extent that the ISO determines in its reasonable discretion that that financial assurance will be required under this Policy with respect to an unsettled liability or obligation owing from that ~~Non-Municipal~~ Market Participant.

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 Vice President and General Counsel

Issued on: March 26, 2010~~July 17, 2009~~

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

A. Determination of Obligations

For purposes of this Policy:

(i) a ~~Non-Municipal~~ Market Participant's "Hourly Requirements" at any time will be the sum of (x) the Hourly Charges⁷ for such ~~Non-Municipal~~ Market Participant that have been invoiced but not paid (which amount shall not be less than \$0), plus (y) the Hourly Charges for such ~~Non-Municipal~~ Market Participant that have been settled but not invoiced, plus (z) such ~~Non-Municipal~~ Market Participant's most recent six (6) days of settled Hourly Charges (whether these Hourly Charges have been invoiced or not) (which amount shall not in any event be less than \$0);

(ii) a ~~Non-Municipal~~ Market Participant's "Non-Hourly Requirements" at any time will be determined by averaging that ~~Non-Municipal~~ Market Participant's Non-Hourly Charges (not including (A) the amount due from or to such ~~Non-Municipal~~ Market Participant for FTR transactions, (B) any amounts due from such ~~Non-Municipal~~ Market Participant for LSE Capacity Charges (as defined below), (C) any amounts due under

⁷ As used in this Policy, the terms "Non-Hourly Charges" and "Hourly Charges" shall have the same meaning as ascribed to them in the Billing Policy, ~~and shall include both charges due from the Non-Municipal Market Participant and payments due to that Non-Municipal Market Participant.~~

Section 14.1 of the RNA, and (D) the amount of any Qualification Process Cost Reimbursement Deposit (including the annual true-up of that amount) due from such ~~Non-Municipal~~ Market Participant) over the two most recently invoiced calendar months; provided that such Non-Hourly Requirements shall in no event be less than zero;

(iii) A Market Participant’s “Transmission Requirements” at any time will be determined by averaging that Market Participant’s Transmission Charges over the two most recently invoiced calendar months; provided that such Transmission Requirements shall in no event be less than \$0;

(iv) a ~~Non-Municipal~~ Market Participant’s “Virtual Requirements” at any time will equal the amount of all unsettled Increment Offers and Decrement Bids submitted by such ~~Non-Municipal~~ Market Participant at such time (which amount of unsettled Increment Offers and Decrements will be calculated by the ISO according to a methodology approved from time to time by the NEPOOL Budget and Finance Subcommittee and posted on the ISO’s website);

(iv) the “LSE Capacity Charges” at any time for any Market Participant that is a load serving entity will be (x) the amount that will be due from that Market Participant, for capacity charges on the next regular monthly Statement to be issued by the ISO, if those capacity charges are determinable by the ISO at the time of the calculation, or (y) if those capacity charges are not known at the time of the calculation, the average of the capacity charges on that Market Participant’s two most recent monthly Statements, or (z) if those capacity charges are not known at the time of the calculation and that Market Participant

~~does not have least two monthly Statements with capacity charges, the ISO's reasonable projection of the amount that will be due from that Market Participant for capacity charges on the next regular monthly Statement to be issued by the ISO; and~~

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 Vice President and General Counsel
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capacity charges are not known at the time of the calculation and that Market Participant does not have at least two monthly Statements with capacity charges, the ISO's reasonable projection of the amount that will be due from that Market Participant for capacity charges on the next regular monthly Statement to be issued by the ISO; ~~and~~

(vi) a ~~Non-Municipal~~ Market Participant's "Obligations" at any time will be equal to the sum at such time of:

- a. such ~~Non-Municipal~~ Market Participant's Hourly Requirements; plus
- b. such ~~Non-Municipal~~ Market Participant's Virtual Requirements; plus
- c. such ~~Non-Municipal~~ Market Participant's Non-Hourly Requirements times 2.50 (subject to Section X.D with respect to Provisional Members); plus
- d. such ~~Non-Municipal~~ Market Participant's LSE Capacity Charges; plus
- e. such ~~Non-Municipal~~ Market Participant's "FTR Requirements" under Section VI below; plus
- f. such ~~Non-Municipal~~ Market Participant's "FCM Requirements" under Section VII below; plus
- g. if such ~~Non-Municipal~~ Market Participant is a DRP-Only Customer, such ~~Non-Municipal~~ Market Participant's Demand Resource Requirement under Section VIII.A below; plus
- h. the amount of any Disputed Amounts (as defined in the Billing Policy) received by such ~~Non-Municipal~~ Market Participant; and

(vii) a Market Participant's "Transmission Obligations" at any time will be such Market Participant's Transmission Requirements times 2.50.

To the extent that the calculations of the components of a ~~Non-Municipal~~ Market Participant's Obligations as described above produce positive and negative values, such components may offset each other; provided, however, that a ~~Non-Municipal~~ Market Participant's Obligations shall never be less than \$zero. A Market Participant may not set-off its Obligations against its Transmission Obligations or vice-versa.

BD. Credit Test and Transmission Credit Test Calculations, Notice and Suspension from the New England Markets

1. Credit Test Calculations and Notices

a. 80 Percent Test

When a ~~Non-Municipal~~ Market Participant's Obligations equal or exceed 80 percent (80%) of the sum of (i) that ~~Non-Municipal~~ Market Participant's then-effective Credit Limit and (ii) the available amount of the additional financial assurance provided by that ~~Non-Municipal~~ Market Participant under Section ~~IXX~~ below (the sum of item (i) and item (ii) being referred to herein as the "Credit Test Amount"), the ISO shall issue notice thereof to such ~~Non-Municipal~~ Market Participant. When a Market Participant's Transmission Obligations equal or exceed 80 percent (80%) of the sum of (x) that Market Participant's then-effective Transmission Credit Limit and (y) the excess of (A) the available amount of the additional financial assurance provided by that Market Participant under Section IX below over (B) the amount of that additional financial assurance needed to avoid a notice suspension with respect to a Market Participant's Obligations under this Section III.B, taking into account that Market Participant's Credit Limit (the sum of item (x) and item (y))

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Vice President and General Counsel

Issued on: March 26, 2010~~July 17, 2009~~

~~under Section X below (the sum of item (i) and item (ii) being referred to herein as the~~
“Transmission Credit Test Amount”), the ISO shall issue notice thereof to such ~~Non-Municipal~~
Market Participant.

b. 90 Percent Test

When a ~~Non-Municipal~~ Market Participant’s Obligations equal or exceed 90 percent (90%) of that ~~Non-Municipal~~ Market Participant’s Credit Test Amount or when a Market Participant’s Transmission Obligations equal or exceed 90 percent (90%) of that Market Participant’s Transmission Credit Test Amount, then, in addition to the actions to be taken when the ~~Non-Municipal~~ Market Participant’s Obligations equal or exceed 80 percent (80%) of its Credit Test Amount or when the Market Participant’s Transmission Obligations equal or exceed 80 percent (80%) of its Transmission Credit Test Amount, the ISO shall issue notice thereof to such ~~Non-Municipal~~ Market Participant, and if such condition continues to exist five Business Days after the date of such notice, the ISO shall issue notice thereof to the NEPOOL Budget and Finance Subcommittee, all members and alternates of the Participants Committee and the billing and credit contacts for all Market Participants.

c. 100 Percent Test

When a ~~Non-Municipal~~ Market Participant’s Obligations exceed 100 percent (100%) of that ~~Non-Municipal~~ Market Participant’s Credit Test Amount or when a Market Participant’s Transmission Obligations exceed 100 percent (100%) of that Market Participant’s Transmission Credit Test Amount, then, in addition to the actions to be taken when the ~~Non-Municipal~~ Market Participant’s Obligations equal or exceed 80 percent (80%) and 90 percent (90%) of its Credit

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Vice President and General Counsel

Issued on: March 26, 2010~~July 17, 2009~~

~~Test Amount or when the Market Participant's Obligations equal or exceed 80 percent (80%) and 90 percent (90%) of its (i) the ISO shall issue notice thereof to such Non-Municipal Market Participant, (ii) that Non-Municipal Market Participant shall be immediately suspended from submitting Increment Offers and Decrement Bids until such time that its Obligations are less than its Credit Test Amount, and (iii) if such condition~~

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 Vice President and General Counsel
Issued on: March 26, 2010~~July 17, 2009~~

Transmission Credit Test Amount, (i) the ISO shall issue notice thereof to such ~~Non-Municipal~~ Market Participant, (ii) that ~~Non-Municipal~~ Market Participant shall be immediately suspended from submitting Increment Offers and Decrement Bids until such time that its Obligations are less than or equal to its Credit Test Amount and its Transmission Obligations are less than its Transmission Credit Test Amount, and (iii) if such condition continues to exist through 10:00 a.m. Eastern Time on the next Business Day, (a) the event shall be a Financial Assurance Default (defined in Section ~~X.EXI.E~~ below); (b) the ISO shall issue notice thereof to such ~~Non-Municipal~~ Market Participant, to the NEPOOL Budget and Finance Subcommittee, to all members and alternates of the Participants Committee, to the New England governors and utility regulatory agencies and to the billing and credit contacts for all Market Participants, and (c) such ~~Non-Municipal~~ Market Participant shall be suspended from: (1) the New England Markets, as provided below; (2) receiving transmission service under any existing or pending arrangements under the Tariff or scheduling

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Issued on: March 26, 2010~~July 17, 2009~~

any future transmission service under the Tariff; (3) voting on matters before the Participants Committee and NEPOOL Technical Committees; (4) entering into any future transactions in the FTR system; and (5) submitting an offer of Non-Commercial Capacity (as defined in Section VII.B below) in any Forward Capacity Auction or any reconfiguration auction in the Forward Capacity Market (each a “Reconfiguration Auction”), in each case until such ~~Non-Municipal~~ Market Participant’s Obligations are 100 percent (100%) or less of its Credit Test Amount and such Market Participant’s Transmission Obligations are 100 percent (100%) or less of its Transmission Credit Test Amount; provided, however, (i) if any ~~Non-Municipal~~ Market Participant’s Obligations exceed 100 percent (100%) of its Credit Test Amount or any Market Participant’s Transmission Obligations exceed 100 percent (100%) of its Transmission Credit Test Amount solely because its Investment Rating ~~or the Investment Rating of its Guarantor (as hereinafter defined)~~ is downgraded by one grade, then (x) for five Business Days after such downgrade, such downgrade shall not by itself cause a change to such ~~Non-Municipal~~ Market Participant’s Credit Test Amount or Transmission Credit Test Amount and (y) no notice shall be sent and none of the other actions described in this Section ~~III.BH.D.1.e.~~ shall occur with respect to such downgrade if such ~~Non-Municipal~~ Market Participant cures such default within such five Business Day period; ~~and (ii) if any Non Municipal Market Participant’s Obligations exceed 100 percent of its Credit Test Amount solely because the rating of the bank issuing a letter of credit on its behalf hereunder is downgraded below the requisite corporate debt rating, then (x) for ten Business Days after such downgrade, such downgrade shall not by itself cause a change~~

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Vice President and General Counsel

Issued on: March 26, 2010~~July 17, 2009~~

~~to such Non-Municipal Market Participant's Credit Test Amount and (y) no notice shall be sent
and none of the other actions described in this Section II.D.1.e.~~

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 Vice President and General Counsel
Issued on: March 26, 2010~~July 17, 2009~~

~~shall occur with respect to such downgrade if such Non-Municipal Market Participant cures such default within such ten Business Day period.~~

Notwithstanding the foregoing, a ~~Non-Municipal~~ Market Participant shall neither (x) receive a notice that its Obligations exceed 100 percent (100%) of its Credit Test Amount or that its Transmission Obligations exceed 100 percent (100%) of its Transmission Credit Test Amount nor (y) be suspended under this Section ~~III.B.H.D.1.e~~ if (i) the amount by which that ~~Non-Municipal~~ Market Participant's Obligations exceed its Credit Test Amount is less than \$1,000 (combined for both the Obligations and the Transmission Obligations) or (ii) that ~~Non-Municipal~~ Market Participant's status with the ISO has been terminated.

2. Suspension from the New England Markets

a. General

The suspension of a ~~Non-Municipal~~ Market Participant, and any resulting annulment, termination or removal of OASIS reservations, removal from the settlement system and the FTR system, suspension of the ability to offer Non-Commercial Capacity in the Forward Capacity Market, drawing down of financial assurance and rejection of Increment Offers and Decrement Bids, shall not limit, in any way, the ISO's right to invoice or collect payment for any amounts owed (whether such amounts are due or becoming due) by such suspended ~~Non-Municipal~~ Market Participant under the Tariff or the ISO's right to administratively submit an offer of a Market Participant's Non-Commercial Capacity in any Forward Capacity Auction or any Reconfiguration Auction.

In addition to the notices provided herein, the ISO will provide any additional

information required under the ISO New England Information Policy.

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Vice President and General Counsel
Issued on: March 26, 2010~~July 17, 2009~~

Each notice issued by the ISO pursuant to this Section ~~III.B.H.D~~ shall indicate whether the subject ~~Non-Municipal~~ Market Participant has a registered load asset. If the ISO has issued a notice pursuant to this Section ~~III.B.H.D~~ and subsequently the subject ~~Non-Municipal~~ Market Participant's Obligations fall below the applicable percentage of its Credit Test Amount and its Transmission Obligations fall below the applicable percentage of its Transmission Credit Test Amount, such ~~Non-Municipal~~ Market Participant may request the ISO to issue a notice stating such fact. However, the ISO shall not be obligated to issue such a notice unless, in its sole discretion, the ISO concludes that such ~~Non-Municipal~~ Market Participant's

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Issued on: March 26, 2010 ~~July 17, 2009~~

Obligations fall below the applicable percentage of its Credit Test Amount and such Market Participant's Transmission Obligations fall below the applicable percentage of its Transmission Credit Test Amount.

Notwithstanding the foregoing, if a ~~Non-Municipal~~ Market Participant's Obligations equal or exceed 90 percent (90%) of its Credit Test Amount as a result of one or more Increment Offers or Decrement Bids submitted by that ~~Non-Municipal~~ Market Participant and, but for such Increment Offers and/or Decrement Bids, such ~~Non-Municipal~~ Market Participant would be in compliance with this Policy, a notice will not be issued.

If a ~~Non-Municipal~~ Market Participant's Obligations exceed 100 percent (100%) of its Credit Test Amount as a result of one or more Increment Offers or Decrement Bids submitted by that ~~Non-Municipal~~ Market Participant and, but for such Increment Offers and/or Decrement Bids, such ~~Non-Municipal~~ Market Participant would be in compliance with this Policy, a notice will be issued only to such ~~Non-Municipal~~ Market Participant, and such ~~Non-Municipal~~ Market Participant shall be "suspended" as described below.

Any such suspension as a result of one or more Increment Offers or Decrement Bids submitted by a ~~Non-Municipal~~ Market Participant shall take effect immediately upon submission of such Increment Offers and/or Decrement Bids to remain in effect until such ~~Non-Municipal~~ Market Participant is in compliance with this Policy, notwithstanding any provision of this Section ~~III.B.H.D~~ to the contrary.

If a ~~Non-Municipal~~ Market Participant is suspended from the New England Markets in accordance with the provisions of this Policy or the ISO New England Billing Policy, then the

provisions of this Section ~~III.B.H.D~~ shall

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control notwithstanding any other provision of the Tariff to the contrary. A suspended ~~Non-Municipal~~ Market Participant shall have no ability so long as it is suspended (i) to be reflected in the ISO's settlement system, including any Bilateral Transactions, as either a purchaser or a seller of any products or services sold through the New England Markets (other than (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period, as defined in Section VII below) that cause such ~~s~~Suspended ~~Non-Municipal~~ Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the other Market Participants, (ii) to submit Demand Bids, Decrement Bids or Increment Offers in the New England Markets, or (iii) to submit offers for Non-Commercial Capacity in any Forward Capacity Auction or Reconfiguration Auction. Any transactions, including Bilateral Transactions with a suspended ~~Non-Municipal~~ Market Participant (other than transactions for (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended ~~Non-Municipal~~ Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the other Market Participants and any Demand Bids, Decrement Bids and Increment Offers submitted by a suspended ~~Non-Municipal~~ Market Participant shall be deemed to be terminated for purposes of the Day-Ahead Market Clearing and the ISO's settlement system. Solely for purposes of this Policy, reductions to the Capacity Supply Obligations of a suspended ~~Non-Municipal~~ Market Participant that result from cleared demand bids in a Forward Capacity Auction or Reconfiguration Auction or from a

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Bilateral Transaction will be first applied to the Commercial Capacity of the Resources of that suspended ~~Non-Municipal~~ Market Participant and then, when all such Commercial Capacity has been cleared, to the Non-Commercial Capacity of the Resources of that suspended ~~Non-Municipal~~ Market Participant.

A suspended DRP-Only Customer shall have no ability to participate in any Installed Capability transactions during the course of its suspension; provided that such DRP-Only Customer may receive credit for its Installed Capability during the course of its suspension.

b. Load Assets

Any load asset registered to a suspended ~~Non-Municipal~~ Market Participant shall be terminated, and the obligation to serve the load associated with such load asset (including the related Installed Capability obligation) shall be assigned to the relevant unmetered load asset(s) unless and until the host ~~Non-Municipal~~ Market Participant for such load assigns the obligation to serve such load to another asset. If the suspended ~~Non-Municipal~~ Market Participant is responsible for serving an unmetered load asset, such suspended ~~Non-Municipal~~ Market Participant shall retain

the obligation to serve such unmetered load asset. If a suspended ~~Non-Municipal-Market~~ Participant has an ownership share of a load asset, such ownership share shall revert to the ~~Non-Municipal-Market~~ Participant that assigned such ownership share to such suspended ~~Non-Municipal-Market~~ Participant. If a suspended ~~Non-Municipal-Market~~ Participant has the obligation under the Tariff or otherwise to offer any of its supply or to bid any pumping load to provide products or services sold through the New England Markets, that obligation shall continue, but only in Real-Time, notwithstanding the ~~Non-Municipal-Market~~ Participant's suspension, and such offer or bid, if cleared under the Tariff, shall be effective.

c. FTRs

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

A FTR-Only Customer that has been suspended in accordance with the preceding paragraph will not be allowed to participate in the FTR Auctions without re-registering as a FTR-Only Applicant, and such FTR-Only Applicant shall be required to cure all defaults hereunder prior to the acceptance of its application.

d. Virtual Transactions

Notwithstanding the foregoing, if a ~~Non-Municipal~~ Market Participant is suspended in accordance with the provisions of this Policy as a result of one or more Increment Offers or Decrement Bids submitted by that ~~Non-Municipal~~ Market Participant and, but for such Increment Offers and/or Decrement Bids, such ~~Non-Municipal~~ Market Participant would be in compliance with this Policy, then such suspension shall be limited to (i) the immediate “last in, first out” rejection of pending individual uncleared Increment Offers and Decrement Bids submitted by that ~~Non-Municipal~~ Market Participant (it being understood that Increment Offers and Decrement Bids are batched by the ISO in accordance with the time, and that Increment Offers and Decrement Bids will be rejected by the batch); and (ii) the suspension of that ~~Non-Municipal~~ Market Participant’s ability to submit additional Increment Offers and Decrement Bids unless and until it has complied with this Policy, and the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of that ~~Non-Municipal~~ Market Participant after giving effect to the immediate rejection of that ~~Non-Municipal~~ Market Participant’s Increment Offers and Decrement Bids described in clause (i).

3. Serial Notice and Suspension Penalties

If either (x) a ~~Non-Municipal~~ Market Participant is suspended from the New England Markets because of a failure to satisfy its Financial Assurance Requirements in accordance with the provisions of this Policy or (y) a ~~Non-Municipal~~ Market Participant receives more than five notices that its Obligations have exceeded 100 percent (100%) of its Credit Test Amount or that its

~~Transmission Obligations have exceeded 100 percent (100%) of its Transmission Credit Test in any rolling 12-month period, then such Non-Municipal Market Participant~~

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Amount in any rolling 12-month period, then such ~~Non-Municipal~~ Market Participant shall pay a \$1,000 penalty for such suspension and for each notice after the fifth notice in a rolling 12-month period. If a Market Participant receives a notice that its Obligations have exceeded 100 percent (100%) of its Credit Test Amount and a notice that its Obligations have exceeded 100 percent (100%) of its Transmission Credit Test Amount in the same day, then only one of those notices will count towards the five notice limit. All penalties paid under this paragraph shall be deposited in the Late Payment Account maintained under the Billing Policy.

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III. FINANCIAL ASSURANCE PROVISIONS FOR MUNICIPAL APPLICANTS AND MUNICIPAL MARKET PARTICIPANTS

Section III of this Policy contains the requirements and procedures governing Municipal Applicants and Municipal Market Participants. A Municipal Applicant or Municipal Market Participant that does not have an Investment Grade Rating and does not satisfy the Credit Threshold (as adjusted to apply to a Municipal Market Participant by the ISO in its reasonable discretion) (as so adjusted, the “Municipal Credit Threshold”) shall be required to provide additional financial assurance in the form and

amount described below (Municipal Market Participants satisfying these rating requirements or the Municipal Credit Threshold are referred to herein as “Qualifying Municipal Participants”). A Municipal Market Participant’s failure to meet the requirements of this section may result in termination proceedings by the ISO.

A. Proof of Financial Viability

1. Municipal Applicants

Each Municipal Applicant must with its application submit a credit application and proof of financial viability, as described below, satisfying the ISO requirements to demonstrate the Municipal Applicant’s ability to meet its obligations, or must provide prior to its membership becoming effective financial assurance in one of the forms described in Section X below. The ISO will use this financial information to prepare a financial viability report for the Municipal Applicant, which will be provided to the NEPOOL Membership Subcommittee for consideration with the Municipal Applicant’s application. A Municipal Applicant that chooses to provide such financial assurance will not be required to provide financial information, unless requested to do so by the ISO. The ISO will not begin its review of a Municipal Market Participant’s credit application or the accompanying material described above until the full and final payment of that Municipal Market Participant’s application fee.

Generally, each Municipal Applicant must submit to the ISO all current reports from the Rating Agencies and each report from the Rating Agencies must indicate an Investment Grade Rating for the Municipal Applicant in order for the Municipal Applicant to be considered as a candidate to be a Market Participant without furnishing additional financial assurances as described below.

2. Municipal Market Participants

In order for the ISO to update and monitor the status of each Municipal Market Participant that satisfies the Municipal Credit Threshold, each such Municipal Market Participant shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 55 days after the end of the applicable fiscal quarter of such Municipal Market Participant, its balance sheet and additional financial statements, which shall be certified as to its accuracy by a Senior Officer of such Municipal Market Participant and shall show sufficient detail for the ISO to calculate such Municipal Market Participant's compliance with the requirements of the Municipal Credit Threshold. In addition, each Municipal Market Participant that satisfies the Municipal Credit Threshold shall submit to the ISO, annually within 10 days of their becoming available and within 100 days after the end of the fiscal year of such Municipal Market Participant, the following audited financial statements: balance sheets, income statements, statements of cash flows, and notes to financial statements, as well as copies of that Municipal Market Participant's annual report.¹⁰

In addition, all Municipal Market Participants must provide the financial statements and information set forth below if and as requested by the ISO within 10 days of such request. The ISO will use that information to determine whether the Qualifying Municipal Market Participant has experienced a Material Change as described in Section XI below. If a Municipal Market

¹⁰ Where any of the above financial information is available on the internet, the Municipal Market Participant may instead provide the ISO with a letter stating where such information may be located and retrieved.

~~Participant does not maintain an Investment Grade Rating or satisfy the Municipal Credit Threshold, it must provide financial assurance in the form and amount required by this Policy.~~

~~B. Financial Statements of Municipal Applicants~~

~~Each Municipal Applicant must submit, if and as requested by the ISO and within 10 days of such request, audited financial statements for at least the immediately preceding three (3) years, or the period of its existence, if less than three years, and unaudited financial statements for its last concluded fiscal quarter if they are not included in such audited annual financial statements. These unaudited statements must be certified as to their accuracy by a Senior Officer of such Municipal Applicant and must include in each case, but are not limited to, the following information: balance sheets, income statements, statements of cash flows and notes to financial statements.⁺⁺~~

~~Each Municipal Applicant shall also be required to provide at least one bank reference and three (3) utility credit references. In those cases where a Municipal Applicant does not have~~

⁺⁺ ~~Where the above financial statements are available on the internet, the Municipal Applicant may provide instead a letter to the ISO stating where such statements may be located and retrieved by the ISO.~~

~~three (3) utility credit references, three (3) major trade payable vendor references shall be substituted. Each Municipal Applicant shall also be required to include information as to any known or anticipated material lawsuits, as well as any prior bankruptcy declarations by the Municipal Applicant, or by its predecessor(s), if any. In the case of certain Municipal Applicants, some of the above financial submittals may not be applicable, and alternate requirements shall be specified by the ISO.~~

~~C. Ongoing Financial Review for Municipal Market Participants~~

~~Each Municipal Market Participant that has an Investment Grade Rating must submit all of its current Rating Agency reports promptly upon the request of the ISO. A Qualifying Municipal Market Participant shall not undertake any transaction involving transmission or products or services sold through the New England Markets that such Qualifying Municipal Market Participant is not authorized to undertake pursuant to its organizational documents.~~

~~D. Other Financial Assurances for Municipal Market Participants~~

~~Municipal Applicants or Municipal Market Participants that do not satisfy the requirements for Qualifying Municipal Market Participants and Qualifying Municipal Market Participants that are subject to Section III.E below must provide financial assurance in the form and amount required by this Policy. Each financial assurance provided hereunder, unless replaced in accordance with the terms hereof or~~

~~no longer required pursuant to the terms hereof, shall remain in effect until the later of (a) 120 days after termination of the Municipal Market Participant's membership or (b) the end date of all FTRs awarded to the Municipal Market Participant and the final satisfaction of all obligations of the Municipal Market Participant providing that financial assurance; provided, however that financial assurances required by this Policy related to potential billing adjustments chargeable to a terminated Municipal Market Participant shall remain in effect until such billing adjustment request is finally resolved in accordance with the provisions of the Billing Policy. In addition, the ISO shall not return or permit the termination of any financial assurance provided under this Policy by a Municipal Market Participant that has terminated its membership or been terminated to the extent that the ISO determines in its reasonable discretion that that financial assurance will be required under this Policy with respect to an unsettled liability or obligation owing from that Municipal Market Participant.~~

~~A Municipal Market Participant that is not a Qualifying Municipal Market Participant must provide additional financial assurance in the amount equal to the sum of:~~

- ~~(i) — 3½ times the sum of (x) the aggregate Hourly Charges reflected on such Municipal Market Participant's four (4) most recent weekly Invoices issued under the Billing Policy plus (y) the average monthly Non Hourly Charges for such Municipal Market Participant (not including (A) the amount due from or to such Municipal Market Participant for FTR transactions, (B) any amounts due from such Municipal Market Participant for LSE Capacity Charges, (C) any amounts due under Section 14.1 of the~~

~~RNA), and (D) the amount of any Qualification Process Cost Reimbursement Deposit (including the annual true-up of that amount) due from such Municipal Market Participant) over the two most recently invoiced calendar months (which amount shall not in any event be less than \$0); plus~~

~~(ii) — such Municipal Market Participant’s LSE Capacity Charges; plus~~

~~(iii) — such Municipal Market Participant’s “FTR Requirements” under Section VI below; plus~~

~~(iv) — such Municipal Market Participant’s “FCM Requirements” under Section VII below; plus~~

~~(v) — the amount of any unresolved Disputed Amounts received by such Municipal Market Participant (the “Municipal Financial Assurance Requirement”).~~

~~To the extent that the calculations of the components of a Municipal Market Participant’s Municipal Financial Assurance Requirement as described above produce positive and negative values, such components may offset each other; provided, however, that a Municipal Market Participant’s Municipal Financial Assurance Requirement at any time shall never be less than \$0.~~

Furthermore, and without limiting the generality of the foregoing, (a) any additional financial assurance provided by a Municipal Market Participant with respect to a Disputed Amount shall not be terminated or returned prior to the resolution of the dispute requiring such additional financial assurance, even if the Municipal Market Participant providing such additional financial assurance is terminated or voluntarily terminates its MPSA and otherwise satisfies all of its obligations to the ISO

~~and (b) any Municipal Market Participant that is not a Qualifying Municipal Market Participant shall not at any time have net Charges (regardless of whether such Charges have actually become due and owing or not) in excess of the amount of the financial assurance provided by such Municipal Market Participant. Any Qualifying Municipal Market Participant shall not at any time have net Charges (regardless of whether such charges have actually become due and owing or not) in excess of the lesser of (i) \$75 million or (ii) 20 percent (20%) of the total amount due and owing (not including any amounts due under Section 14.1 of the RNA) at such time to the ISO, NEPOOL, the PTOs, the Market Participants and the Non-Market Participant Transmission Customers by all PTOs, Market Participants and Non-Market Participant Transmission Customers. A Municipal Market Participant that knows or can reasonably be expected to know that it has exceeded the~~

~~limits for net Charges set forth for it in this paragraph shall notify the ISO immediately that it has exceeded such limits.~~

CE. Additional Financial Assurance Requirements for Certain Municipal Market Participants

Notwithstanding the other provisions of this Policy and in addition to the other obligations hereunder, a Qualifying Municipal Market Participant that is not a municipality (which, for purposes of this Section ~~III.C.H.I.E.~~, does not include an agency or subdivision of a municipality) must provide additional financial assurance in one of the forms described in Section ~~IXX~~ below in an amount equal to its FCM Requirements at the time of calculation, unless either: (1) that Qualifying Municipal Market Participant has a corporate Investment Grade Rating from one or more of the Rating Agencies; or (2) that Qualifying Municipal Market Participant has an Investment Grade Rating from one or more of the Rating Agencies for all of its rated indebtedness; or (3) that Qualifying Municipal Market Participant provides the ISO with an opinion of counsel that is acceptable to the ISO confirming that amounts due to the ISO under the Tariff have priority over, or have equal priority with, payments due on the debt on which the Qualifying Municipal Market Participant's Investment Grade Rating is based. Each legal opinion provided under clause (3) of this Section ~~III.C.H.I.E.~~ will be updated no sooner than 60 days and no later than 30 days before each Reconfiguration Auction that precedes a Commitment Period to which such legal opinion relates, and if that update is not provided or that update is not acceptable to the ISO, the applicable Qualifying Municipal Market Participant must either satisfy one of the other clauses of this Section ~~III.C.H.I.E.~~ or provide additional financial assurance in one of

the forms described in Section ~~IXX~~ below in an amount equal to its FCM Requirements at the time of calculation.

IV. FINANCIAL ASSURANCE REQUIREMENT FOR CERTAIN NEW AND RETURNING MARKET PARTICIPANTS

Notwithstanding any other provision hereof, (x) a Market Participant other than an FTR-Only Customer, a DRP-Only Customer or Governance Only Member who has been a Market Participant for less than three consecutive months (an “Unqualified New Market Participant”) or (y) a Market Participant other than an FTR-Only Customer, a DRP-Only Customer or a Governance Only Member whose previous membership as a Market Participant was involuntarily terminated due to a Financial Assurance Default or a Payment Default and, since returning, has been a Market Participant for less than six consecutive months (a “Returning Market Participant”) is required to provide the ISO, for three months in the case of an Unqualified New Market Participant and six months in the case of a Returning Market Participant, financial assurance in one of the forms described in Section ~~IXX~~ below equal to the greater of (a) its ~~Non-Municipal~~ Financial Assurance Requirement or ~~Municipal Financial Assurance Requirement, as applicable,~~ or (b) its “Initial Market Participant Financial Assurance Requirement.” An Unqualified New Market Participant’s or a Returning ~~Municipal~~ Market Participant’s Initial Market Participant Financial Assurance Requirement shall be determined by the following formula:

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

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

Where:

MW_t = Number of MWs to be traded in the New England Markets as reasonably projected by the Unqualified New Market Participant or the Returning Market Participant;

Hr_{MIS} = The standard number of hours between generation and the issuance of initial MIS settlement reports including projected generation activity, as determined by the ISO in its sole discretion;

D = Maximum Energy Price Differential; and

S_{2-3} = The per MWh amount assessed pursuant to Schedules 2 and 3 of Section IV.A of ~~the~~ ^{this} Tariff, as determined annually by the ISO.

$$L = (MW_1 \times LF \times Hr_{MIS} \times (EP + S_{2-3}) \times 3.25) + (MW_1 \times Hr_{MIS} \times TC \times 3.25)$$

Where:

MW_1 = MWs of Real-Time Load Obligation (as defined in Market Rule 1) of the Unqualified New Market Participant or Returning Market Participant;

LF = Average load factor in New England, as determined annually by the ISO in its sole discretion;

Hr_{MIS} = The standard number of hours between generation and the issuance of initial MIS settlement reports including projected generation activity, as determined by the ISO in its sole discretion;

EP = The average price of Energy in the Day-Ahead Energy Market for the most recent calendar year for which information is available from the Annual Reports published by the ISO, as determined by the ISO in its sole discretion;

S_{2-3} = The per MW amount assessed pursuant to Schedules 2 and 3 of Section IV.A of the Tariff, as determined annually by the ISO; and

TC = The hourly transmission charges per MW₁ assessed under the Tariff (other than Schedules 1, 8 and 9 of Section II of the Tariff), as determined annually by the ISO.

$E = (SE) \times 3.25$

Where:

SE = Average monthly share of Participant Expenses (as defined in the RNA) for the applicable Sector.

If an Unqualified New Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV is 80 percent or more of the available amount of the financial assurance provided by that Unqualified New Market Participant or Returning Market Participant, it shall have the

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Vice President and General Counsel

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same effect as if such ~~Market Participant were a Non-Municipal Market Participant and such~~ Market Participant's Obligations equaled or exceeded 80 percent of its Credit Test Amount under Section ~~III.B.H.D~~ above.

If an Unqualified New Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV is 90 percent or more of the available amount of the financial assurance provided by that Unqualified New Market Participant or Returning Market Participant, it shall have the same effect as if such ~~Market Participant were a Non-Municipal Market Participant and such~~ Market Participant's Obligations equaled or exceeded 90 percent of its Credit Test Amount under Section ~~III.B.H.D~~ above. If an Unqualified New Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV exceeds 100 percent of the available amount of the financial assurance provided by that Unqualified New Market Participant or Returning Market Participant, it shall have the same effect as if such ~~Market Participant were a Non-Municipal Market Participant and such~~ Market Participant's Obligations exceeded 100 percent of its Credit Test Amount under Section ~~III.B.H.D~~ above.

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Vice President and General Counsel

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V. FINANCIAL ASSURANCE REQUIREMENTS FOR NON-MARKET PARTICIPANT TRANSMISSION CUSTOMERS

A. Proof of Financial Viability

Each Non-Market Participant Transmission Customer Applicant must, with its Application and at its own expense, submit proof of financial viability, as described below, satisfying the ISO requirements to demonstrate the Non-Market Participant Transmission Customer Applicant's ability to meet its obligations. Each Non-Market Participant Transmission Customer Applicant that intends to establish a Credit Limit or a Transmission Credit Limit of greater than \$0 must submit to the ISO: (i) all current reports from the Rating Agencies; and (ii) audited financial statements for the two most recent years, or the period of its existence, if less than two years, and unaudited financial statements for its last concluded fiscal quarter if they are not included in such audited annual financial statements. These unaudited statements must be certified as to their accuracy by a Senior Officer of such Non-Market Participant Transmission Customer Applicant and must include in each case, but are not limited to, the following information to the extent available: balance sheets, income statements, statements of cash flows and notes to financial statements, annual and quarterly reports, and 10-K, 10-Q and 8-K Reports.⁸ Each Non-Market Participant Transmission Customer Applicant, whether or not it intends to establish a Credit Limit or Transmission Credit Limit, must also submit to the ISO: (i) at least one (1) bank reference and three (3) utility company credit references, or in those cases where a Non-Market Participant Transmission Customer Applicant does not have three (3) utility

⁸ If any of the above-mentioned financial statements are available on the internet, the Non-Market Participant Transmission Customer Applicant may provide instead a letter to the ISO stating where such statements may be located and retrieved by the ISO or its designee.

ISO's receipt of that Non-Market Participant Transmission Customer Applicant's completed application and application fee and shall be provided to the Participants Committee or its designee and the affected Non-Market Participant Transmission Customer Applicant.

B. Ongoing Financial Review and Credit Ratings

A Non-Market Participant Transmission Customer that receives an Investment Rating from one or more of the Rating Agencies is referred to herein as a "Rated Non-Market Participant Transmission Customer." A Non-Market Participant Transmission Customer that is not a Rated Non-Market Participant Transmission Customer is referred to herein as an "Unrated Non-Market Participant Transmission Customer."

1. Rated Non-Market Participant Transmission Customer Applicants and Transmission Customers

Each Rated Non-Market Participant Transmission Customer that does not currently have an Investment Grade Rating must provide an appropriate form of financial assurance as described in Section ~~IX~~ below.

2. Unrated Non-Market Participant Transmission Customers

Any Unrated Non-Market Participant Transmission Customer that (i) has defaulted on any of its obligations under the Tariff (including without limitation its obligations hereunder and under the Billing Policy) during the immediately preceding 12 month period; or (ii) does not have a Current Ratio of at least 1.0, a Debt-to-Total Capitalization Ratio of 0.6 or less, and an EBITDA-to-Interest Expense Ratio of at least 2.0 must provide an appropriate form of financial

assurance as described in Section ~~IXX~~ below. An Unrated Non-Market Participant Transmission Customer that does not meet either of the conditions described in clauses (i) and (ii) of this paragraph is referred to herein as satisfying the “NMPTC Credit Threshold.”

3. NMPTC Credit Limits for ISO Charges

A Credit Limit shall be established for each Non-Market Participant Transmission Customer as set forth in this Section V.B.3.

The Credit Limit of each Rated Non-Market Participant Transmission Customer shall at any time be equal to the least of: (i) the applicable percentage of such Rated Non-Market Participant Transmission Customer’s Tangible Net Worth (as reflected in the following table); (ii) \$50 million; or (iii) 20 percent (20%) of TADO:

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

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

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Vice President and General Counsel
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~~In order for the ISO to update and monitor the status of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold, each such Unrated Non-Market Participant Transmission Customer shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 55 days after the end of the applicable fiscal quarter of such Unrated Non-Market Participant Transmission Customer, its balance sheet and additional financial statements, which shall be certified as to its accuracy by a Senior Officer of such Unrated Non-Market Participant Transmission Customer and shall show sufficient detail for the ISO to calculate such Unrated Non-Market Participant Transmission Customer's Current Ratio, Debt to Total Capitalization Ratio and EBITDA to Interest Expense Ratio. In addition, each such Unrated Non-Market Participant Transmission Customer shall submit to the ISO, annually within 10 days of their becoming available and within 100 days after the end of the fiscal year of such Unrated Non-Market Participant Transmission Customer, the following audited financial statements: balance sheets, income statements, statements of cash~~

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

4. NMPTC Transmission Credit Limits

A Transmission Credit Limit shall be established for each Non-Market Participant Transmission Customer in accordance with this Section V.B.4.

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

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

The Transmission Credit Limit of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold shall at any time be equal to the lesser of:

(i) 0.50 percent (0.50% or 1/2 of 1%) of such Unrated Non-Market Participant Transmission Customer's Tangible Net Worth or (ii) \$25 million. The Transmission Credit Limit of each Unrated Non-Market Participant Transmission Customer that does not satisfy the NMPTC Credit Threshold shall be \$0.

5. Credit Limit Usage Limited to Native Load Requirements

At no time will a Non-Market Participant Transmission Customer utilize its Credit Limit or its Transmission Credit Limit for any Charges that are not directly related to that Non-Market

Participant Transmission Customer’s NMPTC Native Load Requirements. For the purposes of this Policy, a Non-Market Participant Transmission Customer’s “NMPTC Native Load Requirements” at any time shall be the sum of the ISO Charges and the Transmission Charges incurred by that Non-Market Participant Transmission Customer at that time in providing service to those Load Assets (or, in the case of a Non-Market Participant Transmission Customer serving retail customers outside New England, those retail customers in its service area) identified by that Non-Market Participant Transmission Customer to the ISO as being within the franchised retail service area served by that Non-Market Participant Transmission Customer solely in its role as either (x) an electric distribution company whose retail electric rates are regulated exclusively by a state or provincial public utility commission or similar governmental body, or (y) the unregulated affiliate of such a regulated electric distribution company that acts as the agent for that regulated distribution company with respect to the ISO Billing Policy, or (z) a municipality, an agency thereof, a body politic or a public corporation that is created under the authority of any state or province and that is authorized to own, lease and operate electric generation, transmission or distribution facilities.

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

In order for the ISO to update and monitor the Credit Limit and Transmission Credit Limit status of each ~~Unrated~~ Non-Market Participant Transmission Customer that has an Investment Grade Rating ~~satisfies the NMPTC Credit Threshold~~, each such ~~Rated~~ ~~Unrated~~ Non-Market Participant Transmission Customer shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 55 days after the end of the applicable fiscal quarter of such ~~Rated~~ ~~Unrated~~ Non-Market Participant Transmission Customer, its balance sheet ~~and additional financial statements~~, which shall be certified as to its accuracy by a Senior Officer of such ~~Rated~~ ~~Unrated~~ Non-Market Participant Transmission Customer and shall show sufficient detail for the ISO to calculate such ~~Rated~~ ~~Unrated~~ Non-Market Participant Transmission Customer's Tangible Net Worth ~~Current Ratio, Debt to Total Capitalization Ratio and EBITDA to Interest Expense Ratio~~. In addition, each ~~Rated~~ ~~such~~ ~~Unrated~~ Non-Market Participant Transmission Customer that has an Investment Grade Rating shall submit to the ISO, annually within 10 days of their becoming available and within 100 days after the end of the fiscal year of such ~~Rated~~ ~~Unrated~~ Non-Market Participant Transmission Customer, the following audited financial statements: balance sheets, income statements, statements of cash

flows, and notes to financial statements, as well as copies of that Rated Non-Market Participant Transmission Customer's annual report.⁹

In order for the ISO to update and monitor the Credit Limit and Transmission Credit Limit of each Unrated Rated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold, and receives a Credit Limit or Transmission Credit Limit of greater than \$0, each such Unrated Non-Market Participant Transmission Customer shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 55 days after the end of the applicable fiscal quarter of such Unrated Non-Market Participant Transmission Customer, its balance sheet, which shall be certified as to its accuracy by a Senior Officer of such Unrated Non-Market Participant Transmission Customer and shall show sufficient detail for the ISO to calculate such Unrated Non-Market Participant Transmission Customer's Tangible Net Worth, Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each such Unrated Non-Market Participant Transmission Customer that satisfies the Credit Threshold and has a Credit Limit or Transmission Credit Limit of greater than \$0 shall submit to the ISO, annually within 10 days of becoming available and within 100 days after the end of the fiscal year of such Unrated Non-Market Participant Transmission Customer, and each Unrated Non-Market Participant Transmission Customer that does not satisfy the Credit Threshold must submit financial statements and other information described in this subsection if and as requested by the ISO within 10 days of such request.

⁹ Where any of the above financial information is available on the internet, the Non-Market Participant Transmission Customer may instead provide the ISO with a letter stating where such information may be located and retrieved.

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

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

~~The amount of a Non-Market Participant Transmission Customer’s additional financial assurance shall be at least equal to the sum of:~~

- ~~(i) three and one-half (3.5) times the average monthly Non-Hourly Charges (as defined in the Billing Policy) for such Non-Market Participant Transmission Customer~~

the following audited financial statements: balance sheets; income statements, statements of cash flows, and notes to financial statements, as well as copies of that Unrated Non-Market Participant Transmission Customer’s annual report. Where any of the above financial information is available on the internet, the Unrated Non-Market Participant Transmission Customer may instead provide the ISO with a letter stating where such information may be located and retrieved.

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

Each Non-Market Participant Transmission Customer that provides additional financial assurance pursuant to this Policy must provide the ISO with financial assurance in one of the forms described in Section ~~IXX~~ below and in the amount described in this Section V.D (the “NMPTC Financial Assurance Requirement” ~~and together with the Non-Municipal Financial Assurance Requirement and the Municipal Financial Assurance Requirement, the “Financial Assurance Requirement”~~).

1. Financial Assurance for ISO Charges

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

- (i) ~~two~~three and one-half (~~2.53-5~~) times the average monthly Non-Hourly Charges (as defined in the Billing Policy) for such Non-Market Participant Transmission Customer

over the two most recently invoiced calendar months (which amount shall not in any event be less than \$0); plus

(ii) the amount of any unresolved Disputed Amounts (as defined in the Billing Policy) received by such Non-Market Participant Transmission Customer.

2. Financial Assurance for Transmission Charges

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

3. Notice of Failure to Satisfy NMPTC Financial Assurance Requirement

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

Assurance. In the event that, as a result of those offsets, a Designated FTR Participant's Award Financial Assurance is less than \$0, those offsets may be used to reduce that Designated FTR Participant's FTR Requirements or remaining Financial Assurance Requirement.

D. Settlement Financial Assurance

A Designated FTR Participant that has been awarded a bid in an FTR Auction is required to provide "Settlement Financial Assurance." The amount of a Designated FTR Participant's Settlement Financial Assurance shall be equal to the amount of any settled but uninvoiced Charges incurred by such Designated FTR Participant for FTR transactions less the settled but uninvoiced amounts due to such ~~Non-Municipal~~ Market Participant for FTR transactions.

E. Consequences of Failure to Satisfy FTR Requirements

If a Designated FTR Participant does not have additional financial assurance equal to its FTR Requirements (in addition to its other financial assurance obligations hereunder) in place at the time an FTR Auction into which it has bid closes, then, in addition to the other consequences described in this Policy, all bids submitted by that Designated FTR Participant for that FTR Auction will be rejected. The Designated FTR Participant will be allowed to participate in the next FTR Auction held provided it meets all requirements for such participation, including without limitation those set forth herein. Each Designated FTR Participant must maintain the requisite additional financial assurance equal to its FTR

Requirements for the duration of the FTRs awarded to it. The amount of any additional financial assurance provided by a Designated FTR Participant in connection with an unsuccessful bid in an FTR Auction which, as a result of such bid being unsuccessful, is in excess of its FTR Requirements will be held by the ISO and will be applied against future FTR bids by and awards to that Designated FTR Participant unless that Designated FTR Participant requests in writing to have such excess financial assurance returned to it. Prior to returning any financial assurance to a Designated FTR Participant, the ISO shall use such financial assurance to satisfy any overdue obligations of that Designated FTR Participant. The ISO shall only return to that Designated FTR Participant the balance of such financial assurance after all such overdue obligations have been satisfied.

VII. ADDITIONAL FINANCIAL ASSURANCE PROVISIONS FOR FORWARD CAPACITY MARKETS

Any Market Participant transacting in any Forward Capacity Auctions, Reconfiguration Auctions or Bilateral Transactions for capacity that is otherwise required to provide additional financial assurance under this Policy, including all DRP-Only Customers participating in Forward Capacity Auctions, Reconfiguration Auctions or Bilateral Transactions for capacity (each a “Designated FCM Participant”), is required to provide additional financial assurance meeting the requirements of Section ~~IX~~ below in the amounts described in this Section VII (such amounts being referred to in this Policy as the “FCM Requirements”).

A. Commercial Capacity

A Designated FCM Participant offering the capacity of a Resource that (i) has been declared commercial and had its capacity rating verified by the ISO and (ii) has not

6. Credit Test Amount Consequences

If a Provisional Member is required to provide additional financial assurance under this Policy solely in connection with (A) a supply offer of Non-Commercial Capacity into any Forward Capacity Auction or Reconfiguration Auction or a Bilateral Transaction to provide Non-Commercial Capacity and (B) its obligation to pay Participant Expenses as a Provisional Member, and that Provisional Member is maintaining the amount of additional financial assurance required under this Policy, then the provisions of Section ~~III.B.H.D~~ of this Policy relating to the consequences of ~~Non-Municipal~~ Market Participant's Obligations equaling 80 percent or 90 percent of its Credit Test Amount shall not apply to that Provisional Member.

7. Financial Assurance for Multiple Auctions and Transactions

In the event that a Designated FCM Participant has its supply offer of Non-Commercial Capacity for a Resource accepted in multiple Forward Capacity Auctions and/or Reconfiguration Auctions and/or enters into one or more valid Bilateral Transactions to provide Non-Commercial Capacity for that Resource prior to the date on which that Resource satisfies the

be returned by the ISO to such Market Participant or DRP-Only Customer under Section VII.B.5 when the corresponding Resource has been declared commercial and successfully tested for its capacity ratings by the ISO or has otherwise become a Resource meeting the definition of “Commercial Capacity” above and all of the other requirements of Section VII.B.5 have been satisfied; and

5. for purposes of Section VII.C, any termination of capacity awards shall apply only to the Market Participant and DRP-Only Customer participating in the Composite FCM Transaction that has failed to satisfy its obligations, and any Invoice issued thereunder will be issued only to that Market Participant or DRP-Only Customer.

VIII. FINANCIAL ASSURANCE REQUIREMENTS FOR DRP-ONLY CUSTOMERS IN DEMAND RESOURCE TRANSACTIONS

A. DRP-Only Customer Financial Assurance

Each DRP-Only Customer registering a Demand Resource in a Day-Ahead Market shall submit to the ISO financial assurance, in one of the forms described in Section ~~IX~~ below, in an

[Reserved for future use.]

~~IX. THIRD-PARTY CREDIT PROTECTION~~

~~The ISO shall obtain third party credit protection, in the form of credit insurance coverage, a performance or surety bond, or a combination thereof (“Credit Coverage”), on terms acceptable to the ISO in its reasonable discretion covering collectively the group of Non-Municipal Market Participants with a Credit Limit of greater than \$0 and the group of Qualifying Municipal Participants (collectively, the “Qualifying Market Participants”). The amount of the Credit Coverage shall be adjusted monthly and shall be equal to at least the sum of (x) 3.5 times the average Hourly Charges for all Qualifying Market Participants within the previous fifty two calendar weeks plus (y) 3.5 times the average Non Hourly Charges for all Qualifying Market Participants within the previous twelve calendar months. The Credit Coverage shall be provided by an insurance company rated “A ” or better by A.M. Best & Co. or “A” or better by S&P. The cost of the Credit Coverage obtained for each calendar year shall be allocated to all Qualifying Market Participants pro rata based, for each Qualifying Market Participant, on the average amount of the Invoices issued to that Qualifying Market Participant under the Billing Policy in the preceding calendar year. Each~~

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Vice President and General Counsel
Issued on: March 26, 2010~~July 17, 2009~~

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

X.IX. ACCEPTABLE FORMS OF FINANCIAL ASSURANCE

Provided that the requirements set forth herein are satisfied, acceptable forms of financial assurance include a cash deposit, or a letter of credit ~~or a corporate guaranty (except as otherwise provided herein)~~. All costs associated with obtaining financial security and meeting the provisions of this Policy are the responsibility of the Market Participant or Non-Market Participant Transmission Customer providing that security (each a “Posting Entity”). Any Posting Entity requesting a change to one of the model forms attached to this Policy which would be specific to such Posting Entity (as opposed to a generic improvement to such form) shall, at the time of making that request, pay a \$1,000 change fee, which fee shall be deposited into the Late Payment Account maintained under the Billing Policy. Any additional financial assurance provided by a new Posting Entity under this Section ~~IXX~~ must be provided to the ISO at least five (5) Business Days before such Posting Entity commences activity in the New England Markets or commences transmission service under the Tariff.

A. Cash Deposit

A cash deposit submitted to the ISO provides an acceptable form of financial assurance to the ISO provided that the Posting Entity providing the cash deposit (i)

Commission. To the extent any portion of a cash deposit is no longer required hereunder, the ISO shall return such portion to the Posting Entity providing it within four (4) Business Days of a request to do so.

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

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With notice, on or after December 1, 2010

Issued on: ~~July 17, 2009~~
March 26, 2010

B. Letter of Credit

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

1. Requirements for Banks

Each bank issuing a letter of credit that serves as additional financial assurance must meet the requirements of this Section IX.B.1. Each such bank must be on the ISO's "List of Eligible Letter of Credit Issuers." The ISO will post the current List of Eligible Letter of Credit Issuers on its website, and update that List and posting no less frequently than quarterly. To be included on the List of Eligible Letter of Credit Issuers, the bank must be organized under the laws of the United States or any state thereof, or be the United States branch of a foreign bank and either:

(i) be recognized by the New York Mercantile Exchange ("NYMEX") or the Chicago Mercantile Exchange ("CME") as an approved letter of credit bank; or

(ii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of an "A-" by S&P, or "A3" by Moody's, or "A-" by Fitch so long as its letter of credit is confirmed by a bank that is recognized by NYMEX or CME as an approved letter of credit issuer as described in clause (i) above; or

~~The bank issuing the letter of credit must (i) have a minimum issuer rating of an “A” by S&P, or “A3” by Moody’s, or “A” by Fitch, and (ii) be organized under the laws of the United States or any state thereof or be the United States branch of a foreign bank. Any letter of credit provided for a new Posting Entity must have a minimum term of four (4) months.~~

~~Attachment 2 provides a generally acceptable sample “clean” letter of credit, and all letters of credit provided by Posting Entities shall be in this form (with only minor, non-material changes), unless a variation therefrom is approved by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee and filed with the Commission. All costs incurred by the ISO in collecting on a letter of credit provided under this Policy shall be paid, or reimbursed to the ISO, by the Posting Entity providing that letter of credit.~~

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Effective: With notice, on or after December 1, 2010~~October 1, 2009~~
Issued on: March 26, 2010~~July 17, 2009~~

(iii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of an “A-” by S&P, or “A3” by Moody’s, or “A-” by Fitch and be approved by the ISO in its sole discretion (the ISO will promptly advise the NEPOOL Budget and Finance Subcommittee of any additional bank approved by it under this provision). Because the ratings described in clauses (ii) and (iii) are minimum ratings, a bank will not be considered to have satisfied the requirement of those clauses if any applicable rating from the Rating Agencies falls below the levels listed in those clauses.

In addition, no Posting Entity may provide a letter of credit that has been issued or confirmed by a bank that is an Affiliate (as defined in Section I.2.2 of the Tariff for purposes of Section II of the Tariff) of that Market Participant.

If a bank that is included on the List of Eligible Letter of Credit Issuers fails to satisfy any of the criteria set forth above, the applicable Posting Entity will have five (5) business days from the date on which the ISO provides notice of such failure to replace the letter of credit with a letter of credit from a bank satisfying those criteria or provide other financial assurance satisfying the requirements of this Policy. In the case of a bank that is removed from the NYMEX or CME list of approved letter of credit banks, the ISO may extend that cure period to twenty (20) Business Days in its sole discretion. The ISO must promptly advise the Budget and Finance Subcommittee of any extension of a cure period beyond five (5) Business Days under this provision.

No letter of credit bank may issue or confirm letters of credit under this Policy in an amount exceeding either: (i) \$100 million in the aggregate for any single Posting Entity; or (ii) \$150 million in aggregate for a group of Posting Entities that are Affiliates. ~~C.~~ **Corporate**

Guaranty

~~A corporate guaranty obtained from a company affiliated with a Posting Entity (other than a FTR-Only Customer or a DRP-Only Customer) (“Guarantor”), may provide an acceptable form of financial assurance to the ISO. An FTR-Only Customer or a DRP-Only Customer may not provide a corporate guaranty as additional financial assurance under the Policy. The aggregate obligations that a Guarantor that is not a Market Participant (a “Non-Market Participant Guarantor”) may guarantee hereunder at any time shall not exceed the least of (i) any limit on that Non-Market Participant Guarantor’s obligations stated in its Corporate Guaranty, (ii) \$75 million, (iii) 20 percent (20%) of the total amount due and owing (not including any amounts required under Section 14.1 of the RNA) at such time to the ISO, NEPOOL, the Market Participants, the PTOs and the Non-Market Participant Transmission Customers by all Market Participants, PTOs and Non-Market Participant Transmission Customers; (iv) the applicable percentage of that Non-Market Participant Guarantor’s Tangible Net Worth as listed in the following table; or (v) the applicable percentage of the Financial Assurance Requirement of the Posting Entity as listed in the following table (collectively, the “Non-Market Participant Guaranty Limit”).~~

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Vice President and General Counsel

Issued on: March 26, 2010~~July 17, 2009~~

2. Form of Letter of Credit

Attachment 2 provides a generally acceptable sample “clean” letter of credit, and all letters of credit provided by Posting Entities shall be in this form (with only minor, non-material changes), unless a variation therefrom is approved by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee and filed with the Commission. Any letter of credit provided for a new Posting Entity must have a minimum term of four (4) months. All costs incurred by the ISO in collecting on a letter of credit provided under this Policy shall be paid, or reimbursed to the ISO, by the Posting Entity providing that letter of credit.

Non-Market Participant Guarantor’s Investment Rating		Percentage of Tangible Net Worth	Percentage of a Posting Entity’s Financial Assurance Requirement that Can Be Satisfied with a Guaranty from a Non-Market Participant Guarantor
S&P/Fitch	Moody’s		
AAA	Aaa	5.00%	100%
AA+	Aa1	5.00%	100%
AA	Aa2	4.00%	100%
AA-	Aa3	3.50%	100%
A+	A1	2.55%	100%
A	A2	2.35%	100%
A-	A3	2.10%	100%
BBB+	Baa1	1.80%	100%
BBB	Baa2	1.20%	75%
BBB-	Baa3	0.70%	50%
Below BBB-	Below Baa3	0.00%	0.00%

The aggregate obligations that a Guarantor that is a Market Participant (a “Market Participant Guarantor”) may guarantee hereunder at any time shall not exceed the positive difference if any,

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Issued on: ~~July 17, 2009~~ March 26, 2010

~~between that Market Participant Guarantor's Credit Limit and that Market Participant Guarantor's Obligations (the "Market Participant Guaranty Limit" and, together with the Non-Market Participant Guaranty Limit, the "Guaranty Limit"). The Guaranty Limit shall be deemed to be the available amount of financial assurance under such Guarantor's Corporate Guaranty.~~

Issued by: Raymond W. Hepper, Effective: With notice, on or after December 1, 2010~~October 1, 2009~~
 Vice President and General Counsel
Issued on: March 26, 2010~~July 17, 2009~~

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~~In order for the ISO to update and monitor the Non Market Participant Guaranty Limit of each Non Market Participant Guarantor, each Non Market Participant Guarantor shall submit to the ISO, on a quarterly basis within 10 days of its becoming available and within 55 days after the end of the applicable fiscal quarter of such Non Market Participant Guarantor, its balance sheet, which shall be certified as to its accuracy by a Senior Officer of such Non Market Participant Guarantor and shall show sufficient detail for the ISO to calculate such Non Market Participant Guarantor's Tangible Net Worth. In addition, each Non Market Participant Guarantor shall submit to the ISO, annually within 10 days of their becoming available and within 100 days after the end of the fiscal year of such Non Market Participant Guarantor, the following audited financial statements: balance sheets, income statements, statements of cash flows, and notes to financial statements, as well as copies of that Non Market Participant Guarantor's annual report. Each such Non Market Participant Guarantor shall also provide to the ISO, within 10 days of~~

their filing with the SEC, a copy of each Form 10-K Report, Form 10-Q Report and Form 8-K Report for that Non-Market Participant Guarantor.¹²

The following additional conditions must be met for a Corporate Guaranty to be accepted as an acceptable form of financial assurance:

1. Requirements for Non-Foreign Guarantors

A Corporate Guaranty from a Guarantor that is organized under the laws of a jurisdiction within the United States or Canada (a “Non-Foreign Guarantor”) shall be an acceptable form of financial assurance if the following conditions are satisfied:

¹² Where any of the above financial information is available on the internet, the Non-Market Participant Guarantor may instead provide the ISO with a letter stating where such information may be located and retrieved.

- a. The ISO determines that each of the Posting Entity and the Non-Foreign Guarantor has satisfactorily met its payment obligations to the ISO and in the New England Markets during the six (6) month period immediately preceding the posting of the Corporate Guaranty; thereafter:
- (i) if the Posting Entity or Non-Foreign Guarantor is late by only one (1) day in paying an Invoice issued under the Billing Policy once within any period of twelve (12) consecutive months, the Posting Entity pays any late payment fee with that late payment, and the Posting Entity's sole form of financial assurance is a Corporate Guaranty or the Posting Entity's alternate form of financial assurance is insufficient to cover the amount due on such Invoice, the Corporate Guaranty for that Posting Entity shall continue to be an acceptable form of financial assurance so

long as that Posting Entity pays a late payment fee (in addition to any other interest, late payment fee or penalty due with respect to the late payment) equal to the lesser of (x) five percent (5%) of the subject Invoice or (y) \$5,000, which amount shall be included on the next Statement issued to that Posting Entity, and that late payment fee will be deposited into the Late Payment Account;

- (ii) if the Posting Entity or Non-Foreign Guarantor is late by only one (1) day in paying an Invoice issued under the Billing Policy twice within any period of twelve (12) consecutive months, the Posting Entity pays any late payment fees with those late payments, and the Posting Entity's sole form of financial assurance is a Corporate Guaranty or the Posting Entity's alternate form of financial assurance is insufficient to cover the amount due on each of such Invoices, the Corporate Guaranty for that Posting Entity shall be void for two (2) months, during which period that Posting Entity shall be required to provide another acceptable form of financial assurance as required under this Policy;

(iii) ~~if the Posting Entity or Non-Foreign Guarantor is late by only one (1) day in paying an Invoice issued under the Billing Policy three times within any period of twelve (12) consecutive months, the Posting Entity pays any late payment fees with those late payments, and the Posting Entity's sole form of financial assurance is a Corporate Guaranty or the Posting Entity's alternate form of financial assurance is insufficient to cover the amount due on each of such Invoices, the Corporate Guaranty for that Posting Entity shall be void for six (6) months, during which period that Posting Entity shall be required to provide another acceptable form of financial assurance as required under this Policy;~~

(iv) ~~if the Posting Entity or Non-Foreign Guarantor is either (a) late by only one (1) day in paying an Invoice issued under the Billing Policy four or more times within any period of twelve (12) consecutive months or (b) two (2) or more days late in paying an Invoice issued under the Billing Policy at any time, the Posting Entity pays any late payment fees with those late payments, and the Posting Entity's sole form of financial assurance is a Corporate Guaranty or the~~

~~Posting Entity's alternate form of financial assurance is insufficient to cover the amount due on each such Invoice; the Corporate Guaranty for that Posting Entity shall be void for two (2) years, during which period that Posting Entity shall be required to provide another acceptable form of financial assurance as required under this Policy; and~~

~~(v) in the case of any late payment, if the amount available under another form of financial assurance (other than the Corporate Guaranty) provided by the Posting Entity is sufficient to cover the amount due on the Invoice in question, that late payment will not count as a late payment solely for purpose of clauses (i), (ii), (iii) and (iv) above;~~

~~b. The ISO determines that the financial condition of the Non-Foreign Guarantor meets the requirements of this Policy at all times that the Corporate Guaranty is in effect; and~~

~~e. The Corporate Guaranty authorizes the ISO to recover sums owed by the Posting Entity obligor directly from the Non-Foreign Guarantor.~~

2. Requirements for Foreign Guarantors

A Corporate Guaranty from a Guarantor that is organized under the laws of a jurisdiction outside of the United States or Canada (a “Foreign Guarantor”) shall be an acceptable form of financial assurance if the following conditions are satisfied at all times that such Corporate Guaranty is in effect:

- a. The Foreign Guarantor satisfies all requirements that apply to a Non-Foreign Guarantor under this Policy;
- b. The Foreign Guarantor has its principal place of business in a country that maintains a Sovereign rating of at least AA from S&P and Aa3 from Moody’s;
- c. The Foreign Guarantor has its principal place of business in a country that has a reciprocity agreement with the United States that is acceptable to the ISO in its sole discretion, after consultation with the NEPOOL Budget and Finance Subcommittee;

- d. ~~The Foreign Guarantor provides audited financial statements consistent with generally accepted accounting principles in the United States or international accounting standards with footnote disclosures consistent with the requirements of the U.S. Securities and Exchange Commission for financial statements prepared under international accounting standards;~~
- e. ~~The Foreign Guarantor's American Depository Receipts are listed on the New York Stock Exchange, American Stock Exchange or NASDAQ; and~~
- f. ~~The amount guaranteed by such Foreign Guarantor does not exceed US \$10,000,000.~~

~~The Corporate Guaranty must be duly authorized by the Guarantor, must be signed by a Senior Officer of the Guarantor, and must be furnished with either an opinion satisfactory to the ISO of the Guarantor's counsel with respect to the enforceability of the Corporate Guaranty or accompanied by a certificate of corporate guarantee that is duly notarized and includes a seal of the corporation with the signature of the corporate secretary. Additionally, adequate documentation regarding the signature authority of the person signing the Corporate Guaranty must be provided with the Corporate Guaranty.~~

~~A Guarantor's failure to timely disclose a Material Change (as hereinafter defined) in its financial status may result in proceedings by the ISO to terminate the Posting Entity. If there is an adverse Material Change in the financial condition of the Guarantor, the ISO may require the Posting Entity to provide another form of financial assurance.~~

~~Attachment 3 provides a generally acceptable sample of a Corporate Guaranty, and all Corporate Guaranties provided by Posting Entities shall be in this form (with only minor, non-material changes), unless a variation therefrom is approved by the ISO, after consultation with the NEPOOL Budget and Finance Subcommittee, and filed with the Commission.~~

[Reserved for future use.]

[Reserved for future use.]

[Reserved for future use.]

CD. Special Provisions for Provisional Members

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

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that is attributable to Participant Expenses (including any amounts provided in connection with the standing instruction under the Billing Policy described above) shall be at least \$2,500, and each Provisional Member will replenish that cash deposit to at least that \$2,500 level on December 31 of each year.

XLX. MISCELLANEOUS PROVISIONS

A. Obligation to Report Material Changes

Each Market Participant and, each Non-Market Participant Transmission Customer ~~and~~ ~~each Guarantor~~ is responsible for informing the ISO in writing within five (5) Business Days of any Material Change (as hereinafter defined) in its financial status. A “Material Change” in financial status includes, but is not limited to, the following: a downgrade to below an Investment Grade Rating by any Rating Agency; being placed on credit watch with negative implication by any Rating Agency if the Market Participant, or Non-Market Participant Transmission Customer ~~or Guarantor~~ does not have an Investment Grade Rating; a bankruptcy filing or other insolvency; a report of a significant quarterly loss or decline of earnings; the resignation of key officer(s); or the filing of a material lawsuit that could materially adversely impact current or future financial results. A Market Participant’s or, Non-Market Participant Transmission Customer’s ~~or Guarantor’s~~ failure to timely disclose a Material Change in its financial status may result in termination proceedings by the ISO. If there is a Material Change in the financial condition of the Market Participant or, Non-Market Participant Transmission Customer ~~or Guarantor~~, the ISO may require the Market Participant or Non-Market Participant Transmission Customer to provide one of the forms of financial assurance described in this

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Policy. If the Market Participant or Non-Market Participant Transmission Customer fails to do so, the ISO may initiate termination proceedings against the Market Participant or Non-Market Participant Transmission Customer.

B. Weekly Payments

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

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Vice President and General Counsel

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

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

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C. Use of Transaction Setoffs

In the event that a Market Participant or Non-Market Participant Transmission Customer has failed to satisfy its Financial Assurance Requirement hereunder, the ISO may retain payments due to such Market Participant or Non-Market Participant Transmission Customer, up to the amount of such Market Participant's or Non-Market Participant Transmission Customer's unsatisfied Financial Assurance Requirement, as a cash deposit securing such Market Participant's or Non-Market Participant Transmission Customer's obligations to the ISO, NEPOOL, the Market Participants, the PTOs and the Non-Market Participant Transmission Customers, provided, however, that a Market Participant or Non-Market Participant Transmission Customer will not be deemed to have satisfied its Financial Assurance Requirement under this Policy because the ISO is retaining amounts due to it hereunder unless such Market Participant or Non-Market Participant Transmission Customer has satisfied all of the requirements of Section ~~IX~~ with respect to such amounts.

D. Reimbursement of Costs

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

E. Notification of Default

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

F. Remedies Not Exclusive

No remedy for a Financial Assurance Default is or shall be deemed to be exclusive of any other available remedy or remedies. Each such remedy shall be distinct, separate and cumulative.

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Issued on: March 26, 2010~~July 17, 2009~~

F. Remedies Not Exclusive

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

G. Inquiries and Contests

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

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performed using the formulas and criteria in this Policy. A Market Participant

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Issued on: March 26, 2010~~July 17, 2009~~

shall have such other rights and remedies as are set forth in the Tariff and ISO Financial Assurance Policy.

- b. Notwithstanding the provisions of the ISO New England Information Policy, as amended, supplemented or restated from time to time (the “ISO New England Information Policy”), Debtor hereby (i) authorizes the Secured Party to disclose any information concerning Debtor to any court, agency or entity which is necessary or desirable, in the sole discretion of the Secured Party, to establish, maintain, perfect or secure the Secured Party’s rights and interest in the Collateral (the “Debtor Information”); and (ii) waives any rights it may have under the ISO New England Information Policy to prevent, impair or limit the Secured Party from disclosing such information concerning the Debtor.

10. PRE-JUDGMENT REMEDY. DEBTOR ACKNOWLEDGES THAT THIS SECURITY AGREEMENT AND THE UNDERLYING TRANSACTIONS GIVING RISE HERETO CONSTITUTE COMMERCIAL BUSINESS TRANSACTIONS WITHIN

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

11. WAIVER OF JURY TRIAL. THE DEBTOR AND THE SECURED PARTY HEREBY EACH KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVES THE

TRANSFERABLE STANDBY LETTER OF CREDIT NO.
ISSUED BY [BANK] IN FAVOR OF ISO NEW ENGLAND
INC. (“ISO”) IN ITS INDIVIDUAL CAPACITY AND ON
BEHALF OF THE PARTICIPANTS IN THE ISO’S MARKETS,
AND THE PARTICIPATING TRANSMISSION OWNERS
(“PTOS”) WHOSE FACILITIES ARE OPERATED BY THE
ISO, THAT [POSTING ENTITY] HAS FAILED TO PAY THE
ISO, THE PARTICIPANTS IN THE ISO’S MARKETS, AND
THE PTOS WHOSE FACILITIES ARE OPERATED BY THE
ISO, IN ACCORDANCE WITH THE TERMS AND
PROVISIONS OF THE TARIFF FILED BY THE ISO, AND
THUS THE ISO IS DRAWING UPON THE LETTER OF
CREDIT IN AN AMOUNT EQUAL TO \$_____.”

IF PRESENTATION OF ANY DRAWING CERTIFICATE IS MADE ON A BUSINESS DAY
AND SUCH PRESENTATION IS MADE AT OUR COUNTERS ON OR BEFORE 10:00 A.M.
_____ TIME, WE SHALL SATISFY SUCH DRAWING REQUEST ON THE SAME
BUSINESS DAY. IF THE DRAWING CERTIFICATE IS RECEIVED AT OUR COUNTERS
AFTER 10:00 A.M. _____ TIME, WE WILL SATISFY SUCH DRAWING REQUEST
ON THE NEXT BUSINESS DAY. FOR THE PURPOSES OF THIS SECTION, A BUSINESS

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Issued on: March 26, 2010~~July 17, 2009~~

ATTACHMENT 3

~~CORPORATE GUARANTY~~

[Reserved.]

~~For and in consideration of the credit advance or sale of products on open account by ISO New England Inc. (“ISO”), the participants in ISO New England’s markets, and the participating transmission owners whose facilities are operated by the ISO (“PTOs”) from time to time (collectively, “Covered Entities”) to [Market Participant] (“Company”), the undersigned guarantor (“Guarantor”), the [parent/subsidiary/Affiliate] of Company, hereby unconditionally and irrevocably guarantees the prompt and complete payment of all amounts that Company now or hereafter owes to Covered Entities and the ISO in ISO New England’s markets under the Second Restated NEPOOL Agreement, the Participants Agreement and the ISO Transmission, Markets and Services Tariff, as amended from time to time, and any agreements thereunder (collectively, the “Tariff”), in strict accordance with their respective terms.~~

- ~~1. If Company does not perform its obligations in strict accordance with the Tariff, Guarantor shall immediately pay all amounts now or hereafter owed (including, without limitation, all principal, interest, and fees) by Company under the Tariff. This Guaranty may be satisfied by Guarantor paying Company’s obligations or by Guarantor causing Company’s obligations to be paid; provided, however, that Guarantor shall at all times remain fully responsible and liable for its obligations~~

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Vice President and General Counsel

Issued on: March 26, 2010~~July 17, 2009~~

Section I, Exhibit IA—ISO New England Financial Assurance Policy

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~~hereunder notwithstanding any such payment (or failure thereof) by any third party. The ISO will undertake commercially reasonable efforts to notify Guarantor of a failure by Company to make a payment under the Tariff; provided, however, that failure by the ISO to so notify Guarantor shall not defeat, limit or otherwise affect the rights and obligations of Covered Entities, Company or Guarantor. Subject to the terms and conditions set forth herein, Guarantor's obligations hereunder shall not exceed the complete payment of all amounts that Company now or hereafter owes to Covered Entities under the Tariff in strict accordance with their respective terms. [Notwithstanding anything to the contrary in this Guaranty, the aggregate liability of Guarantor hereunder shall not exceed U.S. \$ _____.]~~

2. ~~Subject to the terms and conditions hereof, this Guaranty is an absolute, unconditional and continuing guaranty of the full and punctual payment by Company of each of its obligations under the Tariff, and not of collectibility only, and is in no way conditioned upon any requirement that Covered Entities first attempt to collect payment from Company or any other guarantor or surety or resort to any security or other means of obtaining payment of all or any part of Company's obligations or upon any other contingency. Subject to the terms and~~

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 Vice President and General Counsel
Issued on: March 26, 2010~~July 17, 2009~~

~~conditions hereof, this is a continuing guaranty and shall be binding upon Guarantor until the full, final and irrevocable payment of all of Company's obligations under the Tariff, regardless of (i) how long after the date hereof any part of the obligations under the Tariff is incurred by Company and (ii) the amount of the obligations under the Tariff at any time outstanding. This Guaranty may be enforced by Covered Entities from time to time and as often as occasion for such enforcement may arise.~~

- ~~3. The obligations hereunder are independent of the obligations of Company, and a separate action or actions may be brought and prosecuted against Guarantor whether action is brought against Company or whether Company be joined in any such action or actions. Guarantor's liability under this Guaranty is not conditioned or contingent upon genuineness, validity, regularity or enforceability of the Tariff.~~
- ~~4. Guarantor authorizes the ISO without notice or demand and without affecting its liability hereunder, from time to time to (a) renew, extend, or otherwise change the terms of the Tariff or any part thereof; (b) take and hold security for the payment of the Tariff, and exchange, enforce, waive and release any such security; and (c) apply such security and direct the order or manner of~~

~~sale thereof as the ISO in its sole discretion may determine. Subject to the terms and conditions hereof, the obligations and liabilities of Guarantor hereunder shall be absolute and unconditional, shall not be subject to any counterclaim, setoff, deduction or defense based upon any claim Guarantor may have against Company, any other guarantor, or any other person or entity, and shall remain in full force and effect until all of the obligations hereunder have been fully satisfied, without regard to, or release or discharge by, any event, circumstance or condition (whether or not Guarantor shall have knowledge or notice thereof) which but for the provisions of this Section might constitute a legal or equitable defense or discharge of a guarantor or surety or which might in any way limit recourse against Guarantor, including without limitation: (a) any amendment or modification of, or supplement to, the terms of the Tariff; (b) any waiver, consent or indulgence by Covered Entities, or any exercise or non-exercise by Covered Entities of any right, power or remedy, under or in respect of this Guaranty or the Tariff (whether or not Guarantor or Company has or have notice or knowledge of any such action or inaction); (c) the invalidity or unenforceability, in whole or in part, of the Tariff, or the termination (except pursuant to its terms or by written agreement between Covered Entities and~~

~~Company), cancellation or frustration of any thereof, or any limitation or cessation of Company's liability under any thereof (other than any limitation or cessation expressly provided for therein), including without limitation any invalidity, unenforceability or impaired liability resulting from Company's lack of capacity, power and/or authority to enter into the Tariff and/or to incur any or all of the obligations thereunder, or from the execution and delivery of any Tariff by any person acting for Company without or in excess of authority (except to the extent the same would limit or cease Company's liability under the Tariff); (d) any actual, purported or attempted sale, assignment or other transfer by Covered Entities of any Tariff or of any of its rights, interests or obligations thereunder; (e) the taking or holding by Covered Entities of a security interest, lien or other encumbrance in or on any property as security for any or all of the obligations of Company under the Tariff or any exchange, release, non-perfection, loss or alteration of, or any other dealing with, any such security; (f) the addition of any party as a guarantor or surety of all or any part of the obligations of Company under the Tariff; (g) any merger, amalgamation or consolidation of Company into or with any other entity, or any sale, lease, transfer or other disposition of any or all of Company's assets or any sale, transfer or other disposition of any or all of~~

~~the shares of capital stock or other securities of Company to any other person or entity; (h) any change in the financial condition of Company or (as applicable) of any subsidiary, Affiliate, partner or controlling shareholder thereof, or Company's entry into an assignment for the benefit of creditors, an arrangement or any other agreement or procedure for the restructuring of its liabilities, or Company's insolvency, bankruptcy, reorganization, dissolution, liquidation or any similar action by or occurrence with respect to Company.~~

5. ~~Guarantor unconditionally waives, to the fullest extent permitted by law: (a) notice of any of the matters referred to in Section 4 hereof; (b) any right to the enforcement, assertion or exercise by Covered Entities of any of their rights, powers or remedies under, against or with respect to (i) the Tariff, (ii) any other guarantor or surety, or (iii) any security for all or any part of the obligations of Company under the Tariff or obligations of Guarantor hereunder; (c) any requirement of diligence and any defense based on a claim of laches; (d) all defenses which may now or hereafter exist by virtue of any statute of limitations, or of any stay, valuation, exemption, moratorium or similar law, except the sole defense of full and indefeasible payment; (e) any requirement that Guarantor be joined as a party in any action or proceeding against Company to enforce any of~~

~~the provisions of the Tariff; (f) any requirement that Covered Entities mitigate or attempt to mitigate damages resulting from a default by Guarantor hereunder or from a default by Company under the Tariff; (g) acceptance of this Guaranty by Covered Entities; and (h) all presentments, protests, notices of dishonor, demands for payment and any and all other demands upon and notices to Company, and any and all other formalities of any kind, the omission of or delay in performance of which might but for the provisions of this section constitute legal or equitable grounds for relieving or discharging Guarantor in whole or in part from its irrevocable, absolute and continuing obligations hereunder, it being the intention of Guarantor that its obligations hereunder shall not be discharged except by payment and then only to the extent thereof.~~

~~6. Guarantor waives any right to require Covered Entities to (a) proceed against Company; (b) proceed against or exhaust any security held from Company; or (c) pursue any other remedy in Covered Entities' power whatsoever. So long as any obligations remain outstanding under this Guaranty, Guarantor shall not prove any claim in competition with Covered Entities or their Affiliates in respect of any payment~~

~~under the Tariff in bankruptcy or insolvency proceedings of any nature; Guarantor will not claim any setoff or counterclaim against Company in respect of any liability of Guarantor to Company and Guarantor waives any benefit of any right to participate in any collateral which may be held by Covered Entities or any of their Affiliates.~~

7. ~~If after receipt of any payment of, or the proceeds of any collateral for, all or any part of the obligations of Company under the Tariff, Covered Entities are compelled to surrender or voluntarily surrender such payment or proceeds to any person because such payment or application of proceeds is or may be avoided, invalidated, recaptured, or set aside as a preference, fraudulent conveyance, impermissible setoff or for any other reason, whether or not such surrender is the result of (i) any judgment, decree or order of any court or administrative body having jurisdiction over Covered Entities, or (ii) any settlement or compromise by Covered Entities of any claim as to any of the foregoing with any person (including Company), then the obligations of Company under the Tariff, or part thereof affected, shall be reinstated and continue and this Guaranty shall be reinstated and continue in full force as to such obligations or part thereof as if~~

~~such payment or proceeds had not been received, notwithstanding any previous cancellation of any instrument evidencing any such obligation or any previous instrument delivered to evidence the satisfaction thereof. The provisions of this Section shall survive the termination of this Guaranty and any satisfaction and discharge of Company by virtue of any payment, court order or any federal or state law until the full, final and irrevocable satisfaction of all of Company's obligations under the Tariff.~~

- ~~8. Any indebtedness of Company now or hereafter held by Guarantor (including indebtedness, if any, related to Guarantor's status as a Market Participant and any indebtedness arising from any right of subrogation, reimbursement or contribution) is hereby subordinated to any indebtedness of Company to Covered Entities; and such indebtedness of Company to Guarantor shall be collected, enforced and received by Guarantor as trustee for Covered Entities and be paid over to Covered Entities on account of the indebtedness of Company due and owing at any time to Covered Entities but without reducing or affecting in any manner the liability of Guarantor under the other provisions of this Guaranty.~~

9. ~~Guarantor represents and warrants to Covered Entities, as an inducement to Covered Entities to make the credit advances or sales of products on open account to Company, that:~~
- a. ~~the execution, delivery and performance by Guarantor of this Guaranty (i) are within Guarantor's powers and have been duly authorized by all necessary action; (ii) do not contravene Guarantor's charter documents or any law or any material contractual restrictions binding on or affecting Guarantor or by which Guarantor's property may be affected; and (iii) do not require any authorization or approval or other action by, or any notice to or filing with, any public authority or any other person except such as have been obtained or made;~~
- b. ~~this Guaranty constitutes the legal, valid and binding obligation of Guarantor, enforceable in accordance with its terms, except as the enforceability thereof may be subject to or limited by bankruptcy, insolvency, reorganization, arrangement, moratorium or other similar laws relating to or affecting the rights of creditors generally and by general principles of equity; and~~

e. ~~there is no action, suit or proceeding affecting Guarantor pending or threatened before any court, arbitrator, or public authority that may materially adversely affect Guarantor's ability to perform its obligations under this Guaranty, except as set forth in writing to the Covered Entities prior to the Covered Entities' written authorization of this Guaranty.~~

10. ~~Guarantor agrees to pay on demand all reasonable attorneys' fees and all other reasonable costs and expenses which may be incurred by Covered Entities in the enforcement of this Guaranty, and the obligation to pay such fees, costs and expenses shall be in addition to Guarantor's other payment obligations hereunder. No terms or provisions of this Guaranty may be changed, waived, revoked or amended without Covered Entities' prior written consent. Should any provision of this Guaranty be determined by a court of competent jurisdiction to be unenforceable, all of the other provisions shall remain effective. This Guaranty embodies the entire agreement among the parties hereto with respect to the matters set forth herein, and supersedes all prior agreements among the parties with respect to the matters set forth herein. No course of prior dealing among the parties, no usage of trade, and no parol or extrinsic evidence of any nature shall be used to supplement, modify or vary any of the terms hereof. There are no~~

~~conditions to the full effectiveness of this Guaranty. Covered Entities may assign this Guaranty without in any way affecting Guarantor's liability under it, except that Guarantor shall be provided reasonable notice of any such assignment. This Guaranty shall inure to the benefit of Covered Entities and their successors and assigns. This Guaranty is in addition to the guaranties of any other guarantors and any and all other guaranties of Company's indebtedness or liabilities to Covered Entities.~~

- ~~11. This Guaranty shall terminate on [_____], but Guarantor may terminate it earlier by providing 30 days prior written notice thereof to the Covered Entities. In either event and notwithstanding any other provisions in the Guaranty, this Guaranty shall remain in effect after its termination until Company has satisfied all of its obligations under the Tariff arising prior to the date of such termination.~~
- ~~12. This Guaranty shall be governed by the laws of the State of Connecticut, without regard to conflicts of laws principles. Guarantor hereby irrevocably submits to the jurisdiction of any Connecticut State or United States Federal court sitting in Connecticut over any action or proceeding arising out of or relating to this Guaranty or the Tariff, and Guarantor hereby irrevocably agrees that all claims in~~

~~respect of such action or proceeding may be heard and determined in such Connecticut State or Federal court. Guarantor irrevocably consents to the service of any and all process in any such action or proceeding by the mailing of copies of such process to Guarantor at its address set forth below its signature. Guarantor 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. Guarantor further waives any objection to venue in such State and any objection to an action or proceeding in such State on the basis of forum non conveniens. Guarantor further agrees that any action or proceeding brought against Covered Entities arising out of or relating to this Guaranty shall be brought only in Connecticut or United States Federal courts sitting in Connecticut. Nothing herein shall affect the right of Covered Entities to bring any action or proceeding against the Guarantor or its property in the courts of any other jurisdictions.~~

~~13. GUARANTOR ACKNOWLEDGES THAT IT HAS BEEN ADVISED BY COUNSEL OF ITS CHOICE WITH RESPECT TO THIS GUARANTY AND THAT IT MAKES THE FOLLOWING WAIVERS KNOWINGLY AND VOLUNTARILY:~~

a. ~~GUARANTOR IRREVOCABLY WAIVES TRIAL BY JURY IN ANY COURT AND IN ANY SUIT, ACTION OR PROCEEDING OR ANY MATTER ARISING IN CONNECTION WITH OR IN ANY WAY RELATED TO THE TRANSACTIONS CONTEMPLATED BY THIS GUARANTY, THE AGREEMENTS OR ANY DOCUMENTS RELATED THERETO (INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS) AND THE ENFORCEMENT OF ANY OF COVERED ENTITIES' RIGHTS AND REMEDIES; AND~~

b. ~~GUARANTOR EXPRESSLY ACKNOWLEDGES THAT THE OBLIGATIONS GUARANTEED HEREBY ARE PART OF A COMMERCIAL TRANSACTION AS SUCH TERM IS USED AND DEFINED IN CHAPTER 903a OF THE CONNECTICUT GENERAL STATUTES AND VOLUNTARILY AND KNOWINGLY WAIVES ANY AND ALL RIGHTS WHICH ARE OR MAY BE CONFERRED UPON IT UNDER CHAPTER 903a OF SAID STATUTES (OR ANY OTHER STATUTE AFFECTING PREJUDGMENT REMEDIES) TO~~

~~ANY NOTICE OR HEARING OR PRIOR COURT ORDER OR THE
POSTING OF ANY BOND PRIOR TO ANY PREJUDGMENT
REMEDY WHICH COVERED ENTITIES MAY USE.~~

~~14. Any demand, notice, request, instruction or other communication to be given hereunder by any party to another party shall be in writing and delivered personally, by nationally recognized overnight courier, by certified mail, postage prepaid and return receipt requested, by telegram, or by facsimile with original delivered by certified mail, as follows:~~

~~If to Guarantor, at:~~

~~If to Covered Entities, at: ISO New England Inc.
One Sullivan Road
Holyoke, MA 01040
Fax: 413-540-4569~~

~~Communications given by personal delivery or mail shall be effective upon actual receipt. Communications given by telegram or facsimile shall be effective upon actual receipt during the recipient's normal business hours, or at the beginning of the next business day after receipt if not received during the recipient's normal business hours. All communications by telegram or facsimile shall be confirmed promptly in writing by certified mail or personal delivery. Any party may change any address~~

to which communications are to be given by giving notice as provided above of such change of address.

IN WITNESS WHEREOF, the undersigned Guarantor has executed this Guaranty as of this day of [month], 200 .

{GUARANTOR}

By: _____

Title: _____

_____ Corporate Officer

Address: _____

{Sheet Nos. 133 — 152 are reserved for future use.}

| {Sheet Nos. 154-232 are reserved for future use.}

| Issued by: Raymond W. Hepper, Effective: With notice, on or after December 1, 2010~~October 1, 2009~~
 Vice President and General Counsel
| Issued on: March 26, 2010~~July 17, 2009~~

{Sheet Nos. 234-287 are reserved for future use.}

Issued by: Raymond W. Hepper, Vice President and General Counsel Effective: With notice, on or after December 1, 2010~~October 1, 2009~~
Issued on: March 26, 2010~~July 17, 2009~~

EXHIBIT ID

ISO NEW ENGLAND BILLING POLICY

Table of Contents

SECTION 1 – OVERVIEW289

SECTION 2 – TIMING AND CONTENT OF STATEMENTS293

SECTION 3 – PAYMENT PROCEDURES300

SECTION 4 – LATE PAYMENT CHARGES; LATE PAYMENT ACCOUNTS322

SECTION 5 – SHORTFALL FUNDING ARRANGEMENT; PAYMENT DEFAULT
SHORTFALL FUND.....323A

SECTION 6 – BILLING DISPUTE PROCEDURES329

SECTION 7 – WEEKLY BILLING PRINCIPLES FOR NON-HOURLY CHARGES341

amounts due under the Documents,¹¹ including without limitation those procedures related to the New England Markets.

Section 1.2 – Financial Transaction Conventions. The following conventions have been adopted in defining sums of money to be paid or received under this Policy:

- a) The term “Charge” refers to a sum of money due from a Covered Entity to the ISO, either in its individual capacity or as billing and collection agent for the other Covered Entities and for NEPOOL pursuant to the Participants Agreement.
- b) The term “Payment” refers to a sum of money due to a Covered Entity from the ISO, as remitting agent for the Covered Entities. Amounts due to and from the ISO include amounts collected and paid by the ISO as billing and collection agent for the Covered Entities and for NEPOOL pursuant to the Participants Agreement.
- c) Where a Covered Entity’s total Charges exceed its total Payments for all amounts being billed together in a billing period, the ISO shall issue an “Invoice” for the net Charge owed by such Covered Entity.
- d) Where a Covered Entity’s total Payments exceed its total Charges for all amounts being billed together in a billing period, the ISO shall issue a “Remittance Advice” for the net Payment owed to the Covered Entity. Invoices and Remittance Advices are collectively referred to herein as “Statements.”

¹¹ Unless otherwise stated herein, ISO will act as agent for the other Covered Entities and for NEPOOL in administering, managing and enforcing this Policy.

~~d) — Where a Covered Entity’s total Payments exceed its total Charges in a billing period, the ISO shall issue a “Remittance Advice” for the net Payment owed to the Covered Entity. Invoices and Remittance Advices are collectively referred to herein as “Statements.”~~

Section 1.3 – General Process. Except for special billings, as described in Section 1.4 below, the billing process is performed: (i) twice weekly for each complete-day settlement amount for the hourly charges and payments for Real-Time Energy and Day-Ahead Energy and for each complete-day settlement amount for the hourly charges and payments for Real-Time Operating Reserve, Forward Reserves, Regulation service, Emergency Sales, Emergency Purchases and Net Commitment Period Compensation (all such hourly charges and payments described in this clause (i) being referred to collectively as the “Hourly Charges”); ~~and~~ (ii) monthly for all other charges and payments, including without limitation charges relating to the monthly markets, the Forward Capacity Market, and other ancillary services, Participant Expenses, charges under Section IV of the ISO Transmission, Markets and Services Tariff, monthly meter adjustments, ~~and~~ Qualification Process Cost Reimbursement Deposits (including the annual true-up of those Qualification Process Cost Reimbursement Deposits), and charges under the OATT (other than charges arising under Schedules 1, 8 and 9 to the OATT, which charges are addressed in clause (iii) below) (all such charges and payments described in this clause (ii) being referred to collectively as ~~collectively~~, “Non-Hourly Charges” and, together with Hourly Charges, as “ISO Charges”), except in the case of Covered Entities who have requested and received a weekly payment arrangement for Non-Hourly Charges under the Financial Assurance Policy that is in Exhibit IA to Section I of the ISO Transmission, Markets and Services Tariff (the “Financial

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Vice President and General Counsel

Issued on: March 26, 2010~~September 18, 2009~~

Assurance Policy”); and (iii) monthly for all charges and payments under Schedules 1, 8 and 9 to the OATT (all such charges and payments described in this clause (iii) begin referred to collectively as “Transmission Charges’). There are two major steps in the billing process:

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Vice President and General Counsel
Issued on: March 26, 2010~~September 18, 2009~~

- a) *Statement Issuance.* The ISO will issue an Invoice or Remittance Advice showing the net amounts due from or owed to a Covered Entity. This Statement is determined from the preliminary statements of the New England Markets, applicable the ISO Charges and/or Transmission Charges due under the Documents (including amounts due under the Financial Assurance Policy), as well as applicable adjustments. Prior to January 1 of any calendar year, the ISO will post or make available a list of the dates in the new calendar year on which Statements will be issued, due and paid. Billing and payment holidays will be the same as the ISO's settlement holidays, as listed on the ISO's website from time to time.
- b) *Electronic Funds Transfer ("EFT").* EFTs related to Invoices and Remittance Advices are performed in a two-step process, as described below, in which all Invoices are paid first and all Remittance Advices are paid later.

Section 1.4 – Special Billings. In addition to the regular billing process described above, the ISO will issue special, extraordinary Statements as and when required under the Documents or in order to adjust for special circumstances. Such Statements shall be payable in accordance with the instructions set forth therein.

Issued by: Raymond W. Hepper, Vice President and General Counsel Effective: With notice, on or after December 1, 2010~~October 1, 2009~~

Issued on: March 26, 2010~~July 17, 2009~~

Section 1.5 – Conflicts with Documents. Except as set forth herein, to the extent any provision hereof conflicts with any provision of any Document, the provision in the Document shall govern.

SECTION 2 – TIMING AND CONTENT OF STATEMENTS.

Section 2.1 – Weekly Statements for Hourly Charges. On each Monday and each Wednesday or on the following Business Day if such Monday or Wednesday is not a Business Day, the ISO shall provide electronically to each Covered Entity a Statement showing all complete-day settlement amounts for each of the Hourly Charges incurred and not reflected on a previously issued Statement. Each such ~~weekly~~ Statement will cover only days with complete settled data. Accordingly, some ~~weekly~~ Statements may have fewer ~~less than seven~~ days of settled data for certain Hourly Charges if fewer ~~less than seven complete calendar~~ days have been settled for those Hourly Charges on the morning of the day that such ~~weekly~~ Statements are issued; a following ~~weekly~~ Statement may have more ~~than seven~~ days of settled data for those Hourly Charges when it becomes possible to catch up on the settled data. ~~Weekly~~ Statements will include contiguous month-to-month hourly market billing data and will have separate line items for any hourly market data that may cross calendar months. For example, if a ~~weekly~~ Statement's billing period includes May ~~30~~²⁹ through June 24, and all of those days are fully settled, the June ~~8~~⁵ ~~weekly~~ Statement would have one line item for the period May ~~30~~²⁹ to May 31 and one line item for the period June

1 to June 24. The Job Aid on the ISO web site will be updated weekly for any information necessary to be distributed through that medium.

Section 2.2 – Monthly Statements for Non-Hourly Charges. The first ~~weekly~~ Statement issued after the tenth of a calendar month will include both the Hourly Charges for the relevant billing period and Non-Hourly Charges for the immediately preceding calendar month (hereinafter sometimes referred to as a “Monthly Statement”). Resettlements determined in accordance with the procedures set forth in the Market Rules will be included in the monthly Statement for Non-Hourly Charges.

Section 2.3 – Weekly Statements for Weekly Billing Non-Hourly Charges. The ISO shall implement any weekly billing arrangements for Non-Hourly Charges effected under the Financial Assurance Policy in accordance therewith and with the procedures set forth in Section 7 below.

Section 2.4 – Contents of Statements. Each Statement for Hourly and Non-Hourly Charges will include all of the following line items that are applicable to the Covered Entity receiving such Statement for the period to which such Statement relates:

- a) *Invoice or Remittance Advice Amount*. The net amount of all Charges and Payments owed by or due to a Covered Entity for the relevant Statement. The

ISO shall issue an Invoice where the Covered Entity owes monies. The ISO shall issue a Remittance Advice where the Covered Entity is owed monies.

- b) *OATT Charges and Payments.* The Charges owed by and the Payments owed to the Covered Entity under the OATT other than Transmission Charges, which are billed separately under Section 2.5 below~~(Section II of the Transmission, Markets and Services Tariff)~~.
- c) *ISO Self-Funding Charges.* The Charges owed by the Covered Entity under Section IV of the Transmission, Markets and Services Tariff, categorized by the section or schedule under which such Charges arise.
- d) *Markets Charges and Payments.* The Hourly Charges owed by and the Payments for Hourly Charges owed to the Covered Entity as a result of transactions in each of the New England Markets administered by the ISO under Section III of the Transmission, Markets and Services Tariff.
- e) *Capacity Charges and Payments.* The Non-Hourly Charges owed by and the Payments for Non-Hourly Charges owed to the Covered Entity as a result of capacity charges, penalties and other transactions in the Forward Capacity Market.
- f) *Participant Expenses.* As defined in the Participants Agreement, the Covered Entity's share of costs and expenses that are incurred pursuant to authorization of the Participants Committee and are not considered costs and expenses of ISO.

- 1) *Wire Transfer Instructions.* Details including the account number, bank name, routing number and electronic transfer instructions which, in the case of an Invoice, will be for the ISO account to which ISO Charges owed by the Covered Entity are to be paid or, in the case of a Remittance Advice, will be for the Covered Entity's account to which the ISO shall remit Payments for ISO Charges owed to that Covered Entity (as previously provided to the ISO by such Covered Entity).

Section 2.5 – Monthly Statements for Transmission Charges. On the same date when each Monthly Statement is issued, the ISO shall provide electronically to each Covered Entity owing or owed any Transmission Charges for the preceding month a Statement (which may be combined with that Monthly Statement) showing all of the Transmission Charges for that Covered Entity for that preceding month (hereinafter sometimes referred to as a “Transmission Statement”). Any settlements of Transmission Charges will also be included on the Transmission Statement. Each Transmission Statement will also include: (i) the billing month covered by the Transmission Statement; (ii) if the Transmission Statement is an Invoice, the date and time on which the net amount due is to be received by the ISO; and (iii) details including the account number, bank name, routing number and electronic transfer instructions which, in the case of an Invoice, will be for the ISO account to which Transmission Charges owed by the Covered Entity are to be paid or, in the case of a Remittance Advice, will be for the Covered Entity's account to which the ISO shall remit Payments for Transmission Charges owed to that Covered Entity (as previously provided to the ISO by such Covered Entity).~~Certain Subsequent Adjustments to Previously Issued Statements.~~

Issued by: Raymond W. Hepper~~Kathleen A. Carrigan~~, Effective: With notice, on or after December 1, 2010~~June 1, 2007~~
Senior Vice President and General Counsel
Issued on: March 26, 2010~~February 15, 2007~~

a) ~~Adjustments Requested by Covered Entities.~~ Covered Entities supplying Network Load and other input data to the ISO for use by the ISO in developing Statements shall use reasonable care to assure that the data supplied is complete and accurate. Should a Covered Entity supplying input data subsequently determine that the data supplied was incorrect, that Covered Entity shall notify the ISO promptly of the error and submit corrected data as soon as practicable. All errors in input data for a calendar month shall be corrected in one submission. If the error is detected and corrected data is provided within the time frames set forth below, the ISO will issue corrected Statements to reflect the newly supplied data

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Senior Vice President and General Counsel
Issued on: ~~March 26, 2010~~February 15, 2007

Section 2.6 – Certain Subsequent Adjustments to Previously Issued Statements.

- a) Adjustments Requested by Covered Entities. Covered Entities supplying Network Load and other input data to the ISO for use by the ISO in developing Statements shall use reasonable care to assure that the data supplied is complete and accurate. Should a Covered Entity supplying input data subsequently determine that the data supplied was incorrect, that Covered Entity shall notify the ISO promptly of the error and submit corrected data as soon as practicable. All errors in input data for a calendar month shall be corrected in one submission. If the error is detected and corrected data is provided within the time frames set forth below, the ISO will issue corrected Statements to reflect the newly supplied data

Type of Adjustment	Corrected Data Must be Submitted By
Adjustments to Monthly Network Load Submissions	20 th day of the fourth (4 th) month after the Network Load month
Adjustments to Annual Revenue Requirements Submissions	Annually during the rate development process, which is administered by the PTO Working Group
Adjustments to Annual Transmission, Markets and Services Tariff Section II, Schedule 1 Submissions	Annually during the rate development process, which is administered by the PTO Working Group

If the data correction is not submitted within the applicable time frame set forth above, the obligation of the ISO to issue corrected Statements reflecting that adjustment shall be as set forth in a written re-billing protocol, developed in consultation with the NEPOOL Budget and Finance Subcommittee, and as may be amended from time to time in consultation with the NEPOOL Budget and Finance Subcommittee, and posted on the ISO website. The re-billing protocol shall provide, for each category of adjustment listed above, whether and to what extent the adjustment shall be prospective or retroactive and the timing of the

- d) Nothing in this Section ~~2.62.5~~ shall affect resettlements of the New England Markets under the Market Rules.

SECTION 3 – PAYMENT PROCEDURES.

All Payments (including prepayments as described in Section 3.1(e) below) made by the ISO will in all instances be made by EFT or in immediately available funds payable to the account designated to the ISO by the Covered Entity to which such Payment is due. Payments made by Covered Entities shall be made by EFT to the account designated by the ISO.

Section 3.1 – Invoice Payments.

- a) *Payment Date.* Except in the case of special billings, all Charges due shall be paid to and received by the ISO not later than the second (2nd) Business Day after the Invoice on which they appeared was issued (the “Invoice Date”) so long as the ISO sends such Invoice to the Covered Entities by 11:00 a.m. Eastern Time on the Invoice Date. If the ISO sends an Invoice after 11:00 a.m. Eastern Time on the Invoice Date, the charges on such Invoice will be paid not later than the third (3rd) Business Day after such Invoice Date. Notwithstanding the foregoing, a Non-Market Participant Transmission Customer will in no event be required to make a payment on an Invoice any sooner than provided in Section II of the Transmission, Markets and Services Tariff.

(2nd) Business Day after the Invoice is issued, and (ii) a Non-Market Participant Transmission Customer shall not be required to make a payment on an Invoice any sooner than provided in Section II of the Transmission, Markets and Services Tariff.

- c) *Payments Received by the ISO.* Each Covered Entity owing monies shall remit the amount shown on its Invoice no later than the date such payment is due. Disputed Amounts (as defined in Section 6.1) shall be paid in accordance with clause (d) below. All Invoices shall be paid by EFT, except that (i) Covered Entities (other than Unqualified New ~~Market~~~~Non-Municipal~~ Participants and Returning ~~Market~~~~Non-Municipal~~ Participants under the ~~ISO New England~~ Financial Assurance Policy that are not Provisional Members) may, and any Provisional Member must, pay any Invoice for ISO Charges (but not for Transmission Charges) by instructing the ISO (either on a case-by-case basis or pursuant to a standing instruction) in writing to draw on a cash deposit provided by such Covered Entity under the ~~ISO New England~~ Financial Assurance Policy for such Invoice, provided that the failure of a Provisional Member to provide such an instruction to the ISO shall not, in and of itself, be deemed to be a default under this Policy and (ii) any Covered Entity may instruct the ISO to auto-debit an account identified by that Covered Entity to pay all Invoices issued by the ISO and in such case the Covered Entity will direct the bank or other institution holding that account to permit the ISO to auto-debit that account to pay all such Invoices ~~on~~~~in~~ on the ~~date~~~~d~~ Date they are due. Any instruction to pay any Invoice by drawing on a cash deposit or to auto-debit an account must be received by no later than the first Business Day following the date of such Invoice. The amount of a Covered Entity's cash deposit will immediately be reduced by the amount

drawn to pay an Invoice for ISO Charges pursuant to a standing instruction. Nothing set forth in this section will reduce the financial assurance obligation otherwise applicable to any Covered Entity that instructs the ISO to draw on a cash deposit or to auto-debit an account to pay an Invoice, and the ISO is not liable for any default resulting from a draw on a cash deposit to pay an Invoice or for any overdraft charges resulting from any auto-debit.

- d) *Payments Pending Resolution of a Dispute.* Any Covered Entity that disputes the amount due, including an amount due for Participant Expenses, on any Invoice for service other than transmission service under Section II of the Transmission, Markets and Services Tariff shall pay to the ISO all amounts due on such Invoice, including any such Disputed Amounts. Such payment shall in no way prejudice the right of such Covered Entity to seek reimbursement of such Disputed Amounts, including accrued interest on such amounts at the Commission's standard rate, set forth in 18 C.F.R. Section 35.19, pursuant to the Billing Dispute Resolution Procedures provided in Section 6 below.

Any Covered Entity that disputes the amount due on any Invoice for transmission service under the Transmission, Markets and Services Tariff shall pay to the ISO all amounts not in dispute in accordance with this Policy and shall pay (or, in the case of an auto-debit payment or a payment for ISO Charges pursuant to a standing instruction, as described above, direct the ISO to pay) such Disputed Amounts into an independent escrow account designated by the ISO,

which account shall be established at a banking institution acceptable to the ISO and the Covered Entity challenging the amount due and shall accrue interest at a prevailing market rate. Such amount in dispute shall be held in escrow pending the resolution of such dispute in accordance with the applicable Document(s). To the extent that the amount in dispute would be payable to one or more identifiable Covered Entities (but not to the ISO), then the amount due to each such Covered Entity in the billing period to which such dispute relates shall be reduced by the portion of the total amount in dispute that would be payable to such Covered Entity, subject to payment with interest accrued thereon if and when the dispute is resolved in favor of such Covered Entities. To the extent that the amount in dispute would be payable to the ISO, or the specific Covered Entities to which such amount would be payable cannot be identified, then the shortfall of funds available to pay Remittance Advices resulting from the amount in dispute being held in an escrow account shall be allocated among the Covered Entities according to the two-step allocation process described in Sections 3.3 (for ISO Charges) and in Section 3.4 (for Transmission Charges) for the applicable type of Covered Entity disputing the Charges~~3.3(h) below~~, subject to payment to all Covered Entities being allocated a portion of the shortfall, with applicable interest (if any), once the dispute is resolved with the funds in such escrow account or with other amounts provided by the Covered Entity losing such dispute.

- e) *Prepayments.* A Covered Entity may prepay any Invoice, in whole or in part, according to the following procedures:
- (i) only ~~two~~^{one} such prepayments shall be made by any Covered Entity in any calendar week, and no prepayments shall be made on a Friday;
 - (ii) ~~each~~ prepayments ~~made in a calendar week~~ will be applied only to the next subsequent Invoices issued in the subsequent week;
 - (iii) prepayments and payments for issued Invoices must be made in separate wire transfers;
 - (iv) for purposes of calculating a Covered Entity's financial assurance obligations under the ISO's Financial Assurance Policy, prepayments will be applied first to Hourly Charges, then any remaining prepayment will offset the Covered Entity's financial assurance obligations on a dollar-for-dollar basis;
 - (v) if ISO Charges and Transmission Charges are billed on separate Invoices, then separate prepayments must be made for those ISO Charges and Transmission Charges (the ISO will account for each prepayment separately and will only apply each prepayment to the designated Charges);
 - (vi) if a prepayment exceeds the amount due on the next subsequent Invoice issued, then the prepayment will be applied to that Invoice first, and then to the extent any amount is left after paying that Invoice. ~~Invoice in any week~~ the Covered Entity making that prepayment may direct at the time of the prepayment that the excess be deposited with its cash deposit maintained under the ISO's Financial Assurance Policy, and if the Covered Entity does not direct the ISO to make that deposit, the excess will be returned to the Covered Entity. Under either circumstance, the deposit in the cash deposit or the return of excess funds will occur on the ~~next~~^{same} date ~~when~~^{as} the

ISO pays Remittances ~~Advices for the applicable billing period under~~
~~Section 3.2;~~ and
(vi) ~~all prepayments will be held in the ISO's settlement account until the~~
~~Invoice payments are due, and no interest will be paid to any Covered~~
~~Entity on any prepayments provided by it.~~

(~~vii~~vi) all prepayments will be held in the ISO's settlement account until the Invoice payments are due, and no interest will be paid to any Covered Entity on any prepayments provided by it.

Section 3.2 – ISO Payment of Remittance Advice Amounts. The Payment Date for a Remittance Advice shall be the fourth (4th) Business Day following the date on which the Remittance Advice was issued (the “Remittance Advice Date”) so long as the ISO sends such Remittance Advice by 11:00 a.m. Eastern Time on the Remittance Advice Date. If the ISO sends a Remittance Advice after 11:00 a.m. Eastern Time on the Remittance Advice Date, the Payment Date for that Remittance Advice shall be the fifth (5th) Business Day after the Remittance Advice Date.

Section 3.3 - Payment Default for ISO Charges. If the ISO, in its reasonable opinion, believes that all or any part of any amount of ISO Charges due to be paid by any Covered Entity will not or has not been paid when due (other than in the case of a payment dispute for any amount due for transmission service under the OATT) (the “Default Amount”), then the following procedures shall apply:

- a) *Priority of Payments*. The ISO shall use moneys received by it from Covered Entities for an Invoice for ISO Charges to pay all amounts due to the ISO under Section IV of the Transmission, Markets and Services Tariff, all amounts due to NEPOOL for Participant Expenses, and all amounts due to the ISO for acting as Project Manager for the generation information system (the “GIS”) before making any payments to any Covered Entities. After paying all amounts due to the ISO and NEPOOL but prior to making any payments to any Covered Entities, the ISO shall use moneys received by it from Covered Entities for ISO Charges to pay all amounts due from NEPOOL to the

entity or entities that develop, administer, operate and maintain the GIS (the “GIS Administrator”) for those services. After paying all amounts due to the ISO and NEPOOL for Participant Expenses and all amounts due to the GIS Administrator for the development, administration, operation and maintenance of the GIS but prior to making any payments to any Covered Entities, the ISO shall use moneys received by it from Covered Entities for ISO Charges to pay any and all amounts due with respect to the Shortfall Funding Arrangement (defined below).

- b) *Use of Set-Offs.* The ISO shall use any and all rights of set-off it has under the Documents, including the Financial Assurance Policy and this Policy, against a defaulting Covered Entity with respect to ISO Charges due to that Covered Entity to the extent necessary to pay the Default Amount, together with any interest accrued thereon and any late charges assessed under the Documents, including ~~and~~ the Financial Assurance Policy, due from such Covered Entity.
- c) *Enforcing the Security of a Defaulting Party.* If and to the extent that the procedure described in clause (b) above is insufficient to effect payment of the Default Amount and all interest accrued thereon and late charges assessed under the Documents, including ~~and~~ the Financial Assurance Policy, the ISO shall use the financial assurance(s) provided by the defaulting Covered Entity under the

Financial Assurance Policy to the extent necessary to pay the Default Amount and such interest and late charges. Any use of financial assurance(s) shall be undertaken in compliance with the Financial Assurance Policy.

- d) *Action Against a Defaulting Party.* If and to the extent that the procedures described in clauses (b) and (c) above are insufficient to effect payment of the Default Amount and all interest accrued thereon and late charges assessed under the Documents, including~~and~~ the Financial Assurance Policy, the ISO shall take appropriate actions to recover the Default Amount and such accrued interest and late charges, which actions may include, without limitation, initiating proceedings in accordance with the appropriate dispute resolution mechanisms or actions with Covered Entities or before the Commission or a court of competent jurisdiction against the defaulting Covered Entity. Before initiating any such proceedings, the ISO shall consult with the Chair of the NEPOOL Budget and Finance Subcommittee or NEPOOL counsel. Any amounts incurred by the ISO or any Market Participant in connection with any such action or proceeding shall be paid by the defaulting Covered Entity.

Issued by: Raymond W. Hepper, Effective: With notice, on or after December 1, 2010~~October 1, 2009~~
Vice President and General Counsel

Issued on: March 26, 2010~~July 17, 2009~~

- e) *Late Payment Account.* If and to the extent that the procedures described in clauses (b), (c) and (d) above are insufficient to effect payment of the Default Amount (but not interest accrued thereon and late charges assessed under the Documents, ~~including~~ and the Financial Assurance Policy) by the time the corresponding Payment to the Covered Entities is due, the ISO shall withdraw from the Late Payment Account, as that term is defined in Section 4 of this Policy, an amount equal to such unpaid Default Amount, to the extent that such amount is available in the Late Payment Account, and shall apply such amount to any shortfall in Payments resulting from the Default Amount not being paid. To the extent that the amount on deposit in the Late Payment Account on any date is insufficient to pay all Unsecured Default Amounts and Uncovered Default Amounts (each as defined below) on that date, the amount in the Late Payment Account shall first be applied to Uncovered Default Amounts on that date and, once cash has been applied to all Uncovered Default Amounts, then such amount shall be applied to Unsecured Default Amounts on that date, in each case pro rata based on the total Uncovered Default Amounts or total Unsecured Default Amounts outstanding. Amounts withdrawn from the Late Payment Account and applied toward any shortfall resulting from the Default Amount shall not relieve the defaulting Covered Entity of its obligation to pay such Default Amount. If and to the extent that such Default Amount, interest thereon and/or late charges with respect thereto are subsequently collected (including as a result of the use of a financial assurance under the Financial Assurance Policy or through actions or proceedings against the defaulting Covered Entity), such amounts shall first be used to pay Covered Entities for the amount of such Default Amount allocated to them under clauses (h), (i) and (j) below, with interest thereon, and then, after all such amounts have been paid to

Covered Entities, such Default Amount, interest and/or late charges shall be deposited into the Late Payment Account in accordance with Section 4 of this Policy.

- f) *Payment Default Shortfall Fund.* To the extent that the procedures described in clauses (b), (c), (d) and (e) above are insufficient to effect payment of the Default Amount (but not interest accrued thereon and late charges assessed under the Documents, ~~including and~~ the Financial Assurance Policy) the ISO will draw on the Shortfall Funding Arrangement to the extent the Shortfall Funding Arrangement is available at the time, and to the extent the Shortfall Funding Arrangement is not available at the time, the ISO will withdraw from the Payment Default Shortfall Fund (as that term is defined in Section 5 of this Policy), an amount equal to such unpaid Default Amount and shall apply such amount to the shortfall in Payments resulting from the Default Amount not being paid. To the extent that the amount on deposit in the Payment Default Shortfall Fund on any date is insufficient to pay all Unsecured Default Amounts, Uncovered Default Amounts, Unsecured Transmission Default Amounts and Uncovered Transmission Default Amounts (each as defined below) on that date (after applying all amounts in the Late Payment Account for defaults on ISO Charges and all amounts in the Transmission Late Payment Account for defaults on Transmission Charges on that date), the amount in the Payment Default Shortfall Fund on that date shall first be applied to Uncovered Default Amounts on that date and, once cash has been applied to all Uncovered Default Amounts, then such amount shall be applied to Unsecured Default Amounts on that date and, once cash has been applied to all Uncovered Default Amounts and all Unsecured Default Amounts, then such amount shall be applied to Uncovered Transmission Default Amounts on that date and, once cash has been applied to all Uncovered ~~Amounts drawn on the Shortfall Funding Arrangement and/or withdrawn from the~~

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Vice President and General Counsel

Issued on: March 26, 2010 ~~July 17, 2009~~

~~Payment Default Shortfall Fund and applied to any shortfall resulting from the Default Amount shall not relieve the defaulting Covered Entity of its obligation to pay such Default Amount. If and to the extent that a Default Amount which is paid through a draw on the Shortfall Funding Arrangement and/or through a withdrawal from~~

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Default Amounts, Unsecured Default Amounts and Uncovered Transmission Default Amounts, then such amount shall be applied to Unsecured Transmission Default Amounts on that date, in each case pro rata based on the total Uncovered Default Amounts, total Unsecured Default Amounts, total Uncovered Transmission Default Amounts or total Unsecured Transmission Default Amounts outstanding. Amounts drawn on the Shortfall Funding Arrangement and/or withdrawn from the Payment Default Shortfall Fund and applied to any shortfall resulting from the Default Amount shall not relieve the defaulting Covered Entity of its obligation to pay such Default Amount. If and to the extent that a Default Amount which is paid through a draw on the Shortfall Funding Arrangement and/or through a withdrawal from the Payment Default Shortfall Fund, interest on such a Default Amount and/or late charges with respect to such a Default Amount are subsequently collected (including as a result of the use of a financial assurance under the Financial Assurance Policy or through actions or proceedings against the Covered Entity), such amounts shall be paid to certain of the Covered Entities as set forth in Section 5.4 below.

- g) *Congestion Revenue Fund.* If during any billing period congestion payments exceed congestion charges under Manual 28 (hereinafter a “Congestion Shortfall”), such that there is a shortfall in the total settlement for that week due to congestion, the ISO will draw from the Congestion Revenue Fund established and funded under Manual 28 to make up for the shortfall. To the extent there are insufficient funds in the Congestion Revenue Fund to cover that Congestion Shortfall, the ISO will recover the uncovered Congestion Shortfall pursuant to the allocation process set forth in Manual 28, Section 6. The ISO will true-up amounts drawn for Congestion Shortfalls on a monthly basis and reflect that true-up in the Statements reflecting Non-Hourly Charges.

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- h) Reduction of Payments and Increases in Charges for Unsecured Municipal Market Participants.
- (i) If and to the extent that (A) the defaulting Covered Entity is a Municipal Market Participant (as defined in the Financial Assurance Policy) with a Credit Limit or a Transmission Credit Limit of greater than \$0 under the Financial Assurance Policy (an “Unsecured Municipal Market Participant”) and (B) the procedures described in clauses (b), (c), (d), (e), (f) and (g) above do not yield sufficient funds to pay all Remittance Advice amounts for ISO Charges in full (after payment of amounts due to the ISO, to NEPOOL for Participant Expenses, and to the GIS Administrator entity or entities that develop, administer, operate and maintain the GIS for those services and after payment of any amounts due with respect to the Shortfall Funding Arrangement, in accordance with clause (a) above) on the date such Payments are due, the ISO shall reduce Payments to all Unsecured Municipal Market Participants those Covered Entities owed monies for ISO Charges for the that billing period to which the payment default relates (the “Default Period”), pro rata based on the ISO Charges amounts owed to those Unsecured Municipal Market Participants all Covered Entities, to the extent necessary to clear its accounts for ISO Charges due to Unsecured Municipal Market Participants by the close of banking business on the date such Payments are due; provided, however, that the total amount of reduced Payments under this Section 3.3(h)(i) shall not exceed the defaulting Unsecured Municipal Market Participant’s Credit Limit under the Financial Assurance Policy (such total amount of reduced Payments being referred to as the “Unsecured Municipal Default Amount”). As funds attributable to an Unsecured Municipal Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity)

~~prior to the next billing period's Statements being distributed, such funds, together with any interest and late charges collected on the applicable Default Amount, shall be distributed pro rata to the Covered Entities that did not receive the full amount of their Payments as a result of such Default Amount not being paid, up to the full~~

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prior to the next billing period's Statements being distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Municipal Default Amount, shall be distributed pro rata to the Unsecured Municipal Market Participants~~Covered Entities~~ that did not receive the full amount of their Payments as a result of such Unsecured Municipal Default Amount not being paid, up to the full amount that such Unsecured Municipal Market Participants~~Covered Entities~~ did not receive as a result of such Unsecured Municipal Default Amount not being paid, with interest thereon.

- (ii) To the extent that any Unsecured Municipal Default Amount remains unpaid to Unsecured Municipal Market Participants~~Covered Entities~~ on the date that Statements are distributed to Covered Entities in the billing period immediately following the Default Period, the Unsecured Municipal Default Amount remaining unpaid shall be reallocated among all of the Unsecured Municipal Market Participants~~Covered Entities~~ receiving Statements for ISO charges for the Default Period (other than the Unsecured Municipal Market Participant~~Covered Entity~~ defaulting on its payment obligations), pro rata based, for each Unsecured Municipal Market Participant~~Covered Entity~~ being allocated a share of the Unsecured Municipal Default Amount remaining unpaid, on the sum of (i) all ISO Charges due from such Unsecured Municipal Market Participant~~Covered Entity~~ that are reflected on its Statement for the Default Period and (ii) all Payments for ISO Charges due to such Unsecured Municipal Market Participant~~Covered Entity~~ that are reflected on its Statement for the Default Period, without giving any effect to the process of netting Charges against Payments on each Statement that is the result of the ISO's single billing system. Thus, by way of example, an Unsecured Municipal Market Participant~~Covered Entity~~ with \$2,000 of ISO Charges

and no Payments on its Statement for the Default Period and an Unsecured
Municipal Market Participant ~~Covered Entity~~ with \$1,000 of Charges and
\$1,000 of Payments for ISO Charges on its

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~~Senior Vice President and General Counsel~~ Filed to comply with order of the Federal Energy

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Regulatory Commission, Docket Nos. RT04-2-005, et al.,
issued February 10, 2005, 110 FERC 61,111 (2005)

Statement for the Default Period would be allocated an equal share of the unpaid Unsecured Municipal Default Amount under this clause (h)(ii). Each Unsecured Municipal Market Participant~~Covered Entity~~ that received a Statement for the Default Period shall have the amount of its Invoice or Remittance Advice in the billing period immediately following the Default Period adjusted as necessary to reflect its obligation for the Unsecured Municipal Default Amount remaining unpaid under this clause (h)(ii). As funds attributable to an Unsecured Municipal Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) after such adjusted Statements are distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Municipal Default Amount, shall be distributed to the Unsecured Municipal Market Participants~~Covered Entities~~ pro rata based on their allocation of the Unsecured Municipal Default Amount under this clause (h)(ii), up to the full amount of such Unsecured Municipal Default Amount allocated to each such Unsecured Municipal Market Participant~~Covered Entity~~, with interest thereon.

- (iii) An Unsecured Municipal Market Participant will not be allocated any Unsecured Municipal Default Amounts under this Section 3.3(h) for any Default Period if, at the start of the calendar year in which the applicable Default Period occurred, that Unsecured Municipal Market Participant provided the ISO with a written request to opt out of that allocation of Unsecured Municipal Default Amounts and that Unsecured Municipal Market Participant provides the ISO with additional financial assurance in the full amount of all of its “Obligations” under the Financial Assurance Policy at all times during that calendar year.

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Vice President and General Counsel

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i) Reduction of Payments and Increases in Charges for Unsecured Non-Municipal Covered Entities.

(i) If and to the extent that (A) the defaulting Covered Entity (x) is not a Municipal Market Participant or a Non-Participant Transmission Customer and (y) has a Credit Limit or Transmission Credit Limit of greater than \$0 under the Financial Assurance Policy (each such Covered Entity being referred to herein as an “Unsecured Non-Municipal Covered Entity”) and (B) the procedures described in clauses (b), (c), (d), (e), (f) and (g) above do not yield sufficient funds to pay all Remittance Advice amounts for ISO Charges in full (after payment of amounts due to the ISO, to NEPOOL for Participant Expenses, and to the GIS Administrator and after payment of any amounts due with respect to the Shortfall Funding Arrangement, in accordance with clause (a) above) on the date such Payments are due, the ISO shall reduce Payments to all Unsecured Non-Municipal Covered Entities owed monies for ISO Charges for the applicable Default Period, pro rata based on the ISO Charges owed to those Unsecured Non-Municipal Covered Entities, to the extent necessary to clear its accounts for ISO Charges due to Unsecured Non-Municipal Covered Entities by the close of banking business on the date such Payments are due; provided, however, that the total amount of reduced Payments under this Section 3.3(i)(i) shall not exceed the defaulting Unsecured Non-Municipal Covered Entity’s Credit Limit under the Financial Assurance Policy (such total amount of reduced Payments being referred to as the “Unsecured Non-Municipal Default Amount”). As funds attributable to an Unsecured Non-Municipal Default Amount are received by the ISO (including amounts received through financial

~~Sheet Nos. 313-314 reserved for future use.~~

assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) prior to the next billing period's Statements being distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Non-Municipal Default Amount, shall be distributed pro rata to the Unsecured Non-Municipal Covered Entities that did not receive the full amount of their Payments as a result of such Unsecured Non-Municipal Default Amount not being paid, up to the full amount that such Unsecured Non-Municipal Covered Entities did not receive as a result of such Unsecured Non-Municipal Default Amount not being paid, with interest thereon.

- (ii) To the extent that any Unsecured Non-Municipal Default Amount remains unpaid to Unsecured Non-Municipal Covered Entities on the date that Statements are distributed to Covered Entities in the billing period immediately following the Default Period, the Unsecured Non-Municipal Default Amount remaining unpaid shall be reallocated among all of the Unsecured Non-Municipal Covered Entities receiving Statements for ISO Charges for the Default Period (other than the Unsecured Non-Municipal Covered Entity defaulting on its payment obligations), pro rata based, for each Unsecured Non-Municipal Covered Entity being allocated a share of the Unsecured Non-Municipal Default Amount remaining unpaid, on the sum of (i) all ISO Charges due from such Unsecured Non-Municipal Covered Entity that are reflected on its Statement for the Default Period and (ii) all Payments for ISO Charges due to such Unsecured Non-Municipal Covered Entity that are reflected on its Statement for the

Default Period, without giving any effect to the process of netting Charges against Payments on each Statement that is the result of the ISO's single billing system. Thus, by way of example, an Unsecured Non-Municipal Covered Entity with \$2,000 of ISO Charges and no Payments on its Statement for the Default Period and an Unsecured Non-Municipal Covered Entity with \$1,000 of Charges and \$1,000 of Payments for ISO Charges on its Statement for the Default Period would be allocated an equal share of the unpaid Unsecured Non-Municipal Default Amount under this clause (i)(ii). Each Unsecured Non-Municipal Covered Entity that received a Statement for the Default Period shall have the amount of its Invoice or Remittance Advice in the billing period immediately following the Default Period adjusted as necessary to reflect its obligation for the Unsecured Non-Municipal Default Amount remaining unpaid under this clause (i)(ii). As funds attributable to an Unsecured Non-Municipal Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) after such adjusted Statements are distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Non-Municipal Default Amount, shall be distributed to the Unsecured Non-Municipal Covered Entities pro rata based on their allocation of the Unsecured Non-Municipal Default Amount under this clause (i)(ii), up to the full amount of such Unsecured Non-Municipal Default Amount allocated to each such Unsecured Non-Municipal Covered Entity, with interest thereon.

i) ~~Other Rights Against Defaulting Parties.~~ Nothing set forth in this Policy shall nullify, restrict or otherwise limit the rights and remedies of the ISO, NEPOOL

~~and the Covered Entities against a defaulting Covered Entity that are set forth in the Documents, the Financial Assurance Policy or otherwise, including without limitation any late payment charges or rights to terminate or limit trading rights of~~

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 Vice President and General Counsel
Issued on: March 26, 2010~~July 17, 2009~~

(iii) An Unsecured Non-Municipal Covered Entity will not be allocated any Unsecured Non-Municipal Default Amounts under this Section 3.3(i) for any Default Period if, at the start of the calendar year in which the applicable Default Period occurred, that Unsecured Non-Municipal Covered Entity provided the ISO with a written request to opt out of that allocation of Unsecured Non-Municipal Default Amounts and that Unsecured Non-Municipal Covered Entity provides the ISO with additional financial assurance in the full amount of all of its “Obligations” under the Financial Assurance Policy at all times during that calendar year.

j) *Reduction of Payments and Increases in Charges for Other Covered Entities.*

(i) If and to the extent that (A) the defaulting Covered Entity is not an Unsecured Municipal Market Participant or an Unsecured Non-Municipal Covered Entity (referred to together herein as an “Unsecured Covered Entity”) or the Default Amount exceeds the Unsecured Municipal Default Amount or the Unsecured Non-Municipal Default Amount (referred to together herein as the “Unsecured Default Amount”) for that Covered Entity and (B) the procedures described in clauses (b), (c), (d), (e), (f), (g) and (h) or (i) (if applicable) above do not yield sufficient funds to pay all Remittance Advice amounts for ISO Charges in full (after payment of amounts due to the ISO, to NEPOOL for Participant Expenses, and to the GIS Administrator and after payment of any amounts due with respect to the Shortfall Funding Arrangement, in accordance with clause (a) above) on the date such Payments are due, the ISO shall reduce Payments to those Covered Entities owed monies for ISO Charges for that Default Period.

pro rata based on the amounts owed to all Covered Entities, to the extent necessary to clear its accounts for ISO Charges by the close of banking business on the date such Payments are due (after giving effect to clause (h) or (i) above if applicable) (the amount of such reduction in Payments for ISO Charges after giving effect to clause (h) or (i) above (if applicable) is referred to herein as the “Uncovered Default Amount”). For the avoidance of doubt, the Uncovered Default Amount is equal to the Default Amount minus any Unsecured Default Amount. As funds attributable to an Uncovered Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) prior to the next billing period’s Statements being distributed, such funds, together with any interest and late charges collected on the applicable Default Amount, shall be distributed pro rata to the Covered Entities that did not receive the full amount of their Payments as a result of such Uncovered Default Amount not being paid, up to the full amount that such Covered Entities did not receive as a result of such Uncovered Default Amount not being paid, with interest thereon.

- (ii) To the extent that any amount of an Uncovered Default Amount remains unpaid to Covered Entities on the date that Statements are distributed to Covered Entities in the billing period immediately following the Default Period, the Uncovered Default Amount remaining unpaid shall be reallocated among all of the Covered Entities receiving Statements for ISO Charges for the Default Period (other than the Covered Entity defaulting on its payment obligations), pro rata based, for each Covered Entity being

allocated a share of the Uncovered Default Amount remaining unpaid, on the sum of (i) all ISO Charges due from such Covered Entity that are reflected on its Statement for the Default Period and (ii) all Payments for ISO Charges due to such Covered Entity that are reflected on its Statement for the Default Period, without giving any effect to the process of netting Charges against Payments on each Statement that is the result of the ISO's single billing system. Thus, by way of example, a Covered Entity with \$2,000 of ISO Charges and no Payments on its Statement for the Default Period and a Covered Entity with \$1,000 of ISO Charges and \$1,000 of Payments for ISO Charges on its Statement for the Default Period would be allocated an equal share of the unpaid Uncovered Default Amount under this clause (j)(ii). Each Covered Entity that received a Statement for the Default Period shall have the amount of its Invoice or Remittance Advice in the billing period immediately following the Default Period adjusted as necessary to reflect its obligation for the Uncovered Default Amount remaining unpaid under this clause (j)(ii). As funds attributable to an Uncovered Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) after such adjusted Statements are distributed, such funds, together with any interest and late charges collected on the applicable Uncovered Default Amount, shall be distributed to the Covered Entities pro rata based on their allocation of the Uncovered Default Amount under this clause (j)(ii), up to the full amount of such Uncovered Default Amount allocated to each such Covered Entity, with interest thereon.

~~the defaulting Covered Entity, to the extent such rights and remedies otherwise exist.~~

- ~~j) *Set Off.* The ISO shall apply any amount to which any defaulting Covered Entity is or will be entitled toward the satisfaction of any of that defaulting Covered Entity's debts to the ISO, NEPOOL or the Covered Entities which are incurred under the Documents or the Financial Assurance Policy.~~
- k) *Order of Settlement.* As amounts on Default Amounts are received by the ISO, the oldest outstanding ISO Charges amount will be settled first in the order of the creation of such debts.
- l) Notwithstanding the other provisions of this Section 3.3, an unpaid amount shall not be considered a "Default Amount," and the ISO will not take any of the actions described in the suspension provisions of the ISO New England Financial Assurance Policy or in this Section 3.3 with respect to that unpaid amount, if the total unpaid amount is attributable to Qualification Process Cost Reimbursement Deposits (including any annual true-up of those amounts). To the extent that a Covered Entity pays only a part of an Invoice that includes a Charge for a Qualification Process Cost Reimbursement Deposit, the unpaid amount shall first be allocated to that Qualification Process Cost Reimbursement Deposit, and other Charges on that Invoice will only be considered not to have been paid if the unpaid amount exceeds the amount of the Qualification Process Cost Reimbursement Deposit.

Section 3.4 – Payment Default for Transmission Charges. If the ISO, in its reasonable opinion, believes that all or any part of any amount of Transmission Charges due to be paid by any Covered Entity will not or has not been paid when due (the "Transmission Default Amount"), then the following procedures shall apply:

~~*Notice and Suspension.* Without limiting any of the other remedies described above, in the event that the ISO, in its reasonable opinion, believes that all or any part of any amount due to be paid by any Covered Entity will not be or has not been paid when due (a “Payment Default”), the ISO (on its own behalf or on behalf of the Covered Entities) may (but shall not be required to) notify such Covered Entity in writing, electronically and by first class mail sent in each case to such Covered Entity’s billing contact, of such Payment Default. If a Payment Default is not cured by 10:00 a.m. Eastern Time on the Business Day immediately following the Business Day when such payment was originally due, the ISO~~

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Vice President and General Counsel

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- a) Use of Set-Offs. The ISO shall use any and all rights of set-off it has under the Documents, including the Financial Assurance Policy and this Policy, against a defaulting Covered Entity with respect to Transmission Charges due to that Covered Entity to the extent necessary to pay the Default Amount, together with any interest accrued thereon and any late charges assessed under the Documents, including the Financial Assurance Policy, due from such Covered Entity.
- b) Enforcing the Security of a Defaulting Party. If and to the extent that the procedure described in clause (a) above is insufficient to effect payment of the Transmission Default Amount and all interest accrued thereon and late charges assessed under the Documents, including the Financial Assurance Policy, the ISO shall use the financial assurance(s) provided by the defaulting Covered Entity under the Financial Assurance Policy to the extent necessary to pay the Transmission Default Amount and such interest and late charges. Any use of financial assurance(s) shall be undertaken in compliance with the Financial Assurance Policy.
- c) Action Against a Defaulting Party. If and to the extent that the procedures described in clauses (a) and (b) above are insufficient to effect payment of the Transmission Default Amount and all interest accrued thereon and late charges assessed under the Documents, including the Financial Assurance Policy, the ISO shall take appropriate actions to recover the Transmission Default Amount and such accrued interest and late charges, which actions may include, without limitation, initiating proceedings in accordance with the appropriate dispute resolution mechanisms or actions with Covered Entities or before the Commission or a court of competent jurisdiction against the defaulting Covered Entity. Before initiating any such proceedings, the ISO shall consult with the Chair of the

NEPOOL Budget and Finance Subcommittee or NEPOOL counsel. Any amounts incurred by the ISO or any Market Participant in connection with any such action or proceeding shall be paid by the defaulting Covered Entity.

d) *Transmission Late Payment Account.* If and to the extent that the procedures described in clauses (a), (b) and (c) above are insufficient to effect payment of the Transmission Default Amount (but not interest accrued thereon and late charges assessed under the Documents, including the Financial Assurance Policy) by the time the corresponding Payment to the Covered Entities is due, the ISO shall withdraw from the Transmission Late Payment Account, as that term is defined in Section 4 of this Policy, an amount equal to such unpaid Transmission Default Amount, to the extent that such amount is available in the Transmission Late Payment Account, and shall apply such amount to any shortfall in Payments resulting from the Transmission Default Amount not being paid. To the extent that the amount on deposit in the Transmission Late Payment Account on any date is insufficient to pay all Unsecured Transmission Default Amounts and Uncovered Transmission Default Amounts (each as defined below) on that date, the amount in the Transmission Late Payment Account shall first be applied to Uncovered Transmission Default Amounts on that date and, once cash has been applied to all Uncovered Transmission Default Amounts, then such amount shall be applied to Unsecured Transmission Default Amounts on that date, in each case pro rata based on the total Uncovered Transmission Default Amounts or total Unsecured Transmission Default Amounts outstanding. Amounts withdrawn from the Transmission Late Payment Account and applied toward any shortfall resulting from the Transmission Default Amount shall not relieve the defaulting Covered Entity of its obligation to pay such Transmission Default Amount. If and

to the extent that such Transmission Default Amount, interest thereon and/or late charges with respect thereto are subsequently collected (including as a result of the use of a financial assurance under the Financial Assurance Policy or through actions or proceedings against the defaulting Covered Entity), such amounts shall first be used to pay Covered Entities for the amount of such Transmission Default Amount allocated to them under clause (f), (g) and (h) below, with interest thereon, and then, after all such amounts have been paid to Covered Entities, such Transmission Default Amount, interest and/or late charges shall be deposited into the Transmission Late Payment Account in accordance with Section 4 of this Policy.

e) *Payment Default Shortfall Fund.* To the extent that the procedures described in clauses (a), (b), (c) and (d) above are insufficient to effect payment of the Transmission Default Amount (but not interest accrued thereon and late charges assessed under the Documents, including the Financial Assurance Policy), the ISO will draw on the Shortfall Funding Arrangement to the extent the Shortfall Funding Arrangement is available at the time, and to the extent the Shortfall Funding Arrangement is not available at the time, the ISO will withdraw from the Payment Default Shortfall Fund (as that term is defined in Section 5 of this Policy), an amount equal to such unpaid Transmission Default Amount and shall apply such amount to the shortfall in Payments resulting from the Transmission Default Amount not being paid. To the extent that the amount on deposit in the Payment Default Shortfall Fund on any date is insufficient to pay all Unsecured Default Amounts, Uncovered Default Amounts, Unsecured Transmission Default Amounts and Uncovered Transmission Default Amounts (each as defined herein) on that date (after applying all amounts in the Late Payment Account for

defaults on ISO Charges and all amounts in the Transmission Late Payment Account for defaults on Transmission Charges on that date), the amount in the Payment Default Shortfall Fund on that date shall first be applied to Uncovered Default Amounts on that date and, once cash has been applied to all Uncovered Default Amounts, then such amount shall be applied to Unsecured Default Amounts on that date and, once cash has been applied to all Uncovered Default Amounts and all Unsecured Default Amounts, then such amount shall be applied to Uncovered Transmission Default Amounts on that date and, once cash has been applied to all Uncovered Default Amounts, Unsecured Default Amounts and Uncovered Transmission Default Amounts, then such amount shall be applied to Unsecured Transmission Default Amounts on that date, in each case pro rata based on the total Uncovered Default Amounts, total Unsecured Default Amounts, total Uncovered Transmission Default Amounts or total Unsecured Transmission Default Amounts outstanding. Amounts drawn on the Shortfall Funding Arrangement and/or withdrawn from the Payment Default Shortfall Fund and applied to any shortfall resulting from the Transmission Default Amount shall not relieve the defaulting Covered Entity of its obligation to pay such Transmission Default Amount. If and to the extent that a Transmission Default Amount which is paid through a draw on the Shortfall Funding Arrangement and/or through a withdrawal from the Payment Default Shortfall Fund, interest on such a Transmission Default Amount and/or late charges with respect to such a Transmission Default Amount are subsequently collected (including as a result of the use of a financial assurance under the Financial Assurance Policy or through actions or proceedings against the Covered Entity), such amounts shall be paid to certain of the Covered Entities as set forth in Section 5.4 below.

f) *Reduction of Payments and Increases in Transmission Charges for Unsecured Municipal Market Participants.*

(i) If and to the extent that (A) the defaulting Covered Entity is an Unsecured Municipal Market Participant and (B) the procedures described in clauses (a), (b), (c), (d), and (e) above do not yield sufficient funds to pay all Remittance Advice amounts for Transmission Charges in full on the date such Payments are due, the ISO shall reduce Payments to all Unsecured Municipal Market Participants owed monies for Transmission Charges for that billing period (the “Transmission Default Period”), pro rata based on the Transmission Charges owed to those Unsecured Municipal Market Participants, to the extent necessary to clear its accounts for Transmission Charges due to Unsecured Municipal Market Participants by the close of banking business on the date such Payments are due; provided, however, that the total amount of reduced Payments under this Section 3.4(f) shall not exceed the defaulting Unsecured Municipal Market Participant’s Transmission Credit Limit under the Financial Assurance Policy (such total amount of reduced Payments being referred to as the “Unsecured Municipal Transmission Default Amount”). As funds attributable to an Unsecured Municipal Transmission Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) prior to the next billing period’s Transmission Statements being distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Transmission Default Amount, shall be distributed pro rata to the

Unsecured Municipal Market Participants that did not receive the full amount of their Payments as a result of such Unsecured Municipal Transmission Default Amount not being paid, up to the full amount that such Unsecured Municipal Market Participants did not receive as a result of such Unsecured Municipal Transmission Default Amount not being paid, with interest thereon.

- (ii) To the extent that any Unsecured Municipal Transmission Default Amount remains unpaid to Unsecured Municipal Market Participants on the date that Transmission Statements are distributed to Covered Entities in the billing period immediately following the Transmission Default Period, the Unsecured Municipal Transmission Default Amount remaining unpaid shall be reallocated among all of the Unsecured Municipal Market Participants receiving Transmission Statements for Transmission Charges for the Transmission Default Period (other than the Unsecured Municipal Market Participant defaulting on its payment obligations), pro rata based, for each Unsecured Municipal Market Participant being allocated a share of the Unsecured Municipal Transmission Default Amount remaining unpaid, on the sum of (i) all Transmission Charges due from such Unsecured Municipal Market Participant that are reflected on its Transmission Statement for the Transmission Default Period and (ii) all Payments for Transmission Charges due to such Unsecured Municipal Market Participant that are reflected on its Transmission Statement for the Transmission Default Period, without giving any effect to the process of netting Charges against Payments on each Transmission Statement that is the result of the ISO's single billing system. Thus, by way of example, an

Unsecured Municipal Market Participant with \$2,000 of Transmission Charges and no Payments on its Transmission Statement for the Transmission Default Period and an Unsecured Municipal Market Participant with \$1,000 of Transmission Charges and \$1,000 of Payments for Transmission Charges on its Transmission Statement for the Transmission Default Period would be allocated an equal share of the unpaid Unsecured Municipal Transmission Default Amount under this clause (f)(ii). Each Unsecured Municipal Market Participant that received a Transmission Statement for the Transmission Default Period shall have the amount of its Invoice or Remittance Advice in the billing period immediately following the Transmission Default Period adjusted as necessary to reflect its obligation for the Unsecured Municipal Transmission Default Amount remaining unpaid under this clause (f)(ii). As funds attributable to an Unsecured Municipal Transmission Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) after such adjusted Transmission Statements are distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Municipal Transmission Default Amount, shall be distributed to the Unsecured Municipal Market Participants pro rata based on their allocation of the Unsecured Municipal Transmission Default Amount under this clause (f)(ii), up to the full amount of such Unsecured Municipal Transmission Default Amount allocated to each such Unsecured Municipal Market Participant, with interest thereon.

(iii) An Unsecured Municipal Market Participant will not be allocated any Unsecured Municipal Transmission Default Amounts under this Section 3.4(f) for any Transmission Default Period if, at the start of the calendar year in which the applicable Transmission Default Period occurred, that Unsecured Municipal Market Participant provided the ISO with a written request to opt out of that allocation of Unsecured Municipal Transmission Default Amounts and that Unsecured Municipal Market Participant provides the ISO with additional financial assurance in the full amount of all of its “Transmission Obligations” under the Financial Assurance Policy at all times during that calendar year.

g) *Reduction of Payments and Increases in Transmission Charges for Unsecured Non-Municipal Covered Entities.*

(i) If and to the extent that (A) the defaulting Covered Entity is an Unsecured Non-Municipal Covered Entity and (B) the procedures described in clauses (a), (b), (c), (d), and (e) above do not yield sufficient funds to pay all Remittance Advice amounts for Transmission Charges in full on the date such Payments are due, the ISO shall reduce Payments to all Unsecured Non-Municipal Covered Entities owed monies for the applicable Transmission Default Period, pro rata based on the Transmission Charges owed to those Unsecured Non-Municipal Covered Entities, to the extent necessary to clear its accounts for Transmission Charges due to Unsecured Non-Municipal Covered Entities by the close of banking business on the date such Payments are due; provided, however, that the total amount of reduced Payments under this Section 3.4(g) shall not exceed the defaulting Unsecured Non-Municipal Covered Entity’s

Transmission Credit Limit under the Financial Assurance Policy (such total amount of reduced Payments being referred to as the “Unsecured Non-Municipal Transmission Default Amount”). As funds attributable to an Unsecured Non-Municipal Transmission Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) prior to the next billing period’s Transmission Statements being distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Non-Municipal Transmission Default Amount, shall be distributed pro rata to the Unsecured Non-Municipal Covered Entities that did not receive the full amount of their Payments as a result of such Unsecured Non-Municipal Transmission Default Amount not being paid, up to the full amount that such Unsecured Non-Municipal Covered Entities did not receive as a result of such Unsecured Non-Municipal Transmission Default Amount not being paid, with interest thereon.

- (ii) To the extent that any Unsecured Non-Municipal Transmission Default Amount remains unpaid to Unsecured Non-Municipal Covered Entities on the date that Transmission Statements are distributed to Covered Entities in the billing period immediately following the Transmission Default Period, the Unsecured Non-Municipal Transmission Default Amount remaining unpaid shall be reallocated among all of the Unsecured Non-Municipal Covered Entities receiving Transmission Statements for Transmission Charges for the Transmission Default Period (other than the

Unsecured Non-Municipal Covered Entity defaulting on its payment obligations), pro rata based, for each Unsecured Non-Municipal Covered Entity being allocated a share of the Unsecured Non-Municipal Transmission Default Amount remaining unpaid, on the sum of (i) all Transmission Charges due from such Unsecured Non-Municipal Covered Entity that are reflected on its Transmission Statement for the Transmission Default Period and (ii) all Payments for Transmission Charges due to such Unsecured Non-Municipal Covered Entity that are reflected on its Transmission Statement for the Transmission Default Period, without giving any effect to the process of netting Charges against Payments on each Transmission Statement that is the result of the ISO's single billing system. Thus, by way of example, an Unsecured Non-Municipal Covered Entity with \$2,000 of Transmission Charges and no Payments on its Transmission Statement for the Transmission Default Period and an Unsecured Non-Municipal Covered Entity with \$1,000 of Transmission Charges and \$1,000 of Payments for Transmission Charges on its Transmission Statement for the Transmission Default Period would be allocated an equal share of the unpaid Unsecured Non-Municipal Transmission Default Amount under this clause (g)(ii). Each Unsecured Non-Municipal Covered Entity that received a Transmission Statement for the Transmission Default Period shall have the amount of its Invoice or Remittance Advice in the billing period immediately following the Transmission Default Period adjusted as necessary to reflect its obligation for the Unsecured Non-Municipal Transmission Default Amount remaining unpaid under this clause (g)(ii). As funds attributable to an

Unsecured Non-Municipal Transmission Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) after such adjusted Transmission Statements are distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Non-Municipal Transmission Default Amount, shall be distributed to the Unsecured Non-Municipal Covered Entities pro rata based on their allocation of the Unsecured Non-Municipal Transmission Default Amount under this clause (g)(ii), up to the full amount of such Unsecured Non-Municipal Transmission Default Amount allocated to each such Unsecured Non-Municipal Covered Entity, with interest thereon.

- (iii) An Unsecured Non-Municipal Covered Entity will not be allocated any Unsecured Non-Municipal Transmission Default Amounts under this Section 3.4(g) for any Transmission Default Period if, at the start of the calendar year in which the applicable Transmission Default Period occurred, that Unsecured Non-Municipal Covered Entity provided the ISO with a written request to opt out of that allocation of Unsecured Non-Municipal Transmission Default Amounts and that Unsecured Non-Municipal Covered Entity provides the ISO with additional financial assurance in the full amount of all of its “Transmission Obligations” under the Financial Assurance Policy all times during that calendar year.

h) *Reduction of Payments and Increases in Transmission Charges for Other Covered Entities.*

(i) If and to the extent that (A) the defaulting Covered Entity is not an Unsecured Covered Entity or the Transmission Default Amount for that Covered Entity exceeds the Unsecured Municipal Transmission Default Amount or the Unsecured Non-Municipal Transmission Default Amount (referred to together herein as the “Unsecured Transmission Default Amount”) for that Covered Entity and (B) the procedures described in clauses (a), (b), (c), (d), (e) and (f) or (g) (if applicable) above do not yield sufficient funds to pay all Remittance Advice amounts for Transmission Charges in full on the date such Payments are due, the ISO shall reduce Payments to those Covered Entities owed monies for Transmission Charges for that Transmission Default Period, pro rata based on the amounts owed to all Covered Entities, to the extent necessary to clear its accounts for Transmission Charges by the close of banking business on the date such Payments are due (after giving effect to clauses (f) and (g) above if applicable) (the amount of such reduction in Payments for Transmission Charges after giving effect to clauses (f) and (g) above (if applicable) is referred to herein as the “Uncovered Transmission Default Amount”). For the avoidance of doubt, the Uncovered Transmission Default Amount is equal to the Transmission Default Amount minus any Unsecured Transmission Default Amount. As funds attributable to an Uncovered Transmission Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) prior to the next billing period’s Transmission Statements being

distributed, such funds, together with any interest and late charges collected on the applicable Transmission Default Amount, shall be distributed pro rata to the Covered Entities that did not receive the full amount of their Payments as a result of such Uncovered Transmission Default Amount not being paid, up to the full amount that such Covered Entities did not receive as a result of such Uncovered Transmission Default Amount not being paid, with interest thereon.

- (ii) To the extent that any amount of an Uncovered Transmission Default Amount remains unpaid to Covered Entities on the date that Transmission Statements are distributed to Covered Entities in the billing period immediately following the Transmission Default Period, the Uncovered Transmission Default Amount remaining unpaid shall be reallocated among all of the Covered Entities receiving Transmission Statements for Transmission Charges for the Transmission Default Period (other than the Covered Entity defaulting on its payment obligations), pro rata based, for each Covered Entity being allocated a share of the Uncovered Transmission Default Amount remaining unpaid, on the sum of (i) all Transmission Charges due from such Covered Entity that are reflected on its Transmission Statement for the Transmission Default Period and (ii) all Payments due to such Covered Entity that are reflected on its Transmission Statement for the Transmission Default Period, without giving any effect to the process of netting Charges against Payments on each Transmission Statement that is the result of the ISO's single billing system. Thus, by way of example, a Covered Entity with \$2,000 of Transmission Charges and no Payments on its Transmission Statement for

the Transmission Default Period and a Covered Entity with \$1,000 of Transmission Charges and \$1,000 of Payments on its Transmission Statement for the Transmission Default Period would be allocated an equal share of the unpaid Uncovered Transmission Default Amount under this clause (h)(ii). Each Covered Entity that received a Transmission Statement for the Default Period shall have the amount of its Invoice or Remittance Advice in the billing period immediately following the Transmission Default Period adjusted as necessary to reflect its obligation for the Uncovered Transmission Default Amount remaining unpaid under this clause (h)(ii). As funds attributable to an Uncovered Transmission Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) after such adjusted Transmission Statements are distributed, such funds, together with any interest and late charges collected on the applicable Uncovered Transmission Default Amount, shall be distributed to the Covered Entities pro rata based on their allocation of the Uncovered Transmission Default Amount under this clause (h)(ii), up to the full amount of such Uncovered Transmission Default Amount allocated to each such Covered Entity, with interest thereon.

- i) Order of Settlement. As amounts on Transmission Default Amounts are received by the ISO, the oldest outstanding Transmission Charges will be settled first in the order of the creation of such debts.

Section 3.5 – Enforcement of Payment Obligations Against Defaulting Covered Entities. Each Covered Entity that shares in any shortfall in payments under Section

3.3 or Section 3.4 shall have an independent right to seek and obtain payment and recovery of the amount of its share of such shortfall (the “Allocated Assessment”) from the defaulting Covered Entity. Any Covered Entity that recovers any portion of its Allocated Assessment from a defaulting Covered Entity shall promptly so notify the ISO, and such Covered Entity’s share of any recovery of a shortfall in payments hereunder shall be reduced by the amount of its Allocated Assessment that it recovers on its own. In addition to any amounts in default, the defaulting Covered Entity shall be liable to the ISO and each other Covered Entity for all reasonable costs incurred in enforcing the defaulting Covered Entity’s obligations.

Section 3.6 – Set-Off. The ISO shall apply any amount to which any defaulting Covered Entity is or will be entitled for ISO Charges or Transmission Charges toward the satisfaction of any of that defaulting Covered Entity’s debts to the ISO, NEPOOL or the Covered Entities for ISO Charges or Transmission Charges which are incurred under the Documents, including the Financial Assurance Policy; provided that amounts due for ISO Charges will first be applied to ISO Charges then, to the extent of any excess, to Transmission Charges, and amounts due for Transmission Charges will be first be applied to Transmission Charges then, to the extent of any excess, to ISO Charges.

Section 3.7 – Notice and Suspension. Without limiting any of the other remedies described above, in the event that the ISO, in its reasonable opinion, believes that all or any part of any amount due to be paid by any Covered Entity for ISO Charges or Transmission Charges will not be or has not been paid when due (a “Payment Default”), the ISO (on its own behalf or on behalf of the Covered Entities) may (but shall not be required to) notify such Covered Entity in writing, electronically and by first class mail sent in each case to such Covered Entity’s billing contact, of such Payment Default. If a Payment Default is not cured by 10:00 a.m. Eastern Time on the Business Day immediately following the Business Day when such payment was originally due, the ISO

shall notify such Market Participant, the NEPOOL Budget and Finance Subcommittee, all members and alternates of the Participants Committee, the New England governors and utility regulatory agencies and the credit and billing contacts for all Market Participants of (i) the identity of the Covered Entity receiving such notice, (ii) whether such notice relates to a Payment Default, (iii) whether the defaulting Covered Entity~~Market Participant~~ has a registered load asset, and (iv) the actions the ISO plans to take and/or has taken in response to such Payment Default. In addition, the ISO will provide any additional information with respect to such Payment Default as may be required under the ISO New England Information Policy. If a Payment Default is not cured by 10:00 a.m., Eastern Time, of the second Business Day after the date when such payment was originally due, the defaulting Covered Entity shall be suspended pursuant to the suspension provisions of the ISO New England Financial Assurance Policy (which will apply to the defaulting Covered Entity regardless of whether it is a “Municipal Market Participant” or a “Non-Municipal Market Participant” under that Financial Assurance Policy). Such defaulting Covered Entity shall be suspended as described in the Financial Assurance Policy until such Payment

If either (x) a Covered Entity is suspended from the New England Markets as a result of a Payment Default as described in this Section 3.7 as a result of a Payment Default involving ISO Charges~~3-3(4)~~ or (y) a Covered Entity receives more than five notices of Payment Defaults with respect to ISO Charges in any rolling 12-month period, then such Covered Entity shall pay a \$1,000 penalty for such suspension and for each notice after the fifth notice in a rolling 12-month period. All penalties paid under this paragraph shall be deposited in the Late Payment Account.

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Vice President and General Counsel

Effective: With notice, on or after December 1, 2010~~April 18, 2010~~

Issued on: March 26, 2010~~February 16, 2010~~

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~~(m) Notwithstanding the other provisions of this Section 3.3, an unpaid amount shall not be considered a “Default Amount,” and the ISO will not take any of the actions described in the suspension provisions of the ISO New England Financial Assurance Policy or in this Section 3.3 with respect to that unpaid amount, if the total unpaid amount is attributable to Qualification Process Cost Reimbursement Deposits (including any annual true-up of those amounts). To the extent that a Covered Entity pays only a part of an Invoice that includes a Charge for a Qualification Process Cost Reimbursement Deposit, the unpaid amount shall first be allocated to that Qualification Process Cost Reimbursement Deposit, and other Charges on that Invoice will only be considered not to have been paid if the unpaid amount exceeds the amount of the Qualification Process Cost Reimbursement Deposit.~~

~~Section 3.4 – Enforcement of Payment Obligations Against Defaulting Market Participants. Each Covered Entity that shares in any shortfall in payments under Section 3.3(h) shall have an independent right to seek and obtain payment and recovery of the amount of its share of such shortfall (the “Allocated Assessment”) from the defaulting Covered Entity. Any Covered Entity that recovers any portion of its Allocated Assessment from a defaulting Covered Entity shall promptly so notify the ISO, and such Covered Entity’s share of any recovery of a shortfall in payments hereunder shall be reduced by the amount of its Allocated Assessment that it recovers on its own. In addition to any amounts in default, the defaulting Covered Entity shall be liable to the ISO and each other Covered Entity for all reasonable costs incurred in enforcing the defaulting Covered Entity’s obligations.~~

~~Section 3.83-5 – Bankruptcy Filings. In the event any Covered Entity files a voluntary or involuntary petition in bankruptcy or commences a proceeding under the United States Bankruptcy Code or any other applicable law concerning insolvency, reorganization or bankruptcy by or against such Covered Entity as debtor (the “Bankruptcy Event”) and the ISO is required to return any payments made by such Covered Entity to the bankruptcy court having jurisdiction over such Bankruptcy Event, the ISO may avail itself of any emergency funding provisions in the Transmission, Markets and Services Tariff to collect the amounts returned by the ISO.~~

Section 3.9 – Partial Payments of Combined Invoices. If ISO Charges and Transmission Charges are included on the same Invoice and the Covered Entity pays only a portion of the Charges included in that Invoice, then the ISO shall use moneys received by it from that Covered Entity (i) first to pay all amounts due from that Covered Entity to the ISO under Section IV of the Transmission, Markets and Services Tariff, to NEPOOL for Participant Expenses, and to the ISO for acting as Project Manager for the GIS before making any payments to any Covered Entities, then (ii) then to pay all amounts due for that Covered Entity’s share, if any, of the amounts due to the GIS Administrator, (iii) then to pay all amounts due from that Covered Entity with respect to the Shortfall Funding Arrangement, and (iv) then, to the extent of any remaining amounts received from that Covered Entity, those amounts will be allocated to the ISO Charges and Transmission Charges on that Invoice pro rata based on the total amount of each set of Charges on that Invoice. Notwithstanding the foregoing, a partial payment of any Invoice shall be a Payment Default.

Section 3.10 – Sharing of Financial Assurance. If the financial assurance(s) provided by a Covered Entity under the Financial Assurance Policy are insufficient to effect payment of all ISO Charges and Transmission Charges that are due on the same date and which have not been paid by that Covered Entity, the ISO shall allocate the amounts available under those financial assurance(s) as follows:

- i. first to pay all amounts due from that Covered Entity to the ISO under Section IV of the Transmission, Markets and Services Tariff, to NEPOOL for Participant Expenses, and to the ISO for acting as Project Manager the GIS;
- ii. second, to pay all amounts due for that Covered Entity’s share, if any, of the amounts due to the GIS Administrator;

- iii. third, to pay all amounts due from that Covered Entity with respect to the Shortfall Funding Arrangement;
- iv. fourth, to the Covered Entity's Charges for FTR transactions, up to the FTR Requirements calculated for that Covered Entity by the ISO on the last day of the billing period for which the Payment Default has occurred; and
- v. fifth, to the remaining unpaid ISO Charges and the unpaid Transmission Charges owed by that Covered Entity pro rata based on the total amount of each set of Charges due.

Section 3.11 – Allocation of Payment Defaults to Other Groups. In some cases, the Default Amount or the Transmission Default Amount may exceed the amounts owed to the specified Covered Entities that are to receive less than the full Payments due to them pursuant to Section 3.3(h)(i), Section 3.3(i)(i), Section 3.4(f)(i) or Section 3.4(g)(i). In such an event, the ISO will reduce the Payments due to Covered Entities pursuant to Section 3.3(j)(i) (for ISO Charges) or Section 3.4(h)(i) (for Transmission Charges) to the extent necessary for the ISO to clear its accounts for ISO Charges or Transmission Charges by the close of banking business on the date the applicable Payments are due. Any amount allocated to Covered Entities under the preceding sentence will be invoiced to and collected from the appropriate Covered Entities under Section 3.3(h)(ii), Section 3.3(i)(ii), Section 3.4(f)(ii) or Section 3.4(g)(ii) in the billing period immediately following the billing period in which that allocation occurred.

Section 3.12 – Other Rights Against Defaulting Parties. Nothing set forth in this Policy shall nullify, restrict or otherwise limit the rights and remedies of the ISO, NEPOOL and the Covered Entities against a defaulting Covered Entity that are set forth in the Documents, including the Financial Assurance Policy or otherwise, including without limitation any late payment charges or rights to terminate or limit trading rights of the defaulting Covered Entity, to the extent such rights and remedies otherwise exist.

SECTION 4 – LATE PAYMENT CHARGES; LATE PAYMENT ACCOUNTS

Section 4.1 – Late Payment Charge.

(a) If a Covered Entity is delinquent two or more times within any period of 12 months in paying on time its ISO Charges, such Covered Entity shall pay, in addition to interest on each such late payment, a late payment charge for its second failure to pay on time, and for each subsequent failure to pay on time within the same 12-month period (a “Late Payment Charge”) in an amount equal to the greater of (i) two percent (2%) of the total amount of such late payment or (ii) ~~\$500.00~~^{\$1000.00}. In the case of a former Market Participant that applies again for membership in the ISO, a determination of delinquency shall be based on the Market Participant’s history of payment of its ISO Charges in its last 12 months of membership.

(b) If a Covered Entity is delinquent two or more times within any period of 12 months in paying on time its Transmission Charges, such Covered Entity shall pay, in addition to interest on each such late payment, a late payment charge for its second failure to pay on time, and for each subsequent failure to pay on time within the same 12-month period (a “Transmission Late Payment Charge”) in an amount equal to the greater of (i) two percent (2%) of the total amount of such late payment or (ii) \$500.00. In the case of a former Market Participant that applies again for membership in the ISO, a determination of delinquency shall be based on the Market Participant’s history of payment of its Transmission Charges in its last 12 months of membership.

~~Section 4.2 – Late Payment Account. Interest collected on late payments shall be allocated and paid to the Covered Entities to whom such late payments are due, pro rata in accordance with the~~

~~amount due to each such Covered Entity. Late Payment Charges that are collected and not distributed to the Covered Entities under this ISO New England Billing Policy and penalties collected under the ISO New England Financial Assurance Policy shall be deposited by the ISO into a segregated interest-bearing account (the “Late Payment Account”) for disbursement in accordance with this ISO New England Billing Policy; provided, however, that in no event shall the amount in the Late Payment Account, including interest accrued thereon, at any time exceed \$1,000,000 or other amount determined from time to time by the~~

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 Vice President and General Counsel

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Section 4.2 – Late Payment Account; Transmission Late Payment Account.

(a) Interest collected on late payments of ISO Charges shall be allocated and paid to the Covered Entities to whom such late payments are due, pro rata in accordance with the amount due to each such Covered Entity. Late Payment Charges that are collected and not distributed to the Covered Entities under this ~~ISO New England Billing Policy~~ and penalties collected under the ~~ISO New England Financial Assurance Policy~~ shall be deposited by the ISO into a segregated interest-bearing account (the “Late Payment Account”) for disbursement in accordance with Section 3.3 of this ISO New England Billing Policy; provided, however, that in no event shall the amount in the Late Payment Account, including interest accrued thereon, at any time exceed \$1,000,000 or other amount determined from time to time by the

Participants Committee (the “Late Payment Account Limit”). Any amount in the Late Payment Account (including interest thereon) in excess of the Late Payment Account Limit shall be distributed to the Market Participants, no more frequently than quarterly, pro rata based on their ISO Ceharges under the Section IV of the Transmission, Markets and Services Tariff in the month preceding the month in which such distribution is to be made.

(b) Interest collected on late payments of Transmission Charges shall be allocated and paid to the Covered Entities to whom such late payments are due, pro rata in accordance with the amount due to each such Covered Entity. Transmission Late Payment Charges that are collected and not distributed to the Covered Entities under this Policy shall be deposited by the ISO into a segregated interest-bearing account (the “Transmission Late Payment Account”) for disbursement in accordance with Section 3.4 of this Policy; provided, however, that in no event shall the amount in the Transmission Late Payment Account, including interest accrued thereon, at any time exceed \$1,000,000 or other amount determined from time to time by the Participants Committee (the “Transmission Late Payment Account Limit”). Any amount in the Transmission Late Payment Account (including interest thereon) in excess of the Transmission Late Payment Account Limit shall be distributed to the Market Participants, no more frequently than quarterly, pro rata based on their Transmission Charges in the month preceding the month in which such distribution is to be made.

~~SECTION 5 – SHORTFALL FUNDING ARRANGEMENT; PAYMENT DEFAULT
SHORTFALL FUND~~

~~Section 5.1 – Purpose and Creation of the Shortfall Funding Arrangement and the Payment~~

~~Default Shortfall Fund. The ISO, acting in consultation with the NEPOOL Budget and Finance~~

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~~Senior Vice President and General Counsel~~

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~~Subcommittee and NEPOOL's Independent Financial Advisor, will arrange separate financing (the "Shortfall Funding Arrangement") that can be used to make up any non-congestion-related differences between amounts received on Invoices and amounts due. The Shortfall Funding Arrangement may be effected through third-party financing, through the creation of a special purpose funding entity, through Participant provided funds or through some other arrangement agreed upon by the ISO, the NEPOOL Budget and Finance Subcommittee and NEPOOL's Independent Financial Advisor. If and to the extent that, at any time, the Shortfall Funding Arrangement is not available (because, solely for example, it has not been arranged, it does not have sufficient funds available, it has expired or it has been terminated prior to its maturity), the ISO shall create a Payment Default Shortfall Fund that will provide for such non-congestion~~

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SECTION 5 – SHORTFALL FUNDING ARRANGEMENT; PAYMENT DEFAULT
SHORTFALL FUND

Section 5.1 – Purpose and Creation of the Shortfall Funding Arrangement and the Payment

Default Shortfall Fund. The ISO, acting in consultation with the NEPOOL Budget and Finance Subcommittee and NEPOOL’s Independent Financial Advisor, will arrange separate financing (the “Shortfall Funding Arrangement”) that can be used to make up any non-congestion related

differences between ISO Charges amounts received on Invoices and amounts due for ISO

Charges in any week and as set forth in Sections 3.3 and 3.4. The Shortfall Funding

Arrangement may be effected through third-party financing, through the creation of a special purpose funding entity, through Participant-provided funds or through some other arrangement agreed upon by the ISO, the NEPOOL Budget and Finance Subcommittee and NEPOOL’s Independent Financial Advisor. If and to the extent that, at any time, the Shortfall Funding Arrangement is not available (because, solely for example, it has not been arranged, it does not have sufficient funds available, it has expired or it has been terminated prior to its maturity), the ISO shall create a Payment Default Shortfall Fund that will provide for such non-congestion

related difference between ISO Charges amounts received on Invoices and amounts due for ISO Charges in any week and for payments in accordance with Sections 3.3 and 3.4. The Shortfall Funding Arrangement and/or the Payment Default Shortfall Fund shall be in addition to and not a replacement for the Late Payment Account or the Transmission Late Payment Account described above.

Section 5.2 – Participant Rights with respect to a Participant Financial Payment Default Shortfall Fund. To the extent that the Payment Default Shortfall Fund is in existence at any time, each Participant funding the Payment Default Shortfall Fund at such time would retain title to its share of amounts in the Payment Default Shortfall Fund and any interest accrued on those amounts on a pro rata basis based on the funds in the Payment Default Shortfall Fund provided by it. Each Participant will receive a monthly report that will identify the amount of funds in the Payment Default Shortfall Fund that belong to that Participant and the amount of interest accrued thereon. As Participants withdraw from or otherwise terminate membership in the ISO, the ISO would pay to such Participants their share, if any, of the amounts in the Payment Default Shortfall Fund, with interest. To the extent that the balance in the Payment Default Shortfall Fund exceeds the Required Balance (defined below), the excess will be refunded to Participants on a quarterly basis pro rata based on their share of the funds in the Payment Default Shortfall Fund.

Section 5.3 – Available Amount of Shortfall Funding Arrangement; Initial Funding of the Payment Default Shortfall Fund. The available amount of the Shortfall Funding Arrangement,

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Senior Vice President and General Counsel
Issued on: ~~March 26, 2010~~ December 22, 2004

combined with any amount on deposit in the Payment Default Shortfall Fund, shall be equal to the amount of a hypothetical Invoice at the 97th percentile of the average amounts due on Invoices rendered to Market Participants over the six calendar months preceding the calculation or a lesser amount as set by the ISO from time to time in consultation with the NEPOOL Budget and Finance Subcommittee (the “Required Balance”), which amount shall be calculated and adjusted by the ISO on a quarterly basis. To the extent that on any Business Day immediately following the date on which Payments for Non-Hourly Charges are due, either the Shortfall Funding Arrangement has not been established or the available amount of the Shortfall Funding Arrangement is less than the Required Balance, the ISO shall establish the Payment Default Shortfall Fund, and the Participants shall be responsible for initially funding the Payment Default Shortfall Fund in an amount equal to the Required Balance less the available amount, if any, of the Shortfall Funding Arrangement on such date (the “Participant Required Balance”). The ISO, in consultation with NEPOOL’s Independent Financial Advisor, shall notify the Market Participants promptly if they believe that the available amount of the Shortfall Funding Arrangement is not, or is reasonably likely not to be, at least equal to the Required Balance, and the ISO will endeavor to arrange a supplement to any existing Shortfall Funding Arrangement at least to the extent required to fund such shortfall. The Market Participant Required Balance shall initially be funded by the Market Participants pro rata in accordance with the methodology used for the shortfall allocation process in Section 3.3(j)(ii) and Section 3.4(h)(ii) of this ~~ISO New England Billing Policy~~ (but based on Charges and

Payments due over the three months immediately preceding the establishment of the Payment Default Shortfall Fund). A Participant's Payment Default Shortfall Fund payment obligation shall be identified as a separate line item on its Statements and Transmission Statements.

Section 5.4 – Continued Shortfall Fund Funding Obligations; Payments on Shortfall Funding Arrangement.

- (a) The ISO will reallocate the Market Participants' overall obligation with respect to the amounts in the Payment Default Shortfall Fund, if any, annually on each anniversary of the Effective Date in accordance with the methodology used for shortfall allocation process in Section 3.3(j)(ii) and Section 3.4(h)(ii) of this Policy (but based on the Charges and Payment due in the preceding calendar year), with payments from and refunds to Market Participants that have underfunded or overfunded, respectively, the Payment Default Shortfall Fund based on that annual reallocation.
- (b) If the sum of the available amount of the Shortfall Funding Arrangement and the balance in the Payment Default Shortfall Fund (the "Total Available Amount") drops below 90 percent of the Required Balance at any time because of Market Participant terminations (but not because of draws on the Shortfall Funding

Arrangement or the Payment Default Shortfall Fund or adjustments to the Required Balance), each Market Participant would be required to contribute a share of the funds needed to restore the Total Available Amount to the Required Balance. A Market Participant's pro rata share of that obligation would be determined in accordance with the methodology used for shortfall allocation process in Section 3.3(j)(ii) and Section 3.4(h)(ii) of this Policy (but based on Charges and Payments due for the three months immediately preceding the date of that funding).

- (c) If (i) the ISO draws on the Shortfall Funding Arrangement and/or the Payment Default Shortfall Fund and the amount drawn, together with interest and fees thereon, is not replaced through payments on the Payment Default by the date on which the ISO next issues an Invoice that includes Non-Hourly Charges, or (ii) the Required Balance is increased as a result of quarterly adjustments, that next Invoice for Non-Hourly Charges will include a charge for Covered Entities necessary to restore the Total Available Amount to the Required Balance. That charge will be allocated among the Covered Entities according to the methodology used for the shortfall allocation process in Section 3.3(j)(ii) and Section 3.4(h)(ii) of this Policy with respect to the specific Payment Default. If payments on a Payment Default are received after the amount drawn from the Shortfall Funding

Arrangement and/or the Payment Default Shortfall Fund for that Payment Default has been refunded, the amount of the Payment Default so received shall be allocated and paid to the Covered Entities providing that funding according to the methodology of Section 3.3(j)(ii) and Section 3.4(h)(ii) of this Policy.

- (d) In addition to the other obligations described in this Section 5.4, each Market Participant shall be charged a pro rata share of all interest, fees and other expenses incurred in connection with the Shortfall Funding Arrangement to the extent that such interest, fees and expenses are not paid by a Covered Entity with respect to a Payment Default. The pro rata allocation of fees and expenses described herein shall be made on the same basis as set forth in Section 5.4(c) above. A Market Participant's obligation with respect to the Shortfall Funding Arrangement shall be identified as a separate line item on its statements.
- (e) Without limiting the generality of Section 3.3 and Section 3.4, to the extent that a Covered Entity fails to pay ana weekly Invoice, requiring a draw on the Shortfall Funding Arrangement, that Covered Entity shall be required to pay the amount of such draw, plus any interest accrued thereon and premium or other fees or expenses with respect thereto.

Transmission, Markets and Services Tariff. Furthermore, a Requested Billing Adjustment must not involve Disputed Amounts paid on ~~ana-weekly~~ Invoice for Non-Hourly Charges pursuant to the Financial Assurance Policy, provided, however, that this provision shall not preclude a Disputing Party from submitting a Requested Billing Adjustment for a Disputed Amount on a fully paid monthly Invoice for Non-Hourly Charges which has been paid pursuant to ~~ana-weekly~~ Invoice for Non-Hourly Charges in that month.

Section 6.2 – Effect of this Policy on Rights of Market Participant, PTO, or Non-Market Participant Transmission Customer with Respect to a Disputed Amount. Except as otherwise set forth in this Section 6.2, nothing in this Section 6 shall in any way abridge the right of any Covered Entity to seek legal or equitable relief under the Federal Power Act and/or any other applicable laws with respect to any Disputed Amount. Prior to commencing a proceeding before the Commission or other regulatory or judicial authority with jurisdiction to resolve the dispute which is the subject of the Requested Billing Adjustment, the Disputing Party must first submit the Requested Billing Adjustment to the ISO for review pursuant to Section 6.3 of this Policy.

Section 6.3 – ISO Review of Requested Billing Adjustment.

Section 6.3.1 – Submission of Requested Billing Adjustment to the ISO; Required Contents of Requested Billing Adjustment. A Disputing Party shall submit a Requested

identify a specific representative of the ISO to whom all communications regarding the Requested Billing Adjustment are to be sent.

Section 6.3.3 – ISO Review of Requested Billing Adjustments. The ISO shall complete its review of a Requested Billing Adjustment received pursuant to Section 6.3 within twenty (20) ~~B~~^{business} ~~D~~^{days} of the date the ISO distributes the Notice of RBA. To the extent that either party makes such a request and both parties agree to such request, the ISO and Disputing Party may meet or otherwise confer during this period in an effort to resolve the Requested Billing Adjustment.

Issued by: Raymond W. Hepper,
~~June 1, 2008~~

Effective: With notice, on or after December 1, 2010

Vice President and General Counsel
Issued on: March 26, 2010~~March 25, 2008~~

the ISO shall consider the written response filed by the Disputing Party. The ISO may but is not required to consider any written comments that are filed by any other interested party.

Section 6.3.5 – ISO Action on Requested Billing Adjustment. The ISO shall provide to the Disputing Party and to the Chair of the NEPOOL Budget and Finance Subcommittee a written decision (the “RBA Decision”) accepting or denying a Requested Billing Adjustment received pursuant to this Section 6.3 within twenty (20) Business Days of the date the ISO distributes the Notice of RBA, unless some later date is agreed upon by the Disputing Party and the ISO. The ISO shall provide written notice and a copy of each RBA Decision to each Covered Entity either eligible for reimbursement, denied reimbursement of a Disputed Amount or required to provide reimbursement of a Disputed Amount because of an RBA Decision (hereafter referred to as an “Affected Party” or the “Affected Parties”) within five (5) ~~B~~business ~~D~~days of the date the RBA Decision is rendered. In providing such notice to any Affected Party required to provide reimbursement of a Disputed Amount, the ISO shall specify the amount to be reimbursed by such Affected Party and the calculations supporting the determination of such reimbursement amount. Subsequent to the provision of the written notice of the RBA Decision as set forth above, the ISO shall provide each Affected Party with respect to that

designated representative for that particular RBA Decision; and (ii) to each of the Affected Parties; and (iii) to the Chair of the NEPOOL Budget and Finance Subcommittee. The ISO and any Affected Party shall be joined as parties to the arbitration. NEPOOL and other Covered Entities shall be permitted to intervene in the arbitration if they desire to do so.

Section 6.4.2 – Finality of the AAA Neutral’s Decision. Except as otherwise provided in this Section 6.4.2, the written, final decision of the AAA neutral (the “Neutral’s Decision”) shall become final and binding on the Affected Parties, including the ISO, and shall not be appealable in any forum on the twenty-first (21st) Business Day after the date on which the Neutral’s Decision was issued. The Neutral’s Decision shall not become final or binding if on or before the twentieth (20th) ~~B~~business ~~D~~day after the date on which the Neutral’s Decision was issued, an Affected Party or Parties or the ISO has appealed the Neutral’s Decision by commencing a proceeding before the Commission or other regulatory or judicial authority with jurisdiction over the dispute. If any such appeal is filed, the Neutral’s Decision shall have no force or effect unless or until it is affirmed or upheld upon completion of the appeal process.

Representatives shall take all reasonable precautions to ensure that Confidential Information is not distributed to unauthorized persons.

- e) *ISO Right to Object to Access to Confidential Information.* Nothing in this Section shall be construed as precluding the ISO from objecting to providing any party access to Confidential Information on any legal grounds other than those provided under the ISO New England Information Policy, as it may be amended time to time.

SECTION 7 – WEEKLY BILLING PRINCIPLES FOR NON-HOURLY CHARGES.

The ISO shall administer weekly billing arrangements for Non-Hourly Charges and Transmission Charges that have been effected in special circumstances pursuant to the Financial Assurance Policy according to the following principles:

Section 7.1 – Weekly Invoices. The ISO shall issue ~~a~~ weekly Invoices for such Non-Hourly Charges and such Transmission Charges to any Market Participant or Non-Market Participant Transmission Customer for which such a weekly billing arrangement has been established to the extent such Market Participant's or Non-Market Participant Transmission Customer's Non-Hourly Charges and Transmission Charges exceed the Payments due to it for Non-Hourly Charges and Transmission Charges, respectively, for the current billing week. Such weekly Invoices for Non-Hourly Charges and for Transmission Charges would be issued and due at the same times as one of the twice weekly Invoices for Hourly

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Charges as determined by the ISO. Remittance Advices for Non-Hourly Charges and for Transmission Charges for such Market Participants and Non-Market Participant Transmission Customers will still be issued monthly, in accordance with the procedures set forth above.

Section 7.2 – Basis for Billing. The amounts due from such Market Participant or Non-Market Participant Transmission Customer on weekly Invoices for Non-Hourly Charges and Transmission Charges shall be based on estimates derived by pro-rating the most recent final monthly Statements and Transmission Statements issued for such Market Participant or Non-Market Participant Transmission Customer.

Section 7.3 – Monthly Reconciliation. In connection with each monthly billing cycle, the ISO shall reconcile the sum of the weekly Invoices for Non-Hourly Charges and for Transmission Charges issued with the normal monthly billing quantities for such Non-Hourly Charges and Transmission Charges calculated for the Market Participant or Non-Market Participant Transmission Customer. The ISO shall perform a true-up of any amounts owed or due on the following weekly Statements or monthly Transmission Statements.

Section 7.4 – FTR-Only Customers/DRP-Only Customers/ODR-Only Customers. FTR-Only Customers and DRP-Only Customers and ODR-Only Customers are not eligible for weekly billing arrangements for Non-Hourly Charges.

Issued by: ~~Raymond W. Hepper~~^{Kathleen A. Carrigan}, Effective: With notice, on or after ~~December 1, 2010~~^{June 1, 2007}
~~Senior Vice President and General Counsel~~
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Attachment 2

EXHIBIT IA
ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

Table of Contents

Overview.....	49
I. LIABILITY AND TREATMENT OF GROUPS REGARDED AS SINGLE MARKET PARTICIPANTS	50
II. MARKET PARTICIPANTS' REVIEW AND CREDIT LIMITS	52
A. Proof of Financial Viability for Applicants	52A
B. Ongoing Review and Credit Ratings	54
1. Rated Market Participants.....	54
2. Unrated Market Participants	55A
3. Information Reporting Requirements for Market Participants	56A
C. Credit Limits	57
1. Credit Limit for Non-Distribution Participants.....	57
2. Credit Limit for Rated T&D Companies	57
3. Credit Limit for Unrated T&D Companies.....	58
4. Credit Limit for Municipal Market Participants	58
D. Transmission Credit Limits	59
1. Transmission Credit Limit for Non-Distribution Participants	59
2. Transmission Credit Limit for Rated T&D Companies.....	59
3. Transmission Credit Limit for Unrated T&D Companies	59A
4. Transmission Credit Limit for Municipal Market Participants.....	59A
E. Credit Limit Usage Limited to Native Load Requirements.....	59A
F. Credit Limit for FTR-Only Customers and DRP-Only Customers	60

III.	MARKET PARTICIPANTS' REQUIREMENTS	63
A.	Determination of Obligations	64A
B.	Credit Test and Transmission Credit Test Calculations, Notice and Suspension from the New England Markets.....	65
1.	Credit Test Calculations and Notices.....	65
a.	80 Percent Test.....	65
b.	90 Percent Test.....	66
c.	100 Percent Test.....	66
2.	Suspension from the New England Markets.....	68
a.	General.....	68
b.	Load Assets.....	70A
c.	FTRs.....	71
d.	Virtual Transactions.....	71A
3.	Serial Notice and Suspension Policies.....	71A
C.	Additional Financial Assurance Requirements for Certain Municipal Market Participants	79
IV.	FINANCIAL ASSURANCE REQUIREMENTS FOR CERTAIN NEW AND RETURNING MARKET PARTICIPANTS.....	79A
V.	FINANCIAL ASSURANCE REQUIREMENTS FOR NON-MARKET PARTICIPANT TRANSMISSION CUSTOMERS	79F
A.	Proof of Financial Viability	79F
B.	Ongoing Financial Review and Credit Ratings	79H
1.	Rated Non-Market Participant Transmission Customer Applicants and Transmission Customers.....	79H
2.	Unrated Non-Market Participant Transmission Customers.....	79H
3.	NMPTC Credit Limits for ISO Charges	79I
4.	NMPTC Transmission Credit Limits.....	79I.01
5.	Credit Limit Usage Limited to Native Load Requirements.....	79I.02
C.	Information Reporting Requirements for Non-Market Participant Transmission Customers.....	79I.04
D.	Financial Assurance Requirement for Non-Market Participant Transmission Customers.....	79J.01
1.	Financial Assurance for ISO Charges.....	79J.01
2.	Financial Assurance for Transmission Charges.....	79K
3.	Notice of Failure to Satisfy NMPTC Financial Assurance Requirement.....	79K

VI.	ADDITIONAL FINANCIAL ASSURANCE PROVISIONS FOR FTR TRANSACTIONS	79L
A.	FTR Settlement Risk Financial Assurance	79L
B.	Bid Financial Assurance	80
C.	Award Financial Assurance	80
D.	Settlement Financial Assurance	80A
E.	Consequences of Failure to Satisfy FTR Requirements	80A
VII.	ADDITIONAL FINANCIAL ASSURANCE PROVISIONS FOR FORWARD CAPACITY MARKETS	81
A.	Commercial Capacity.....	81
1.	Transfer of Capacity Supply Obligation in Reconfiguration Auction.....	81A
2.	Transfer of Capacity Supply Obligation in Bilateral Transaction	81A.02
3.	Financial Assurance Credits for Capacity Supply Obligations.....	81A.02
B.	Non-Commercial Capacity	81B
1.	FCM Deposit.....	81B
2.	Non-Commercial Capacity in Forward Capacity Auctions	81B.01
3.	Non-Commercial Capacity in Reconfiguration Auctions.....	81C
a.	Acquiring Capacity Supply Obligations	81C
b.	Transfer of Capacity Supply Obligations	81D.01
4.	Non-Commercial Capacity in Bilateral Transactions	81E
a.	Acquiring Capacity Supply Obligations	81D.02
b.	Transfer of Capacity Supply Obligations	81E
5.	Return of Financial Assurance.....	81E.01
6.	Credit Test Amount Consequences.....	81F
7.	Financial Assurance for Multiple Auctions and Transactions	81F
C.	Loss of Capacity and Forfeiture of Financial Assurance.....	81F.01
D.	Composite FCM Transactions	81H
VIII.	FINANCIAL ASSURANCE REQUIREMENTS FOR DRP-ONLY CUSTOMERS IN DEMAND RESOURCE TRANSACTIONS	81L
A.	DRP-Only Customer Financial Assurance	81L

IX.	ACCEPTABLE FORMS OF FINANCIAL ASSURANCE.....	83
A.	Cash Deposit	83
B.	Letter of Credit.....	85
1.	Requirements for Banks.....	85
2.	Form of Letter of Credit.....	87
C.	Special Provisions for Provisional Members	93C.01
X.	MISCELLANEOUS PROVISIONS.....	94
A.	Obligation to Report Material Changes	94
B.	Weekly Payments.....	95
C.	Use of Transaction Setoffs.....	97
D.	Reimbursement of Costs	97
E.	Notification of Default	98
F.	Remedies Not Exclusive	98
G.	Inquiries and Contests.....	99
H.	Forward Contract/Swap Agreement	99A
	ATTACHMENT 1 - SECURITY AGREEMENT	100
	ATTACHMENT 2 - SAMPLE LETTER OF CREDIT	111
	ATTACHMENT 3 - [Reserved.]	117

EXHIBIT IA

ISO NEW ENGLAND FINANCIAL ASSURANCE POLICY

Overview

The procedures and requirements set forth in this ISO New England Financial Assurance Policy (this “Policy”) shall govern all applicants for Market Participant status with the ISO (“Applicants”), all Non-Market Participant applicants for transmission service from the ISO (“Non-Market Participant Transmission Service Customer Applicants”), all Market Participants and all Non-Market Participant Transmission Customers.¹ For purposes of this Exhibit IA, “Market Participants” include FTR-Only Customers, DRP-Only Customers and ODR-Only Customers.

The purpose of this Policy is (i) to establish a financial assurance policy for Market Participants and Non-Market Participant Transmission Customers that includes commercially reasonable credit review procedures to assess the financial ability of an Applicant, a Non-Market Participant Transmission Service Customer Applicant, a Market Participant or a Non-Market Participant Transmission Customer to pay for service transactions under the Tariff and to pay its share of the ISO expenses, including amounts under Section IV of the Tariff, and including any applicable Participant Expenses (as such term is defined in the Billing Policy); (ii) to set forth the requirements for alternative forms of security that will be deemed acceptable to the ISO and consistent with commercial practices established by the Uniform Commercial Code that protect the ISO and the Market Participants against the risk of non-payment

¹ Capitalized terms used but not defined in this Policy are intended to have the meanings given to such terms in pertinent sections of the Tariff.

II. MARKET PARTICIPANTS' REVIEW AND CREDIT LIMITS

Solely for purposes of this Policy: (1) a “Municipal Market Participant” is any Market Participant that is either (a) a Publicly Owned Entity as defined in Section 1 of the RNA except for an electric cooperative or an organization including one or more electric cooperatives as used in Section 1 of the RNA or (b) a municipality, an agency thereof, a body politic or a public corporation (i) that is created under the authority of any state or province that is adjacent to one of the New England states,² (ii) that is authorized to own, lease and operate electric generation, transmission or distribution facilities and (iii) that has been approved for treatment as a Municipal Market Participant by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee; (2) a “Municipal Applicant” is an entity that has applied to become a Market Participant and otherwise satisfies the definition of “Municipal Market Participant” above; (3) a “T&D Company” is either (x) a Market Participant that is also an electric distribution utility with one or more franchised service areas in the ISO Control Area whose retail electric rates are regulated exclusively by the public utilities commission or similar governmental body of one of the New England states or (y) the unregulated affiliate of one or more such T&D Companies that acts as agent for those T&D Companies with respect to billing and payment under the ISO Billing Policy; (4) a “T&D Company Applicant” is an entity that has applied to

² A Municipal Market Participant created by the authority of a state or province other than one of the New England states will not be considered a Publicly Owned Entity under the RNA.

become a Market Participant and that otherwise satisfies the definition of “T&D Company;” (5) a “Non-Distribution Participant” is a Market Participant that is not a Municipal Market Participant or a T&D Company; and (6) a “Non-Distribution Company Applicant” is an entity that has applied to become a Market Participant and otherwise satisfies the definition of Non-Distribution Participant.

A. Proof of Financial Viability for Applicants

Each Municipal Applicant, T&D Company Applicant and Non-Distribution Company Applicant (collectively, the “Applicants” and each an “Applicant”) must, with its membership application and at its own expense, submit proof of financial viability, as described below, satisfying the ISO requirements to demonstrate the Applicant’s ability to meet its obligations. Each Applicant that intends to establish a Credit Limit or a Transmission Credit Limit (each as defined below) of greater than \$0 under Section II.C, Section II.D or Section II.E below must submit to the ISO all current rating agency reports from Standard and Poor’s (“S&P”), Moody’s and/or Fitch (collectively, the “Rating Agencies”). Each Applicant, whether or not it intends to establish a Credit Limit or Transmission Credit Limit of greater than \$0, must submit to the ISO audited financial statements for the two most recent years, or the period of its existence, if

less than two years, and unaudited financial statements for its last concluded fiscal quarter if they are not included in such audited annual financial statements. These unaudited statements must be certified as to their accuracy by a Senior Officer³ of such Applicant and must include in each case, but are not limited to, the following information to the extent available: balance sheets, income statements, statements of cash flows and notes to financial statements, annual and quarterly reports, and 10-K, 10-Q and 8-K Reports.⁴ In addition, each Applicant, whether or not it intends to establish a Credit Limit or a Transmission Credit Limit, must submit to the ISO: (i) at least one (1) bank reference and three (3) utility company credit references, or in those cases where an Applicant does not have three (3) utility company credit references, three (3) major trade payable vendor references may be substituted; and (ii) relevant information as to any known or anticipated material lawsuits, as well as any prior bankruptcy declarations by the Applicant, or by its predecessor(s), if any; and (iii) a completed ISO credit application. In the case of certain Applicants, some of the information and documentation described in items (i) and (ii) of the immediately preceding sentence may not be applicable or available, and alternate requirements may be specified by the ISO or its designee in its sole discretion.

³ For purposes of this Policy, “Senior Officer” means an officer of the subject entity with the title of vice president (or similar office) or higher, or another officer designated in writing to the ISO by that officer.

⁴ If any of the above-mentioned financial statements are available on the internet, the Applicant may provide instead a letter to the ISO stating where such statements may be located and retrieved by the ISO or its designee.

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

The ISO shall prepare a report, or cause a report to be prepared, concerning the financial viability of each Applicant. In its review of each Applicant, the ISO or its designee shall consider all of the information and documentation described in the immediately preceding paragraph. All costs incurred by the ISO in its review of the financial viability of an Applicant shall be borne by such

Applicant and paid at the time that such Applicant is required to pay its first annual fee under the Participants Agreement. The report for each Applicant shall be completed within three (3) weeks of the ISO's receipt of that Applicant's completed application and application fee and shall be provided to the Participants Committee or its designee and the affected Applicant.

B. Ongoing Review and Credit Ratings

1. Rated Market Participants

For purposes of this Policy, an “Investment Grade Rating” for a Market Participant (other than an FTR-Only Customer or a DRP-Only Customer) or Non-Market Participant Transmission Customer is either (a) a corporate investment grade rating from one or more of the Rating Agencies, or (b) if the Market Participant or Non-Market Participant Transmission Customer does not have a corporate rating from one of the Rating Agencies, then an investment grade rating for the Market Participant’s or Non-Market Participant Transmission Customer’s senior unsecured debt from one or more of the Rating Agencies. For all purposes of this Policy, if ratings from two or more of the Rating Agencies are available then the lowest such rating shall govern.

A Market Participant that receives a credit rating from one or more of the Rating Agencies, or, if such Market Participant is not rated by one of the Rating Agencies, then a Market Participant that has outstanding unsecured debt rated by one or more of the Rating Agencies, is referred to herein as “Rated.” A Market Participant that is not Rated is referred to herein as “Unrated.” Each Rated Market Participant that has an “Investment Grade Rating” and each Unrated Market Participant that satisfies the “Credit Threshold” (each as referred to below) is referred to herein as “Qualifying.” Each Market Participant that is not Qualifying is referred to herein as “Non-Qualifying.”

2. Unrated Market Participants

Any Unrated Market Participant that (i) has not been a Market Participant in the ISO for at least the immediately preceding 12 months; or (ii) has defaulted on any of its obligations under the Tariff (including without limitation its obligations hereunder and under the Billing Policy) during such 12-month period; or (iii) is an FTR-Only Customer or a DRP-Only Customer or (iv) does not have a Current Ratio (as hereinafter defined) of at least 1.0, a Debt-to-Total Capitalization Ratio (as hereinafter defined) of 0.6 or less, and an EBITDA-to-Interest Expense Ratio (as hereinafter defined) of at least 2.0 must provide an appropriate form of financial assurance as described

in Section IX below. An Unrated Market Participant that does not meet any of the conditions in clauses (i), (ii), (iii) and (iv) of this paragraph is referred to herein as satisfying the “Credit Threshold”.

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

3. Information Reporting Requirements for Market Participants

In order for the ISO to update and monitor the Credit Limit and Transmission Credit Limit of each Rated Market Participant that has a Credit Limit of greater than \$0, each such Rated Market Participant shall submit to the ISO, on a quarterly basis within 10 days of its becoming available and within 55 days after the end of the applicable fiscal quarter of such Rated Market Participant, its balance sheet, which shall be certified as to its accuracy by a Senior Officer of such Rated Market Participant and shall show sufficient detail for the ISO to calculate such Market Participant's Tangible Net Worth. In the case of certain Rated Municipal Market Participants, some of the information and documentation may not be available, and alternate requirements may be specified by the ISO. In addition, each Rated Market Participant that has a Credit Limit or Transmission Credit Limit greater than \$0 shall submit to the ISO, annually within 10 days of their becoming available and within 100 days after the end of the fiscal year of such Rated Market Participant, the following audited financial statements: balance sheets, income statements, statements of cash flows, and notes to financial statements, as well as copies of that Rated Market Participant's annual report.⁵

⁵ Where any of the above financial information is available on the internet, the Unrated Non-Municipal Market Participant may instead provide the ISO with a letter stating where such information may be located and retrieved.

In order for the ISO to update and monitor the Credit Limit and Transmission Credit Limit of each Unrated Market Participant that has a Credit Limit or Transmission Credit Limit greater than \$0, each such Unrated Market Participant shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 55 days after the end of the applicable fiscal quarter of such Unrated Market Participant, its balance sheet and additional financial statements, which shall be certified as to its accuracy by a Senior Officer of such Unrated Market Participant and shall show sufficient detail for the ISO to calculate such Unrated Market Participant's Tangible Net Worth, Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each Unrated Market Participant that has a Credit Limit or Transmission Credit Limit greater than \$0 shall submit to the ISO, annually within 10 days of their becoming available and within 100 days after the end of the fiscal year of such Unrated Market Participant, the following audited financial statements: balance sheets, income statements, statements of cash flows, and notes to financial statements, as well as copies of that Unrated Market Participant's annual report.⁶

⁶ Where any of the above financial information is available on the internet, the Unrated Non-Municipal Market Participant may instead provide the ISO with a letter stating where such information may be located and retrieved.

Each Rated and Unrated Market Participant that has a Credit Limit of \$0 and a Transmission Credit Limit of \$0 must submit the financial statements and other information described in this subsection if and as requested by the ISO within 10 days of such request.

C. Credit Limits

A Credit Limit shall be established for each Market Participant in accordance with this Section II.C.

1. Credit Limit for Non-Distribution Participants

The Credit Limit of each Non-Distribution Participant shall be \$0.

2. Credit Limit for Rated T&D Companies

The Credit Limit of each Rated T&D Company shall be equal to the least of: (i) the applicable percentage of such Rated T&D Company's Tangible Net Worth as listed in the following table, (ii) \$50 million, or (iii) 20 percent (20%) of TADO:

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

3. Credit Limit for Unrated T&D Companies

The Credit Limit of each Unrated T&D Company that satisfies the Credit Threshold shall be equal to the least of: (i) 0.50 percent (0.50% or ½ of 1%) of such Unrated T&D Company's Tangible Net Worth, (ii) \$25 million, or (iii) 20 percent (20%) of TADO. The Credit Limit of each Unrated T&D Company that does not satisfy the Credit Threshold shall be \$0.

4. Credit Limit for Municipal Market Participants

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

D. Transmission Credit Limits

A credit limit for Transmission Charges (a “Transmission Credit Limit”) shall be established for each Market Participant in accordance with this Section II.D, which Transmission Credit Limit shall apply in accordance with this Section II.D.

1. Transmission Credit Limit for Non-Distribution Participants

The Transmission Credit Limit of each Non-Distribution Participant shall at all times be \$0.

2. Transmission Credit Limit for Rated T&D Companies

The Transmission Credit Limit of each Rated T&D Company shall at any time be equal to the lesser of: (i) the applicable percentage of such Rated T&D Company’s Tangible Net Worth as listed in the following table or (ii) \$50 million:

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

3. Transmission Credit Limit for Unrated T&D Companies

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

4. Transmission Credit Limit for Municipal Market Participants

The Transmission Credit Limit for each Qualifying Municipal Market Participant shall be equal to \$25 million. The Transmission Credit Limit for each Non-Qualifying Municipal Market Participant shall be \$0.

E. Credit Limit Usage Limited to Native Load Requirements

At no time will a T&D Company or a Municipal Market Participant utilize its Credit Limit or its Transmission Credit Limit for any Obligations or Transmission Obligations (each defined below) that are not directly related to that T&D Company's or Municipal Market Participant's Native Load Requirements. For purposes of this Policy, a T&D Company's or a Municipal Market Participant's "Native Load Requirements" at any time shall be the sum of the ISO Charges and the Transmission Charges incurred by that T&D Company, or Municipal Market Participant at that time in providing service to those Load Assets (or, in the case of a Municipal Market Participant serving retail customers outside New England, those retail

customers in its service area) identified by that T&D Company or Municipal Market Participant to the ISO as being within the T&D Company's franchised retail service area or that Municipal Market Participant's retail service area. FTR Requirements are not considered Obligations that are directly related to Native Load Requirements.

F. Credit Limit for FTR-Only Customers and DRP-Only Customers

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

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III. MARKET PARTICIPANTS' REQUIREMENTS

Each Market Participant that provides the ISO with financial assurance pursuant to this Section III must provide the ISO with financial assurance in one of the forms described in Section IX below and in an amount equal to the amount required in order to avoid suspension under Section III.B below (the "Market Participant Financial Assurance Requirement"). A Market Participant's Market Participant Financial Assurance Requirement shall remain in effect as provided herein until the later of (a) 120 days after termination of the Market Participant's membership or (b) the end date of all FTRs awarded to the Market Participant and the final satisfaction of all obligations of the Market Participant providing that financial assurance; provided, however that financial assurances required by this Policy related to potential billing adjustments chargeable to a terminated Market Participant shall remain in effect until such billing adjustment request is finally resolved in accordance with the provisions of the Billing Policy. Furthermore and without limiting the generality of the foregoing, (i) any portion of any financial assurance provided

under this Policy that relates to a Disputed Amount (as defined in the Billing Policy) shall not be terminated or returned prior to the resolution of such dispute, even if the Market Participant providing such financial assurance is terminated or voluntarily terminates its MPSA and otherwise satisfies all of its obligations to the ISO and (ii) the ISO shall not return or permit the termination of any financial assurance provided under this Policy by a Market Participant that has terminated its membership or been terminated to the extent that the ISO determines in its reasonable discretion that that financial assurance will be required under this Policy with respect to an unsettled liability or obligation owing from that Market Participant.

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

A. Determination of Obligations

For purposes of this Policy:

- (i) a Market Participant’s “Hourly Requirements” at any time will be the sum of (x) the Hourly Charges⁷ for such Market Participant that have been invoiced but not paid (which amount shall not be less than \$0), plus (y) the Hourly Charges for such Market Participant that have been settled but not invoiced, plus (z) such Market Participant’s most recent six (6) days of settled Hourly Charges (whether these Hourly Charges have been invoiced or not) (which amount shall not in any event be less than \$0);
- (ii) a Market Participant’s “Non-Hourly Requirements” at any time will be determined by averaging that Market Participant’s Non-Hourly Charges (not including (A) the amount due from or to such Market Participant for FTR transactions, (B) any amounts due from such Market Participant for LSE Capacity Charges (as defined below), (C) any amounts due under

⁷ As used in this Policy, the terms “Non-Hourly Charges” and “Hourly Charges” shall have the same meaning as ascribed to them in the Billing Policy.

Section 14.1 of the RNA, and (D) the amount of any Qualification Process Cost Reimbursement Deposit (including the annual true-up of that amount) due from such Market Participant) over the two most recently invoiced calendar months; provided that such Non-Hourly Requirements shall in no event be less than zero;

(iii) A Market Participant's "Transmission Requirements" at any time will be determined by averaging that Market Participant's Transmission Charges over the two most recently invoiced calendar months; provided that such Transmission Requirements shall in no event be less than \$0;

(iv) a Market Participant's "Virtual Requirements" at any time will equal the amount of all unsettled Increment Offers and Decrement Bids submitted by such Market Participant at such time (which amount of unsettled Increment Offers and Decrements will be calculated by the ISO according to a methodology approved from time to time by the NEPOOL Budget and Finance Subcommittee and posted on the ISO's website);

(v) the "LSE Capacity Charges" at any time for any Market Participant that is a load serving entity will be (x) the amount that will be due from that Market Participant, for capacity charges on the next regular monthly Statement to be issued by the ISO, if those capacity charges are determinable by the ISO at the time of the calculation, or (y) if those capacity charges are not known at the time of the calculation, the average of the capacity charges on that Market Participant's two most recent monthly Statements, or (z) if those

capacity charges are not known at the time of the calculation and that Market Participant does not have at least two monthly Statements with capacity charges, the ISO's reasonable projection of the amount that will be due from that Market Participant for capacity charges on the next regular monthly Statement to be issued by the ISO;

(vi) a Market Participant's "Obligations" at any time will be equal to the sum at such time of:

- a. such Market Participant's Hourly Requirements; plus
- b. such Market Participant's Virtual Requirements; plus
- c. such Market Participant's Non-Hourly Requirements times 2.50; plus
- d. such Market Participant's LSE Capacity Charges; plus
- e. such Market Participant's "FTR Requirements" under Section VI below;
plus
- f. such Market Participant's "FCM Requirements" under Section VII below;
plus
- g. if such Market Participant is a DRP-Only Customer, such Market Participant's Demand Resource Requirement under Section VIII.A below;
plus
- h. the amount of any Disputed Amounts (as defined in the Billing Policy) received by such Market Participant; and

(vii) a Market Participant's "Transmission Obligations" at any time will be such Market Participant's Transmission Requirements times 2.50.

To the extent that the calculations of the components of a Market Participant's Obligations as described above produce positive and negative values, such components may offset each other; provided, however, that a Market Participant's Obligations shall never be less than \$0. A Market Participant may not set-off its Obligations against its Transmission Obligations or vice-versa.

B. Credit Test and Transmission Credit Test Calculations, Notice and Suspension from the New England Markets

1. Credit Test Calculations and Notices

a. 80 Percent Test

When a Market Participant's Obligations equal or exceed 80 percent (80%) of the sum of (i) that Market Participant's then-effective Credit Limit and (ii) the available amount of the additional financial assurance provided by that Market Participant under Section IX below (the sum of item (i) and item (ii) being referred to herein as the "Credit Test Amount"), the ISO shall issue notice thereof to such Market Participant. When a Market Participant's Transmission Obligations equal or exceed 80 percent (80%) of the sum of (x) that Market Participant's then-effective Transmission Credit Limit and (y) the excess of (A) the available amount of the additional financial assurance provided by that Market Participant under Section IX below over (B) the amount of that additional financial assurance needed to avoid a notice suspension with respect to a Market Participant's Obligations under this Section III.B, taking into account that Market Participant's Credit Limit (the sum of item (x) and item (y))

being referred to herein as the “Transmission Credit Test Amount”), the ISO shall issue notice thereof to such Market Participant.

b. 90 Percent Test

When a Market Participant’s Obligations equal or exceed 90 percent (90%) of that Market Participant’s Credit Test Amount or when a Market Participant’s Transmission Obligations equal or exceed 90 percent (90%) of that Market Participant’s Transmission Credit Test Amount, then, in addition to the actions to be taken when the Market Participant’s Obligations equal or exceed 80 percent (80%) of its Credit Test Amount or when the Market Participant’s Transmission Obligations equal or exceed 80 percent (80%) of its Transmission Credit Test Amount, the ISO shall issue notice thereof to such Market Participant, and if such condition continues to exist five Business Days after the date of such notice, the ISO shall issue notice thereof to the NEPOOL Budget and Finance Subcommittee, all members and alternates of the Participants Committee and the billing and credit contacts for all Market Participants.

c. 100 Percent Test

When a Market Participant’s Obligations exceed 100 percent (100%) of that Market Participant’s Credit Test Amount or when a Market Participant’s Transmission Obligations exceed 100 percent (100%) of that Market Participant’s Transmission Credit Test Amount, then, in addition to the actions to be taken when the Market Participant’s Obligations equal or exceed 80 percent (80%) and 90 percent (90%) of its Credit Test Amount or when the Market Participant’s Obligations equal or exceed 80 percent (80%) and 90 percent (90%) of its

Transmission Credit Test Amount, (i) the ISO shall issue notice thereof to such Market Participant, (ii) that Market Participant shall be immediately suspended from submitting Increment Offers and Decrement Bids until such time that its Obligations are less than or equal to its Credit Test Amount and its Transmission Obligations are less than its Transmission Credit Test Amount, and (iii) if such condition continues to exist through 10:00 a.m. Eastern Time on the next Business Day, (a) the event shall be a Financial Assurance Default (defined in Section X.E below); (b) the ISO shall issue notice thereof to such Market Participant, to the NEPOOL Budget and Finance Subcommittee, to all members and alternates of the Participants Committee, to the New England governors and utility regulatory agencies and to the billing and credit contacts for all Market Participants, and (c) such Market Participant shall be suspended from: (1) the New England Markets, as provided below; (2) receiving transmission service under any existing or pending arrangements under the Tariff or scheduling

any future transmission service under the Tariff; (3) voting on matters before the Participants Committee and NEPOOL Technical Committees; (4) entering into any future transactions in the FTR system; and (5) submitting an offer of Non-Commercial Capacity (as defined in Section VII.B below) in any Forward Capacity Auction or any reconfiguration auction in the Forward Capacity Market (each a “Reconfiguration Auction”), in each case until such Market Participant’s Obligations are 100 percent (100%) or less of its Credit Test Amount and such Market Participant’s Transmission Obligations are 100 percent (100%) or less of its Transmission Credit Test Amount; provided, however, (i) if any Market Participant’s Obligations exceed 100 percent (100%) of its Credit Test Amount or any Market Participant’s Transmission Obligations exceed 100 percent (100%) of its Transmission Credit Test Amount solely because its Investment Rating is downgraded by one grade, then (x) for five Business Days after such downgrade, such downgrade shall not by itself cause a change to such Market Participant’s Credit Test Amount or Transmission Credit Test Amount and (y) no notice shall be sent and none of the other actions described in this Section III.B shall occur with respect to such downgrade if such Market Participant cures such default within such five Business Day period..

Notwithstanding the foregoing, a Market Participant shall neither (x) receive a notice that its Obligations exceed 100 percent (100%) of its Credit Test Amount or that its Transmission Obligations exceed 100 percent (100%) of its Transmission Credit Test Amount nor (y) be suspended under this Section III.B if (i) the amount by which that Market Participant's Obligations exceed its Credit Test Amount is less than \$1,000 (combined for both the Obligations and the Transmission Obligations) or (ii) that Market Participant's status with the ISO has been terminated.

2. Suspension from the New England Markets

a. General

The suspension of a Market Participant, and any resulting annulment, termination or removal of OASIS reservations, removal from the settlement system and the FTR system, suspension of the ability to offer Non-Commercial Capacity in the Forward Capacity Market, drawing down of financial assurance and rejection of Increment Offers and Decrement Bids, shall not limit, in any way, the ISO's right to invoice or collect payment for any amounts owed (whether such amounts are due or becoming due) by such suspended Market Participant under the Tariff or the ISO's right to administratively submit an offer of a Market Participant's Non-Commercial Capacity in any Forward Capacity Auction or any Reconfiguration Auction.

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

Each notice issued by the ISO pursuant to this Section III.B shall indicate whether the subject Market Participant has a registered load asset. If the ISO has issued a notice pursuant to this Section III.B and subsequently the subject Market Participant's Obligations fall below the applicable percentage of its Credit Test Amount and its Transmission Obligations fall below the applicable percentage of its Transmission Credit Test Amount, such Market Participant may request the ISO to issue a notice stating such fact. However, the ISO shall not be obligated to issue such a notice unless, in its sole discretion, the ISO concludes that such Market Participant's

Obligations fall below the applicable percentage of its Credit Test Amount and such Market Participant's Transmission Obligations fall below the applicable percentage of its Transmission Credit Test Amount.

Notwithstanding the foregoing, if a Market Participant's Obligations equal or exceed 90 percent (90%) of its Credit Test Amount as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant and, but for such Increment Offers and/or Decrement Bids, such Market Participant would be in compliance with this Policy, a notice will not be issued.

If a Market Participant's Obligations exceed 100 percent (100%) of its Credit Test Amount as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant and, but for such Increment Offers and/or Decrement Bids, such Market Participant would be in compliance with this Policy, a notice will be issued only to such Market Participant, and such Market Participant shall be "suspended" as described below.

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

If a Market Participant is suspended from the New England Markets in accordance with the provisions of this Policy or the ISO New England Billing Policy, then the provisions of this Section III.B shall

control notwithstanding any other provision of the Tariff to the contrary. A suspended Market Participant shall have no ability so long as it is suspended (i) to be reflected in the ISO's settlement system, including any Bilateral Transactions, as either a purchaser or a seller of any products or services sold through the New England Markets (other than (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period, as defined in Section VII below) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the other Market Participants, (ii) to submit Demand Bids, Decrement Bids or Increment Offers in the New England Markets, or (iii) to submit offers for Non-Commercial Capacity in any Forward Capacity Auction or Reconfiguration Auction. Any transactions, including Bilateral Transactions with a suspended Market Participant (other than transactions for (A) Commercial Capacity and (B) Non-Commercial Capacity during the Non-Commercial Capacity Cure Period) that cause such suspended Market Participant to incur a financial obligation in the ISO's settlement system or any liability to the ISO, NEPOOL, or the other Market Participants and any Demand Bids, Decrement Bids and Increment Offers submitted by a suspended Market Participant shall be deemed to be terminated for purposes of the Day-Ahead Market Clearing and the ISO's settlement system. Solely for purposes of this Policy, reductions to the Capacity Supply Obligations of a suspended Market Participant that result from cleared demand bids in a Forward Capacity Auction or Reconfiguration Auction or from a

Bilateral Transaction will be first applied to the Commercial Capacity of the Resources of that suspended Market Participant and then, when all such Commercial Capacity has been cleared, to the Non-Commercial Capacity of the Resources of that suspended Market Participant.

A suspended DRP-Only Customer shall have no ability to participate in any Installed Capability transactions during the course of its suspension; provided that such DRP-Only Customer may receive credit for its Installed Capability during the course of its suspension.

b. Load Assets

Any load asset registered to a suspended Market Participant shall be terminated, and the obligation to serve the load associated with such load asset (including the related Installed Capability obligation) shall be assigned to the relevant unmetered load asset(s) unless and until the host Market Participant for such load assigns the obligation to serve such load to another asset. If the suspended Market Participant is responsible for serving an unmetered load asset, such suspended Market Participant shall retain

the obligation to serve such unmetered load asset. If a suspended Market Participant has an ownership share of a load asset, such ownership share shall revert to the Market Participant that assigned such ownership share to such suspended Market Participant. If a suspended Market Participant has the obligation under the Tariff or otherwise to offer any of its supply or to bid any pumping load to provide products or services sold through the New England Markets, that obligation shall continue, but only in Real-Time, notwithstanding the Market Participant's suspension, and such offer or bid, if cleared under the Tariff, shall be effective.

c. FTRs

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

A FTR-Only Customer that has been suspended in accordance with the preceding paragraph will not be allowed to participate in the FTR Auctions without re-registering as a FTR-Only Applicant, and such FTR-Only Applicant shall be required to cure all defaults hereunder prior to the acceptance of its application.

d. Virtual Transactions

Notwithstanding the foregoing, if a Market Participant is suspended in accordance with the provisions of this Policy as a result of one or more Increment Offers or Decrement Bids submitted by that Market Participant and, but for such Increment Offers and/or Decrement Bids, such Market Participant would be in compliance with this Policy, then such suspension shall be limited to (i) the immediate “last in, first out” rejection of pending individual uncleared Increment Offers and Decrement Bids submitted by that Market Participant (it being understood that Increment Offers and Decrement Bids are batched by the ISO in accordance with the time, and that Increment Offers and Decrement Bids will be rejected by the batch); and (ii) the suspension of that Market Participant’s ability to submit additional Increment Offers and Decrement Bids unless and until it has complied with this Policy, and the determination of compliance for these purposes will take into account the level of aggregate outstanding obligations of that Market Participant after giving effect to the immediate rejection of that Market Participant’s Increment Offers and Decrement Bids described in clause (i).

3. Serial Notice and Suspension Penalties

If either (x) a Market Participant is suspended from the New England Markets because of a failure to satisfy its Financial Assurance Requirements in accordance with the provisions of this Policy or (y) a Market Participant receives more than five notices that its Obligations have exceeded 100 percent (100%) of its Credit Test Amount or that its Transmission Obligations have exceeded 100 percent (100%) of its Transmission Credit Test

Amount in any rolling 12-month period, then such Market Participant shall pay a \$1,000 penalty for such suspension and for each notice after the fifth notice in a rolling 12-month period. If a Market Participant receives a notice that its Obligations have exceeded 100 percent (100%) of its Credit Test Amount and a notice that its Obligations have exceeded 100 percent (100%) of its Transmission Credit Test Amount in the same day, then only one of those notices will count towards the five notice limit. All penalties paid under this paragraph shall be deposited in the Late Payment Account maintained under the Billing Policy.

Sheet Nos. 71C through 78 are reserved for future use.

C. Additional Financial Assurance Requirements for Certain Municipal Market Participants

Notwithstanding the other provisions of this Policy and in addition to the other obligations hereunder, a Qualifying Municipal Market Participant that is not a municipality (which, for purposes of this Section III.C, does not include an agency or subdivision of a municipality) must provide additional financial assurance in one of the forms described in Section IX below in an amount equal to its FCM Requirements at the time of calculation, unless either: (1) that Qualifying Municipal Market Participant has a corporate Investment Grade Rating from one or more of the Rating Agencies; or (2) that Qualifying Municipal Market Participant has an Investment Grade Rating from one or more of the Rating Agencies for all of its rated indebtedness; or (3) that Qualifying Municipal Market Participant provides the ISO with an opinion of counsel that is acceptable to the ISO confirming that amounts due to the ISO under the Tariff have priority over, or have equal priority with, payments due on the debt on which the Qualifying Municipal Market Participant's Investment Grade Rating is based. Each legal opinion provided under clause (3) of this Section III.C will be updated no sooner than 60 days and no later than 30 days before each Reconfiguration Auction that precedes a Commitment Period to which such legal opinion relates, and if that update is not provided or that update is not acceptable to the ISO, the applicable Qualifying Municipal Market Participant must either satisfy one of the other clauses of this Section III.C or provide additional financial assurance in one of

the forms described in Section IX below in an amount equal to its FCM Requirements at the time of calculation.

IV. FINANCIAL ASSURANCE REQUIREMENT FOR CERTAIN NEW AND RETURNING MARKET PARTICIPANTS

Notwithstanding any other provision hereof, (x) a Market Participant other than an FTR-Only Customer, a DRP-Only Customer or Governance Only Member who has been a Market Participant for less than three consecutive months (an “Unqualified New Market Participant”) or (y) a Market Participant other than an FTR-Only Customer, a DRP-Only Customer or a Governance Only Member whose previous membership as a Market Participant was involuntarily terminated due to a Financial Assurance Default or a Payment Default and, since returning, has been a Market Participant for less than six consecutive months (a “Returning Market Participant”) is required to provide the ISO, for three months in the case of an Unqualified New Market Participant and six months in the case of a Returning Market Participant, financial assurance in one of the forms described in Section IX below equal to the greater of (a) its Financial Assurance Requirement or (b) its “Initial Market Participant Financial Assurance Requirement.” An Unqualified New Market Participant’s or a Returning Market Participant’s Initial Market Participant Financial Assurance Requirement shall be determined by the following formula:

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

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

Where:

MW_t = Number of MWs to be traded in the New England Markets as reasonably projected by the Unqualified New Market Participant or the Returning Market Participant;

Hr_{MIS} = The standard number of hours between generation and the issuance of initial MIS settlement reports including projected generation activity, as determined by the ISO in its sole discretion;

D = Maximum Energy Price Differential; and

S_{2-3} = The per MWh amount assessed pursuant to Schedules 2 and 3 of Section IV.A of the Tariff, as determined annually by the ISO.

$$L = (MW_1 \times LF \times Hr_{MIS} \times (EP + S_{2-3}) \times 3.25) + (MW_1 \times Hr_{MIS} \times TC \times 3.25)$$

Where:

MW_1 = MWs of Real-Time Load Obligation (as defined in Market Rule 1) of the Unqualified New Market Participant or Returning Market Participant;

LF = Average load factor in New England, as determined annually by the ISO in its sole discretion;

Hr_{MIS} = The standard number of hours between generation and the issuance of initial MIS settlement reports including projected generation activity, as determined by the ISO in its sole discretion;

EP = The average price of Energy in the Day-Ahead Energy Market for the most recent calendar year for which information is available from the Annual Reports published by the ISO, as determined by the ISO in its sole discretion;

S_{2-3} = The per MW amount assessed pursuant to Schedules 2 and 3 of Section IV.A of the Tariff, as determined annually by the ISO; and

TC = The hourly transmission charges per MW_1 assessed under the Tariff (other than Schedules 1, 8 and 9 of Section II of the Tariff), as determined annually by the ISO.

$E = (SE) \times 3.25$

Where:

SE = Average monthly share of Participant Expenses (as defined in the RNA) for the applicable Sector.

If an Unqualified New Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV is 80 percent or more of the available amount of the financial assurance provided by that Unqualified New Market Participant or Returning Market Participant, it shall have the

same effect as if such Market Participant's Obligations equaled or exceeded 80 percent of its Credit Test Amount under Section III.B above.

If an Unqualified New Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV is 90 percent or more of the available amount of the financial assurance provided by that Unqualified New Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Obligations equaled or exceeded 90 percent of its Credit Test Amount under Section III.B above. If an Unqualified New Market Participant's or a Returning Market Participant's Initial Market Participant Financial Assurance Requirement during the time period that it is subject to this Section IV exceeds 100 percent of the available amount of the financial assurance provided by that Unqualified New Market Participant or Returning Market Participant, it shall have the same effect as if such Market Participant's Obligations exceeded 100 percent of its Credit Test Amount under Section III.B above.

V. FINANCIAL ASSURANCE REQUIREMENTS FOR NON-MARKET PARTICIPANT TRANSMISSION CUSTOMERS

A. Proof of Financial Viability

Each Non-Market Participant Transmission Customer Applicant must, with its Application and at its own expense, submit proof of financial viability, as described below, satisfying the ISO requirements to demonstrate the Non-Market Participant Transmission Customer Applicant's ability to meet its obligations. Each Non-Market Participant Transmission Customer Applicant that intends to establish a Credit Limit or a Transmission Credit Limit of greater than \$0 must submit to the ISO: (i) all current reports from the Rating Agencies; and (ii) audited financial statements for the two most recent years, or the period of its existence, if less than two years, and unaudited financial statements for its last concluded fiscal quarter if they are not included in such audited annual financial statements. These unaudited statements must be certified as to their accuracy by a Senior Officer of such Non-Market Participant Transmission Customer Applicant and must include in each case, but are not limited to, the following information to the extent available: balance sheets, income statements, statements of cash flows and notes to financial statements, annual and quarterly reports, and 10-K, 10-Q and 8-K Reports.⁸ Each Non-Market Participant Transmission Customer Applicant, whether or not it intends to establish a Credit Limit or Transmission Credit Limit, must also submit to the ISO: (i) at least one (1) bank reference and three (3) utility company credit references, or in those cases where a Non-Market Participant Transmission Customer Applicant does not have three (3) utility

⁸ If any of the above-mentioned financial statements are available on the internet, the Non-Market Participant Transmission Customer Applicant may provide instead a letter to the ISO stating where such statements may be located and retrieved by the ISO or its designee.

ISO's receipt of that Non-Market Participant Transmission Customer Applicant's completed application and application fee and shall be provided to the Participants Committee or its designee and the affected Non-Market Participant Transmission Customer Applicant.

B. Ongoing Financial Review and Credit Ratings

A Non-Market Participant Transmission Customer that receives an Investment Rating from one or more of the Rating Agencies is referred to herein as a "Rated Non-Market Participant Transmission Customer." A Non-Market Participant Transmission Customer that is not a Rated Non-Market Participant Transmission Customer is referred to herein as an "Unrated Non-Market Participant Transmission Customer."

1. Rated Non-Market Participant Transmission Customer Applicants and Transmission Customers

Each Rated Non-Market Participant Transmission Customer that does not currently have an Investment Grade Rating must provide an appropriate form of financial assurance as described in Section IX below.

2. Unrated Non-Market Participant Transmission Customers

Any Unrated Non-Market Participant Transmission Customer that (i) has defaulted on any of its obligations under the Tariff (including without limitation its obligations hereunder and under the Billing Policy) during the immediately preceding 12 month period; or (ii) does not have a Current Ratio of at least 1.0, a Debt-to-Total Capitalization Ratio of 0.6 or less, and an EBITDA-to-Interest Expense Ratio of at least 2.0 must provide an appropriate form of financial

assurance as described in Section IX below. An Unrated Non-Market Participant Transmission Customer that does not meet either of the conditions described in clauses (i) and (ii) of this paragraph is referred to herein as satisfying the “NMPTC Credit Threshold.”

3. NMPTC Credit Limits for ISO Charges

A Credit Limit shall be established for each Non-Market Participant Transmission Customer as set forth in this Section V.B.3.

The Credit Limit of each Rated Non-Market Participant Transmission Customer shall at any time be equal to the least of: (i) the applicable percentage of such Rated Non-Market Participant Transmission Customer’s Tangible Net Worth (as reflected in the following table); (ii) \$50 million; or (iii) 20 percent (20%) of TADO:

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

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

4. NMPTC Transmission Credit Limits

A Transmission Credit Limit shall be established for each Non-Market Participant Transmission Customer in accordance with this Section V.B.4.

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

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

The Transmission Credit Limit of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold shall at any time be equal to the lesser of:

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

5. Credit Limit Usage Limited to Native Load Requirements

At no time will a Non-Market Participant Transmission Customer utilize its Credit Limit or its Transmission Credit Limit for any Charges that are not directly related to that Non-Market

Participant Transmission Customer's NMPTC Native Load Requirements. For the purposes of this Policy, a Non-Market Participant Transmission Customer's "NMPTC Native Load Requirements" at any time shall be the sum of the ISO Charges and the Transmission Charges incurred by that Non-Market Participant Transmission Customer at that time in providing service to those Load Assets (or, in the case of a Non-Market Participant Transmission Customer serving retail customers outside New England, those retail customers in its service area) identified by that Non-Market Participant Transmission Customer to the ISO as being within the franchised retail service area served by that Non-Market Participant Transmission Customer solely in its role as either (x) an electric distribution company whose retail electric rates are regulated exclusively by a state or provincial public utility commission or similar governmental body, or (y) the unregulated affiliate of such a regulated electric distribution company that acts as the agent for that regulated distribution company with respect to the ISO Billing Policy, or (z) a municipality, an agency thereof, a body politic or a public corporation that is created under the authority of any state or province and that is authorized to own, lease and operate electric generation, transmission or distribution facilities.

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

In order for the ISO to update and monitor the Credit Limit and Transmission Credit Limit of each Non-Market Participant Transmission Customer that has an Investment Grade Rating, each such Rated Non-Market Participant Transmission Customer shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 55 days after the end of the applicable fiscal quarter of such Rated Non-Market Participant Transmission Customer, its balance sheet, which shall be certified as to its accuracy by a Senior Officer of such Rated Non-Market Participant Transmission Customer and shall show sufficient detail for the ISO to calculate such Rated Non-Market Participant Transmission Customer's Tangible Net Worth. In addition, each Rated Non-Market Participant Transmission Customer that has an Investment Grade Rating shall submit to the ISO, annually within 10 days of their becoming available and within 100 days after the end of the fiscal year of such Rated Non-Market Participant Transmission Customer, the following audited financial statements: balance sheets, income statements, statements of cash

flows, and notes to financial statements, as well as copies of that Rated Non-Market Participant Transmission Customer's annual report.⁹

In order for the ISO to update and monitor the Credit Limit and Transmission Credit Limit of each Unrated Non-Market Participant Transmission Customer that satisfies the NMPTC Credit Threshold, and receives a Credit Limit or Transmission Credit Limit of greater than \$0, each such Unrated Non-Market Participant Transmission Customer shall submit to the ISO, on a quarterly basis, within 10 days of their becoming available and within 55 days after the end of the applicable fiscal quarter of such Unrated Non-Market Participant Transmission Customer, its balance sheet, which shall be certified as to its accuracy by a Senior Officer of such Unrated Non-Market Participant Transmission Customer and shall show sufficient detail for the ISO to calculate such Unrated Non-Market Participant Transmission Customer's Tangible Net Worth, Current Ratio, Debt-to-Total Capitalization Ratio and EBITDA-to-Interest Expense Ratio. In addition, each such Unrated Non-Market Participant Transmission Customer that satisfies the Credit Threshold and has a Credit Limit or Transmission Credit Limit of greater than \$0 shall submit to the ISO, annually within 10 days of becoming available and within 100 days after the end of the fiscal year of such Unrated Non-Market Participant Transmission Customer, .

⁹ Where any of the above financial information is available on the internet, the Non-Market Participant Transmission Customer may instead provide the ISO with a letter stating where such information may be located and retrieved.

the following audited financial statements: balance sheets; income statements, statements of cash flows, and notes to financial statements, as well as copies of that Unrated Non-Market Participant Transmission Customer's annual report. Where any of the above financial information is available on the internet, the Unrated Non-Market Participant Transmission Customer may instead provide the ISO with a letter stating where such information may be located and retrieved.

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

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

1. Financial Assurance for ISO Charges

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

- (i) two and one-half (2.5) times the average monthly Non-Hourly Charges (as defined in the Billing Policy) for such Non-Market Participant Transmission Customer

over the two most recently invoiced calendar months (which amount shall not in any event be less than \$0); plus

(ii) the amount of any unresolved Disputed Amounts (as defined in the Billing Policy) received by such Non-Market Participant Transmission Customer.

2. Financial Assurance for Transmission Charges

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

3. Notice of Failure to Satisfy NMPTC Financial Assurance Requirement

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

Assurance. In the event that, as a result of those offsets, a Designated FTR Participant's Award Financial Assurance is less than \$0, those offsets may be used to reduce that Designated FTR Participant's FTR Requirements or remaining Financial Assurance Requirement.

D. Settlement Financial Assurance

A Designated FTR Participant that has been awarded a bid in an FTR Auction is required to provide "Settlement Financial Assurance." The amount of a Designated FTR Participant's Settlement Financial Assurance shall be equal to the amount of any settled but uninvoiced Charges incurred by such Designated FTR Participant for FTR transactions less the settled but uninvoiced amounts due to such Market Participant for FTR transactions.

E. Consequences of Failure to Satisfy FTR Requirements

If a Designated FTR Participant does not have additional financial assurance equal to its FTR Requirements (in addition to its other financial assurance obligations hereunder) in place at the time an FTR Auction into which it has bid closes, then, in addition to the other consequences described in this Policy, all bids submitted by that Designated FTR Participant for that FTR Auction will be rejected. The Designated FTR Participant will be allowed to participate in the next FTR Auction held provided it meets all requirements for such participation, including without limitation those set forth herein. Each Designated FTR Participant must maintain the requisite additional financial assurance equal to its FTR

Requirements for the duration of the FTRs awarded to it. The amount of any additional financial assurance provided by a Designated FTR Participant in connection with an unsuccessful bid in an FTR Auction which, as a result of such bid being unsuccessful, is in excess of its FTR Requirements will be held by the ISO and will be applied against future FTR bids by and awards to that Designated FTR Participant unless that Designated FTR Participant requests in writing to have such excess financial assurance returned to it. Prior to returning any financial assurance to a Designated FTR Participant, the ISO shall use such financial assurance to satisfy any overdue obligations of that Designated FTR Participant. The ISO shall only return to that Designated FTR Participant the balance of such financial assurance after all such overdue obligations have been satisfied.

VII. ADDITIONAL FINANCIAL ASSURANCE PROVISIONS FOR FORWARD CAPACITY MARKETS

Any Market Participant transacting in any Forward Capacity Auctions, Reconfiguration Auctions or Bilateral Transactions for capacity that is otherwise required to provide additional financial assurance under this Policy, including all DRP-Only Customers participating in Forward Capacity Auctions, Reconfiguration Auctions or Bilateral Transactions for capacity (each a “Designated FCM Participant”), is required to provide additional financial assurance meeting the requirements of Section IX below in the amounts described in this Section VII (such amounts being referred to in this Policy as the “FCM Requirements”).

A. Commercial Capacity

A Designated FCM Participant offering the capacity of a Resource that (i) has been declared commercial and had its capacity rating verified by the ISO and (ii) has not

6. Credit Test Amount Consequences

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

7. Financial Assurance for Multiple Auctions and Transactions

In the event that a Designated FCM Participant has its supply offer of Non-Commercial Capacity for a Resource accepted in multiple Forward Capacity Auctions and/or Reconfiguration Auctions and/or enters into one or more valid Bilateral Transactions to provide Non-Commercial Capacity for that Resource prior to the date on which that Resource satisfies the

be returned by the ISO to such Market Participant or DRP-Only Customer under Section VII.B.5 when the corresponding Resource has been declared commercial and successfully tested for its capacity ratings by the ISO or has otherwise become a Resource meeting the definition of “Commercial Capacity” above and all of the other requirements of Section VII.B.5 have been satisfied; and

5. for purposes of Section VII.C, any termination of capacity awards shall apply only to the Market Participant and DRP-Only Customer participating in the Composite FCM Transaction that has failed to satisfy its obligations, and any Invoice issued thereunder will be issued only to that Market Participant or DRP-Only Customer.

VIII. FINANCIAL ASSURANCE REQUIREMENTS FOR DRP-ONLY CUSTOMERS IN DEMAND RESOURCE TRANSACTIONS

A. DRP-Only Customer Financial Assurance

Each DRP-Only Customer registering a Demand Resource in a Day-Ahead Market shall submit to the ISO financial assurance, in one of the forms described in Section IX below, in an

[Reserved for future use.]

IX. ACCEPTABLE FORMS OF FINANCIAL ASSURANCE

Provided that the requirements set forth herein are satisfied, acceptable forms of financial assurance include a cash deposit or a letter of credit. All costs associated with obtaining financial security and meeting the provisions of this Policy are the responsibility of the Market Participant or Non-Market Participant Transmission Customer providing that security (each a “Posting Entity”). Any Posting Entity requesting a change to one of the model forms attached to this Policy which would be specific to such Posting Entity (as opposed to a generic improvement to such form) shall, at the time of making that request, pay a \$1,000 change fee, which fee shall be deposited into the Late Payment Account maintained under the Billing Policy. Any additional financial assurance provided by a new Posting Entity under this Section IX must be provided to the ISO at least five (5) Business Days before such Posting Entity commences activity in the New England Markets or commences transmission service under the Tariff.

A. Cash Deposit

A cash deposit submitted to the ISO provides an acceptable form of financial assurance to the ISO provided that the Posting Entity providing the cash deposit (i)

Commission. To the extent any portion of a cash deposit is no longer required hereunder, the ISO shall return such portion to the Posting Entity providing it within four (4) Business Days of a request to do so.

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

B. Letter of Credit

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

1. Requirements for Banks

Each bank issuing a letter of credit that serves as additional financial assurance must meet the requirements of this Section IX.B.1. Each such bank must be on the ISO's "List of Eligible Letter of Credit Issuers." The ISO will post the current List of Eligible Letter of Credit Issuers on its website, and update that List and posting no less frequently than quarterly. To be included on the List of Eligible Letter of Credit Issuers, the bank must be organized under the laws of the United States or any state thereof, or be the United States branch of a foreign bank and either:

(i) be recognized by the New York Mercantile Exchange ("NYMEX") or the Chicago Mercantile Exchange ("CME") as an approved letter of credit bank; or

(ii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of an "A-" by S&P, or "A3" by Moody's, or "A-" by Fitch so long as its letter of credit is confirmed by a bank that is recognized by NYMEX or CME as an approved letter of credit issuer as described in clause (i) above; or

(iii) have a minimum long-term debt rating (or, if the bank does not have minimum long-term debt rating, than a minimum corporate rating) of an “A-” by S&P, or “A3” by Moody’s, or “A-” by Fitch and be approved by the ISO in its sole discretion (the ISO will promptly advise the NEPOOL Budget and Finance Subcommittee of any additional bank approved by it under this provision). Because the ratings described in clauses (ii) and (iii) are minimum ratings, a bank will not be considered to have satisfied the requirement of those clauses if any applicable rating from the Rating Agencies falls below the levels listed in those clauses.

In addition, no Posting Entity may provide a letter of credit that has been issued or confirmed by a bank that is an Affiliate (as defined in Section I.2.2 of the Tariff for purposes of Section II of the Tariff) of that Market Participant.

If a bank that is included on the List of Eligible Letter of Credit Issuers fails to satisfy any of the criteria set forth above, the applicable Posting Entity will have five (5) business days from the date on which the ISO provides notice of such failure to replace the letter of credit with a letter of credit from a bank satisfying those criteria or provide other financial assurance satisfying the requirements of this Policy. In the case of a bank that is removed from the NYMEX or CME list of approved letter of credit banks, the ISO may extend that cure period to twenty (20) Business Days in its sole discretion. The ISO must promptly advise the Budget and Finance Subcommittee of any extension of a cure period beyond five (5) Business Days under this provision.

No letter of credit bank may issue or confirm letters of credit under this Policy in an amount exceeding either: (i) \$100 million in the aggregate for any single Posting Entity; or (ii) \$150 million in aggregate for a group of Posting Entities that are Affiliates.

2. Form of Letter of Credit

Attachment 2 provides a generally acceptable sample “clean” letter of credit, and all letters of credit provided by Posting Entities shall be in this form (with only minor, non-material changes), unless a variation therefrom is approved by the ISO after consultation with the NEPOOL Budget and Finance Subcommittee and filed with the Commission. Any letter of credit provided for a new Posting Entity must have a minimum term of four (4) months. All costs incurred by the ISO in collecting on a letter of credit provided under this Policy shall be paid, or reimbursed to the ISO, by the Posting Entity providing that letter of credit.

Sheet Nos. 88-93C are reserved for future use.

C. Special Provisions for Provisional Members

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

that is attributable to Participant Expenses (including any amounts provided in connection with the standing instruction under the Billing Policy described above) shall be at least \$2,500, and each Provisional Member will replenish that cash deposit to at least that \$2,500 level on December 31 of each year.

X. MISCELLANEOUS PROVISIONS

A. Obligation to Report Material Changes

Each Market Participant and each Non-Market Participant Transmission Customer is responsible for informing the ISO in writing within five (5) Business Days of any Material Change (as hereinafter defined) in its financial status. A “Material Change” in financial status includes, but is not limited to, the following: a downgrade to below an Investment Grade Rating by any Rating Agency; being placed on credit watch with negative implication by any Rating Agency if the Market Participant, or Non-Market Participant Transmission Customer does not have an Investment Grade Rating; a bankruptcy filing or other insolvency; a report of a significant quarterly loss or decline of earnings; the resignation of key officer(s); or the filing of a material lawsuit that could materially adversely impact current or future financial results. A Market Participant’s or Non-Market Participant Transmission Customer’s failure to timely disclose a Material Change in its financial status may result in termination proceedings by the ISO. If there is a Material Change in the financial condition of the Market Participant or Non-Market Participant Transmission Customer, the ISO may require the Market Participant or Non-Market Participant Transmission Customer to provide one of the forms of financial assurance described in this

Policy. If the Market Participant or Non-Market Participant Transmission Customer fails to do so, the ISO may initiate termination proceedings against the Market Participant or Non-Market Participant Transmission Customer.

B. Weekly Payments

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

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

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

C. Use of Transaction Setoffs

In the event that a Market Participant or Non-Market Participant Transmission Customer has failed to satisfy its Financial Assurance Requirement hereunder, the ISO may retain payments due to such Market Participant or Non-Market Participant Transmission Customer, up to the amount of such Market Participant's or Non-Market Participant Transmission Customer's unsatisfied Financial Assurance Requirement, as a cash deposit securing such Market Participant's or Non-Market Participant Transmission Customer's obligations to the ISO, NEPOOL, the Market Participants, the PTOs and the Non-Market Participant Transmission Customers, provided, however, that a Market Participant or Non-Market Participant Transmission Customer will not be deemed to have satisfied its Financial Assurance Requirement under this Policy because the ISO is retaining amounts due to it hereunder unless such Market Participant or Non-Market Participant Transmission Customer has satisfied all of the requirements of Section IX with respect to such amounts.

D. Reimbursement of Costs

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

E. Notification of Default

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

F. Remedies Not Exclusive

No remedy for a Financial Assurance Default is or shall be deemed to be exclusive of any other available remedy or remedies. Each such remedy shall be distinct, separate and cumulative,

shall not be deemed inconsistent with or in exclusion of any other available remedy, and shall be in addition to and separate and distinct from every other remedy. A Financial Assurance Default may result in suspension of the Market Participant or Non-Market Participant Transmission Customer or the commencement of termination proceedings by the ISO.

G. Inquiries and Contests

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

shall have such other rights and remedies as are set forth in the Tariff and ISO Financial Assurance Policy.

- b. Notwithstanding the provisions of the ISO New England Information Policy, as amended, supplemented or restated from time to time (the “ISO New England Information Policy”), Debtor hereby (i) authorizes the Secured Party to disclose any information concerning Debtor to any court, agency or entity which is necessary or desirable, in the sole discretion of the Secured Party, to establish, maintain, perfect or secure the Secured Party’s rights and interest in the Collateral (the “Debtor Information”); and (ii) waives any rights it may have under the ISO New England Information Policy to prevent, impair or limit the Secured Party from disclosing such information concerning the Debtor.

10. PRE-JUDGMENT REMEDY. DEBTOR ACKNOWLEDGES THAT THIS SECURITY AGREEMENT AND THE UNDERLYING TRANSACTIONS GIVING RISE HERETO CONSTITUTE COMMERCIAL BUSINESS TRANSACTIONS WITHIN

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

11. WAIVER OF JURY TRIAL. THE DEBTOR AND THE SECURED PARTY HEREBY EACH KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVES THE

TRANSFERABLE STANDBY LETTER OF CREDIT NO.
ISSUED BY [BANK] IN FAVOR OF ISO NEW ENGLAND
INC. (“ISO”) IN ITS INDIVIDUAL CAPACITY AND ON
BEHALF OF THE PARTICIPANTS IN THE ISO’S MARKETS,
AND THE PARTICIPATING TRANSMISSION OWNERS
(“PTOS”) WHOSE FACILITIES ARE OPERATED BY THE
ISO, THAT [POSTING ENTITY] HAS FAILED TO PAY THE
ISO, THE PARTICIPANTS IN THE ISO’S MARKETS, AND
THE PTOS WHOSE FACILITIES ARE OPERATED BY THE
ISO, IN ACCORDANCE WITH THE TERMS AND
PROVISIONS OF THE TARIFF FILED BY THE ISO, AND
THUS THE ISO IS DRAWING UPON THE LETTER OF
CREDIT IN AN AMOUNT EQUAL TO \$_____.”

IF PRESENTATION OF ANY DRAWING CERTIFICATE IS MADE ON A BUSINESS DAY
AND SUCH PRESENTATION IS MADE AT OUR COUNTERS ON OR BEFORE 10:00 A.M.
_____ TIME, WE SHALL SATISFY SUCH DRAWING REQUEST ON THE SAME
BUSINESS DAY. IF THE DRAWING CERTIFICATE IS RECEIVED AT OUR COUNTERS
AFTER 10:00 A.M. _____ TIME, WE WILL SATISFY SUCH DRAWING REQUEST
ON THE NEXT BUSINESS DAY. FOR THE PURPOSES OF THIS SECTION, A BUSINESS

ATTACHMENT 3

[Reserved.]

Sheet Nos. 118 - 152 are reserved for future use.

Sheet Nos. 154-232 are reserved for future use.

Sheet Nos. 234-287 are reserved for future use.

EXHIBIT ID

ISO NEW ENGLAND BILLING POLICY

Table of Contents

SECTION 1 – OVERVIEW289
SECTION 2 – TIMING AND CONTENT OF STATEMENTS293
SECTION 3 – PAYMENT PROCEDURES300
SECTION 4 – LATE PAYMENT CHARGES; LATE PAYMENT ACCOUNTS322
SECTION 5 – SHORTFALL FUNDING ARRANGEMENT; PAYMENT DEFAULT
SHORTFALL FUND.....323A
SECTION 6 – BILLING DISPUTE PROCEDURES329
SECTION 7 – WEEKLY BILLING PRINCIPLES FOR NON-HOURLY CHARGES341

amounts due under the Documents,¹¹ including without limitation those procedures related to the New England Markets.

Section 1.2 – Financial Transaction Conventions. The following conventions have been adopted in defining sums of money to be paid or received under this Policy:

- a) The term “Charge” refers to a sum of money due from a Covered Entity to the ISO, either in its individual capacity or as billing and collection agent for the other Covered Entities and for NEPOOL pursuant to the Participants Agreement.
- b) The term “Payment” refers to a sum of money due to a Covered Entity from the ISO, as remitting agent for the Covered Entities. Amounts due to and from the ISO include amounts collected and paid by the ISO as billing and collection agent for the Covered Entities and for NEPOOL pursuant to the Participants Agreement.
- c) Where a Covered Entity’s total Charges exceed its total Payments for all amounts being billed together in a billing period, the ISO shall issue an “Invoice” for the net Charge owed by such Covered Entity.
- d) Where a Covered Entity’s total Payments exceed its total Charges for all amounts being billed together in a billing period, the ISO shall issue a “Remittance Advice” for the net Payment owed to the Covered Entity. Invoices and Remittance Advices are collectively referred to herein as “Statements.”

¹¹ Unless otherwise stated herein, ISO will act as agent for the other Covered Entities and for NEPOOL in administering, managing and enforcing this Policy.

Section 1.3 – General Process. Except for special billings, as described in Section 1.4 below, the billing process is performed: (i) twice weekly for each complete-day settlement amount for the hourly charges and payments for Real-Time Energy and Day-Ahead Energy and for each complete-day settlement amount for the hourly charges and payments for Real-Time Operating Reserve, Forward Reserves, Regulation service, Emergency Sales, Emergency Purchases and Net Commitment Period Compensation (all such hourly charges and payments described in this clause (i) being referred to collectively as the “Hourly Charges”); (ii) monthly for all other charges and payments, including without limitation charges relating to the monthly markets, the Forward Capacity Market and other ancillary services, Participant Expenses, charges under Section IV of the ISO Transmission, Markets and Services Tariff, monthly meter adjustments, Qualification Process Cost Reimbursement Deposits (including the annual true-up of those Qualification Process Cost Reimbursement Deposits), and charges under the OATT (*other than* charges arising under Schedules 1, 8 and 9 to the OATT, which charges are addressed in clause (iii) below) (all such charges and payments described in this clause (ii) being referred to collectively as “Non-Hourly Charges” and, together with Hourly Charges, as “ISO Charges”), except in the case of Covered Entities who have requested and received a weekly payment arrangement for Non-Hourly Charges under the Financial Assurance Policy that is Exhibit IA to Section I of the ISO Transmission, Markets and Services Tariff (the “Financial Assurance Policy”); and (iii) monthly for all charges and payments under Schedules 1, 8 and 9 to the OATT (all such charges and payments described in this clause (iii) being referred to collectively as “Transmission Charges”). There are two major steps in the billing process:

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- a) *Statement Issuance.* The ISO will issue an Invoice or Remittance Advice showing the net amounts due from or owed to a Covered Entity. This Statement is determined from the preliminary statements of the New England Markets, applicable the ISO Charges and/or Transmission Charges due under the Documents (including amounts due under the Financial Assurance Policy), as well as applicable adjustments. Prior to January 1 of any calendar year, the ISO will post or make available a list of the dates in the new calendar year on which Statements will be issued, due and paid. Billing and payment holidays will be the same as the ISO's settlement holidays, as listed on the ISO's website from time to time.
- b) *Electronic Funds Transfer ("EFT").* EFTs related to Invoices and Remittance Advices are performed in a two-step process, as described below, in which all Invoices are paid first and all Remittance Advices are paid later.

Section 1.4 – Special Billings. In addition to the regular billing process described above, the ISO will issue special, extraordinary Statements as and when required under the Documents or in order to adjust for special circumstances. Such Statements shall be payable in accordance with the instructions set forth therein.

Section 1.5 – Conflicts with Documents. Except as set forth herein, to the extent any provision hereof conflicts with any provision of any Document, the provision in the Document shall govern.

SECTION 2 – TIMING AND CONTENT OF STATEMENTS.

Section 2.1 – Statements for Hourly Charges. On each Monday and each Wednesday or on the following Business Day if such Monday or Wednesday is not a Business Day, the ISO shall provide electronically to each Covered Entity a Statement showing all complete-day settlement amounts for each of the Hourly Charges incurred and not reflected on a previously issued Statement. Each such Statement will cover only days with complete settled data. Accordingly, some Statements may have fewer days of settled data for certain Hourly Charges if fewer days have been settled for those Hourly Charges on the morning of the day that such Statements are issued; a following Statement may have more days of settled data for those Hourly Charges when it becomes possible to catch up on the settled data. Statements will include contiguous month-to-month hourly market billing data and will have separate line items for any hourly market data that may cross calendar months. For example, if a Statement's billing period includes May 30 through June 2, and all of those days are fully settled, the June 8 Statement would have one line item for the period May 30 to May 31 and one line item for the period June

1 to June 2. The Job Aid on the ISO web site will be updated weekly for any information necessary to be distributed through that medium.

Section 2.2 – Monthly Statements for Non-Hourly Charges. The first Statement issued after the tenth of a calendar month will include both the Hourly Charges for the relevant billing period and Non-Hourly Charges for the immediately preceding calendar month (hereinafter sometimes referred to as a “Monthly Statement”). Resettlements determined in accordance with the procedures set forth in the Market Rules will be included in the monthly Statement for Non-Hourly Charges.

Section 2.3 – Statements for Weekly Billing Non-Hourly Charges. The ISO shall implement any weekly billing arrangements for Non-Hourly Charges effected under the Financial Assurance Policy in accordance therewith and with the procedures set forth in Section 7 below.

Section 2.4 – Contents of Statements. Each Statement for Hourly and Non-Hourly Charges will include all of the following line items that are applicable to the Covered Entity receiving such Statement for the period to which such Statement relates:

- a) *Invoice or Remittance Advice Amount*. The net amount of all Charges and Payments owed by or due to a Covered Entity for the relevant Statement. The

ISO shall issue an Invoice where the Covered Entity owes monies. The ISO shall issue a Remittance Advice where the Covered Entity is owed monies.

- b) *OATT Charges and Payments.* The Charges owed by and the Payments owed to the Covered Entity under the OATT *other than* Transmission Charges, which are billed separately under Section 2.5 below.
- c) *ISO Self-Funding Charges.* The Charges owed by the Covered Entity under Section IV of the Transmission, Markets and Services Tariff, categorized by the section or schedule under which such Charges arise.
- d) *Markets Charges and Payments.* The Hourly Charges owed by and the Payments for Hourly Charges owed to the Covered Entity as a result of transactions in each of the New England Markets administered by the ISO under Section III of the Transmission, Markets and Services Tariff.
- e) *Capacity Charges and Payments.* The Non-Hourly Charges owed by and the Payments for Non-Hourly Charges owed to the Covered Entity as a result of capacity charges, penalties and other transactions in the Forward Capacity Market.
- f) *Participant Expenses.* As defined in the Participants Agreement, the Covered Entity's share of costs and expenses that are incurred pursuant to authorization of the Participants Committee and are not considered costs and expenses of ISO.

- 1) *Wire Transfer Instructions.* Details including the account number, bank name, routing number and electronic transfer instructions which, in the case of an Invoice, will be for the ISO account to which ISO Charges owed by the Covered Entity are to be paid or, in the case of a Remittance Advice, will be for the Covered Entity's account to which the ISO shall remit Payments for ISO Charges owed to that Covered Entity (as previously provided to the ISO by such Covered Entity).

Section 2.5 – Monthly Statements for Transmission Charges. On the same date when each Monthly Statement is issued, the ISO shall provide electronically to each Covered Entity owing or owed any Transmission Charges for the preceding month a Statement (which may be combined with that Monthly Statement) showing all of the Transmission Charges for that Covered Entity for that preceding month (hereinafter sometimes referred to as a “Transmission Statement”). Any resettlements of Transmission Charges will also be included on the Transmission Statement. Each Transmission Statement will also include: (i) the billing month covered by the Transmission Statement; (ii) if the Transmission Statement is an Invoice, the date and time on which the net amount due is to be received by the ISO; and (iii) details including the account number, bank name, routing number and electronic transfer instructions which, in the case of an Invoice, will be for the ISO account to which Transmission Charges owed by the Covered Entity are to be paid or, in the case of a Remittance Advice, will be for the Covered Entity's account to which the ISO shall remit Payments for Transmission Charges owed to that Covered Entity (as previously provided to the ISO by such Covered Entity).

Section 2.6 – Certain Subsequent Adjustments to Previously Issued Statements.

- a) *Adjustments Requested by Covered Entities.* Covered Entities supplying Network Load and other input data to the ISO for use by the ISO in developing Statements shall use reasonable care to assure that the data supplied is complete and accurate. Should a Covered Entity supplying input data subsequently determine that the data supplied was incorrect, that Covered Entity shall notify the ISO promptly of the error and submit corrected data as soon as practicable. All errors in input data for a calendar month shall be corrected in one submission. If the error is detected and corrected data is provided within the time frames set forth below, the ISO will issue corrected Statements to reflect the newly supplied data

Type of Adjustment	Corrected Data Must be Submitted By
Adjustments to Monthly Network Load Submissions	20 th day of the fourth (4 th) month after the Network Load month
Adjustments to Annual Revenue Requirements Submissions	Annually during the rate development process, which is administered by the PTO Working Group
Adjustments to Annual Transmission, Markets and Services Tariff Section II, Schedule 1 Submissions	Annually during the rate development process, which is administered by the PTO Working Group

If the data correction is not submitted within the applicable time frame set forth above, the obligation of the ISO to issue corrected Statements reflecting that adjustment shall be as set forth in a written re-billing protocol, developed in consultation with the NEPOOL Budget and Finance Subcommittee, and as may be amended from time to time in consultation with the NEPOOL Budget and Finance Subcommittee, and posted on the ISO website. The re-billing protocol shall provide, for each category of adjustment listed above, whether and to what extent the adjustment shall be prospective or retroactive and the timing of the

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- d) Nothing in this Section 2.6 shall affect resettlements of the New England Markets under the Market Rules.

SECTION 3 – PAYMENT PROCEDURES.

All Payments (including prepayments as described in Section 3.1(e) below) made by the ISO will in all instances be made by EFT or in immediately available funds payable to the account designated to the ISO by the Covered Entity to which such Payment is due. Payments made by Covered Entities shall be made by EFT to the account designated by the ISO.

Section 3.1 – Invoice Payments.

- a) *Payment Date.* Except in the case of special billings, all Charges due shall be paid to and received by the ISO not later than the second (2nd) Business Day after the Invoice on which they appeared was issued (the “Invoice Date”) so long as the ISO sends such Invoice to the Covered Entities by 11:00 a.m. Eastern Time on the Invoice Date. If the ISO sends an Invoice after 11:00 a.m. Eastern Time on the Invoice Date, the charges on such Invoice will be paid not later than the third (3rd) Business Day after such Invoice Date. Notwithstanding the foregoing, a Non-Market Participant Transmission Customer will in no event be required to make a payment on an Invoice any sooner than provided in Section II of the Transmission, Markets and Services Tariff.

(2nd) Business Day after the Invoice is issued, and (ii) a Non-Market Participant Transmission Customer shall not be required to make a payment on an Invoice any sooner than provided in Section II of the Transmission, Markets and Services Tariff.

- c) *Payments Received by the ISO.* Each Covered Entity owing monies shall remit the amount shown on its Invoice no later than the date such payment is due. Disputed Amounts (as defined in Section 6.1) shall be paid in accordance with clause (d) below. All Invoices shall be paid by EFT, except that (i) Covered Entities (other than Unqualified New Market Participants and Returning Market Participants under the Financial Assurance Policy that are not Provisional Members) may, and any Provisional Member must, pay any Invoice for ISO Charges (but not for Transmission Charges) by instructing the ISO (either on a case-by-case basis or pursuant to a standing instruction) in writing to draw on a cash deposit provided by such Covered Entity under the Financial Assurance Policy for such Invoice, provided that the failure of a Provisional Member to provide such an instruction to the ISO shall not, in and of itself, be deemed to be a default under this Policy and (ii) any Covered Entity may instruct the ISO to auto-debit an account identified by that Covered Entity to pay all Invoices issued by the ISO and in such case the Covered Entity will direct the bank or other institution holding that account to permit the ISO to auto-debit that account to pay all such Invoices on the date they are due. Any instruction to pay any Invoice by drawing on a cash deposit or to auto-debit an account must be received by no later than the first Business Day following the date of such Invoice. The amount of a Covered Entity's cash deposit will immediately be reduced by the amount

drawn to pay an Invoice for ISO Charges pursuant to a standing instruction. Nothing set forth in this section will reduce the financial assurance obligation otherwise applicable to any Covered Entity that instructs the ISO to draw on a cash deposit or to auto-debit an account to pay an Invoice, and the ISO is not liable for any default resulting from a draw on a cash deposit to pay an Invoice or for any overdraft charges resulting from any auto-debit.

- d) *Payments Pending Resolution of a Dispute.* Any Covered Entity that disputes the amount due, including an amount due for Participant Expenses, on any Invoice for service other than transmission service under Section II of the Transmission, Markets and Services Tariff shall pay to the ISO all amounts due on such Invoice, including any such Disputed Amounts. Such payment shall in no way prejudice the right of such Covered Entity to seek reimbursement of such Disputed Amounts, including accrued interest on such amounts at the Commission's standard rate, set forth in 18 C.F.R. Section 35.19, pursuant to the Billing Dispute Resolution Procedures provided in Section 6 below.

Any Covered Entity that disputes the amount due on any Invoice for transmission service under the Transmission, Markets and Services Tariff shall pay to the ISO all amounts not in dispute in accordance with this Policy and shall pay (or, in the case of an auto-debit payment or a payment for ISO Charges pursuant to a standing instruction, as described above, direct the ISO to pay) such Disputed Amounts into an independent escrow account designated by the ISO,

which account shall be established at a banking institution acceptable to the ISO and the Covered Entity challenging the amount due and shall accrue interest at a prevailing market rate. Such amount in dispute shall be held in escrow pending the resolution of such dispute in accordance with the applicable Document(s). To the extent that the amount in dispute would be payable to one or more identifiable Covered Entities (but not to the ISO), then the amount due to each such Covered Entity in the billing period to which such dispute relates shall be reduced by the portion of the total amount in dispute that would be payable to such Covered Entity, subject to payment with interest accrued thereon if and when the dispute is resolved in favor of such Covered Entities. To the extent that the amount in dispute would be payable to the ISO, or the specific Covered Entities to which such amount would be payable cannot be identified, then the shortfall of funds available to pay Remittance Advices resulting from the amount in dispute being held in an escrow account shall be allocated among the Covered Entities according to the two-step allocation process described in Sections 3.3 (for ISO Charges) and in Section 3.4 (for Transmission Charges) for the applicable type of Covered Entity disputing the Charges, subject to payment to all Covered Entities being allocated a portion of the shortfall, with applicable interest (if any), once the dispute is resolved with the funds in such escrow account or with other amounts provided by the Covered Entity losing such dispute.

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- e) *Prepayments.* A Covered Entity may prepay any Invoice, in whole or in part, according to the following procedures:
- (i) only two such prepayments shall be made by any Covered Entity in any calendar week, and no prepayments shall be made on a Friday;
 - (ii) each prepayment will be applied only to the next subsequent Invoice issued;
 - (iii) prepayments and payments for issued Invoices must be made in separate wire transfers;
 - (iv) for purposes of calculating a Covered Entity's financial assurance obligations under the Financial Assurance Policy, prepayments will be applied first to Hourly Charges, then any remaining prepayment will offset the Covered Entity's financial assurance obligations on a dollar-for-dollar basis;
 - (v) if ISO Charges and Transmission Charges are billed on separate Invoices, then separate prepayments must be made for those ISO Charges and Transmission Charges (the ISO will account for each prepayment separately and will only apply each prepayment to the designated Charges);
 - (vi) if a prepayment exceeds the amount due on the next subsequent Invoice issued, then the prepayment will be applied to that Invoice first, and then to the extent any amount is left after paying that Invoice, the Covered Entity making that prepayment may direct at the time of the prepayment that the excess be deposited with its cash deposit maintained under the Financial Assurance Policy, and if the Covered Entity does not direct the ISO to make that deposit, the excess will be returned to the Covered Entity. Under either circumstance, the deposit in the cash deposit or the return of excess funds will occur on the next date when the ISO pays Remittances; and

- (vii) all prepayments will be held in the ISO's settlement account until the Invoice payments are due, and no interest will be paid to any Covered Entity on any prepayments provided by it.

Section 3.2 – ISO Payment of Remittance Advice Amounts. The Payment Date for a Remittance Advice shall be the fourth (4th) Business Day following the date on which the Remittance Advice was issued (the “Remittance Advice Date”) so long as the ISO sends such Remittance Advice by 11:00 a.m. Eastern Time on the Remittance Advice Date. If the ISO sends a Remittance Advice after 11:00 a.m. Eastern Time on the Remittance Advice Date, the Payment Date for that Remittance Advice shall be the fifth (5th) Business Day after the Remittance Advice Date.

Section 3.3 - Payment Default for ISO Charges. If the ISO, in its reasonable opinion, believes that all or any part of any amount of ISO Charges due to be paid by any Covered Entity will not or has not been paid when due (other than in the case of a payment dispute for any amount due for transmission service under the OATT) (the “Default Amount”), then the following procedures shall apply:

- a) *Priority of Payments*. The ISO shall use moneys received by it from Covered Entities for an Invoice for ISO Charges to pay all amounts due to the ISO under Section IV of the Transmission, Markets and Services Tariff, all amounts due to NEPOOL for Participant Expenses, and all amounts due to the ISO for acting as Project Manager for the generation information system (the “GIS”) before making any payments to any Covered Entities. After paying all amounts due to the ISO and NEPOOL but prior to making any payments to any Covered Entities, the ISO shall use moneys received by it from Covered Entities for ISO Charges to pay all amounts due from NEPOOL to the

entity or entities that develop, administer, operate and maintain the GIS (the “GIS Administrator”) for those services. After paying all amounts due to the ISO and NEPOOL for Participant Expenses and all amounts due to the GIS Administrator for the development, administration, operation and maintenance of the GIS but prior to making any payments to any Covered Entities, the ISO shall use moneys received by it from Covered Entities for ISO Charges to pay any and all amounts due with respect to the Shortfall Funding Arrangement (defined below).

- b) *Use of Set-Offs.* The ISO shall use any and all rights of set-off it has under the Documents, including the Financial Assurance Policy and this Policy, against a defaulting Covered Entity with respect to ISO Charges due to that Covered Entity to the extent necessary to pay the Default Amount, together with any interest accrued thereon and any late charges assessed under the Documents, including the Financial Assurance Policy, due from such Covered Entity.
- c) *Enforcing the Security of a Defaulting Party.* If and to the extent that the procedure described in clause (b) above is insufficient to effect payment of the Default Amount and all interest accrued thereon and late charges assessed under the Documents, including the Financial Assurance Policy, the ISO shall use the financial assurance(s) provided by the defaulting Covered Entity under the

Financial Assurance Policy to the extent necessary to pay the Default Amount and such interest and late charges. Any use of financial assurance(s) shall be undertaken in compliance with the Financial Assurance Policy.

- d) *Action Against a Defaulting Party.* If and to the extent that the procedures described in clauses (b) and (c) above are insufficient to effect payment of the Default Amount and all interest accrued thereon and late charges assessed under the Documents, including the Financial Assurance Policy, the ISO shall take appropriate actions to recover the Default Amount and such accrued interest and late charges, which actions may include, without limitation, initiating proceedings in accordance with the appropriate dispute resolution mechanisms or actions with Covered Entities or before the Commission or a court of competent jurisdiction against the defaulting Covered Entity. Before initiating any such proceedings, the ISO shall consult with the Chair of the NEPOOL Budget and Finance Subcommittee or NEPOOL counsel. Any amounts incurred by the ISO or any Market Participant in connection with any such action or proceeding shall be paid by the defaulting Covered Entity.

- e) *Late Payment Account.* If and to the extent that the procedures described in clauses (b), (c) and (d) above are insufficient to effect payment of the Default Amount (but not interest accrued thereon and late charges assessed under the Documents, including the Financial Assurance Policy) by the time the corresponding Payment to the Covered Entities is due, the ISO shall withdraw from the Late Payment Account, as that term is defined in Section 4 of this Policy, an amount equal to such unpaid Default Amount, to the extent that such amount is available in the Late Payment Account, and shall apply such amount to any shortfall in Payments resulting from the Default Amount not being paid. To the extent that the amount on deposit in the Late Payment Account on any date is insufficient to pay all Unsecured Default Amounts and Uncovered Default Amounts (each as defined below) on that date, the amount in the Late Payment Account shall first be applied to Uncovered Default Amounts on that date and, once cash has been applied to all Uncovered Default Amounts, then such amount shall be applied to Unsecured Default Amounts on that date, in each case pro rata based on the total Uncovered Default Amounts or total Unsecured Default Amounts outstanding. Amounts withdrawn from the Late Payment Account and applied toward any shortfall resulting from the Default Amount shall not relieve the defaulting Covered Entity of its obligation to pay such Default Amount. If and to the extent that such Default Amount, interest thereon and/or late charges with respect thereto are subsequently collected (including as a result of the use of a financial assurance under the Financial Assurance Policy or through actions or proceedings against the defaulting Covered Entity), such amounts shall first be used to pay Covered Entities for the amount of such Default Amount allocated to them under clauses (h), (i) and (j) below, with interest thereon, and then, after all such amounts have been paid to

Covered Entities, such Default Amount, interest and/or late charges shall be deposited into the Late Payment Account in accordance with Section 4 of this Policy.

- f) *Payment Default Shortfall Fund.* To the extent that the procedures described in clauses (b), (c), (d) and (e) above are insufficient to effect payment of the Default Amount (but not interest accrued thereon and late charges assessed under the Documents, including the Financial Assurance Policy) the ISO will draw on the Shortfall Funding Arrangement to the extent the Shortfall Funding Arrangement is available at the time, and to the extent the Shortfall Funding Arrangement is not available at the time, the ISO will withdraw from the Payment Default Shortfall Fund (as that term is defined in Section 5 of this Policy), an amount equal to such unpaid Default Amount and shall apply such amount to the shortfall in Payments resulting from the Default Amount not being paid. To the extent that the amount on deposit in the Payment Default Shortfall Fund on any date is insufficient to pay all Unsecured Default Amounts, Uncovered Default Amounts, Unsecured Transmission Default Amounts and Uncovered Transmission Default Amounts (each as defined below) on that date (after applying all amounts in the Late Payment Account for defaults on ISO Charges and all amounts in the Transmission Late Payment Account for defaults on Transmission Charges on that date), the amount in the Payment Default Shortfall Fund on that date shall first be applied to Uncovered Default Amounts on that date and, once cash has been applied to all Uncovered Default Amounts, then such amount shall be applied to Unsecured Default Amounts on that date and, once cash has been applied to all Uncovered Default Amounts and all Unsecured Default Amounts, then such amount shall be applied to Uncovered Transmission Default Amounts on that date and, once cash has been applied to all Uncovered

Default Amounts, Unsecured Default Amounts and Uncovered Transmission Default Amounts, then such amount shall be applied to Unsecured Transmission Default Amounts on that date, in each case pro rata based on the total Uncovered Default Amounts, total Unsecured Default Amounts, total Uncovered Transmission Default Amounts or total Unsecured Transmission Default Amounts outstanding. Amounts drawn on the Shortfall Funding Arrangement and/or withdrawn from the Payment Default Shortfall Fund and applied to any shortfall resulting from the Default Amount shall not relieve the defaulting Covered Entity of its obligation to pay such Default Amount. If and to the extent that a Default Amount which is paid through a draw on the Shortfall Funding Arrangement and/or through a withdrawal from the Payment Default Shortfall Fund, interest on such a Default Amount and/or late charges with respect to such a Default Amount are subsequently collected (including as a result of the use of a financial assurance under the Financial Assurance Policy or through actions or proceedings against the Covered Entity), such amounts shall be paid to certain of the Covered Entities as set forth in Section 5.4 below.

- g) *Congestion Revenue Fund.* If during any billing period congestion payments exceed congestion charges under Manual 28 (hereinafter a “Congestion Shortfall”), such that there is a shortfall in the total settlement for that week due to congestion, the ISO will draw from the Congestion Revenue Fund established and funded under Manual 28 to make up for the shortfall. To the extent there are insufficient funds in the Congestion Revenue Fund to cover that Congestion Shortfall, the ISO will recover the uncovered Congestion Shortfall pursuant to the allocation process set forth in Manual 28, Section 6. The ISO will true-up amounts drawn for Congestion Shortfalls on a monthly basis and reflect that true-up in the Statements reflecting Non-Hourly Charges.

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- h) *Reduction of Payments and Increases in Charges for Unsecured Municipal Market Participants.*
- (i) If and to the extent that (A) the defaulting Covered Entity is a Municipal Market Participant (as defined in the Financial Assurance Policy) with a Credit Limit or a Transmission Credit Limit of greater than \$0 under the Financial Assurance Policy (an “Unsecured Municipal Market Participant”) and (B) the procedures described in clauses (b), (c), (d), (e), (f) and (g) above do not yield sufficient funds to pay all Remittance Advice amounts for ISO Charges in full (after payment of amounts due to the ISO, to NEPOOL for Participant Expenses, and to the GIS Administrator and after payment of any amounts due with respect to the Shortfall Funding Arrangement, in accordance with clause (a) above) on the date such Payments are due, the ISO shall reduce Payments to all Unsecured Municipal Market Participants owed monies for ISO Charges for the billing period to which the payment default relates (the “Default Period”), pro rata based on the ISO Charges owed to those Unsecured Municipal Market Participants, to the extent necessary to clear its accounts for ISO Charges due to Unsecured Municipal Market Participants by the close of banking business on the date such Payments are due; provided, however, that the total amount of reduced Payments under this Section 3.3(h)(i) shall not exceed the defaulting Unsecured Municipal Market Participant’s Credit Limit under the Financial Assurance Policy (such total amount of reduced Payments being referred to as the “Unsecured Municipal Default Amount”). As funds attributable to an Unsecured Municipal Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity)

prior to the next billing period's Statements being distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Municipal Default Amount, shall be distributed pro rata to the Unsecured Municipal Market Participants that did not receive the full amount of their Payments as a result of such Unsecured Municipal Default Amount not being paid, up to the full amount that such Unsecured Municipal Market Participants did not receive as a result of such Unsecured Municipal Default Amount not being paid, with interest thereon.

- (ii) To the extent that any Unsecured Municipal Default Amount remains unpaid to Unsecured Municipal Market Participants on the date that Statements are distributed to Covered Entities in the billing period immediately following the Default Period, the Unsecured Municipal Default Amount remaining unpaid shall be reallocated among all of the Unsecured Municipal Market Participants receiving Statements for ISO charges for the Default Period (other than the Unsecured Municipal Market Participant defaulting on its payment obligations), pro rata based, for each Unsecured Municipal Market Participant being allocated a share of the Unsecured Municipal Default Amount remaining unpaid, on the sum of (i) all ISO Charges due from such Unsecured Municipal Market Participant that are reflected on its Statement for the Default Period and (ii) all Payments for ISO Charges due to such Unsecured Municipal Market Participant that are reflected on its Statement for the Default Period, without giving any effect to the process of netting Charges against Payments on each Statement that is the result of the ISO's single billing system. Thus, by way of example, an Unsecured Municipal Market Participant with \$2,000 of ISO Charges and no Payments on its Statement for the Default Period and an Unsecured Municipal Market Participant with \$1,000 of Charges and \$1,000 of Payments for ISO Charges on its

Statement for the Default Period would be allocated an equal share of the unpaid Unsecured Municipal Default Amount under this clause (h)(ii). Each Unsecured Municipal Market Participant that received a Statement for the Default Period shall have the amount of its Invoice or Remittance Advice in the billing period immediately following the Default Period adjusted as necessary to reflect its obligation for the Unsecured Municipal Default Amount remaining unpaid under this clause (h)(ii). As funds attributable to an Unsecured Municipal Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) after such adjusted Statements are distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Municipal Default Amount, shall be distributed to the Unsecured Municipal Market Participants pro rata based on their allocation of the Unsecured Municipal Default Amount under this clause (h)(ii), up to the full amount of such Unsecured Municipal Default Amount allocated to each such Unsecured Municipal Market Participant, with interest thereon.

- (iii) An Unsecured Municipal Market Participant will not be allocated any Unsecured Municipal Default Amounts under this Section 3.3(h) for any Default Period if, at the start of the calendar year in which the applicable Default Period occurred, that Unsecured Municipal Market Participant provided the ISO with a written request to opt out of that allocation of Unsecured Municipal Default Amounts and that Unsecured Municipal Market Participant provides the ISO with additional financial assurance in the full amount of all of its “Obligations” under the Financial Assurance Policy at all times during that calendar year.

- i) *Reduction of Payments and Increases in Charges for Unsecured Non-Municipal Covered Entities.*
- (i) If and to the extent that (A) the defaulting Covered Entity (x) is not a Municipal Market Participant or a Non-Participant Transmission Customer and (y) has a Credit Limit or Transmission Credit Limit of greater than \$0 under the Financial Assurance Policy (each such Covered Entity being referred to herein as an “Unsecured Non-Municipal Covered Entity”) and (B) the procedures described in clauses (b), (c), (d), (e), (f) and (g) above do not yield sufficient funds to pay all Remittance Advice amounts for ISO Charges in full (after payment of amounts due to the ISO, to NEPOOL for Participant Expenses, and to the GIS Administrator and after payment of any amounts due with respect to the Shortfall Funding Arrangement, in accordance with clause (a) above) on the date such Payments are due, the ISO shall reduce Payments to all Unsecured Non-Municipal Covered Entities owed monies for ISO Charges for the applicable Default Period, pro rata based on the ISO Charges owed to those Unsecured Non-Municipal Covered Entities, to the extent necessary to clear its accounts for ISO Charges due to Unsecured Non-Municipal Covered Entities by the close of banking business on the date such Payments are due; provided, however, that the total amount of reduced Payments under this Section 3.3(i)(i) shall not exceed the defaulting Unsecured Non-Municipal Covered Entity’s Credit Limit under the Financial Assurance Policy (such total amount of reduced Payments being referred to as the “Unsecured Non-Municipal Default Amount”). As funds attributable to an Unsecured Non-Municipal Default Amount are received by the ISO (including amounts received through financial

assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) prior to the next billing period's Statements being distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Non-Municipal Default Amount, shall be distributed pro rata to the Unsecured Non-Municipal Covered Entities that did not receive the full amount of their Payments as a result of such Unsecured Non-Municipal Default Amount not being paid, up to the full amount that such Unsecured Non-Municipal Covered Entities did not receive as a result of such Unsecured Non-Municipal Default Amount not being paid, with interest thereon.

- (ii) To the extent that any Unsecured Non-Municipal Default Amount remains unpaid to Unsecured Non-Municipal Covered Entities on the date that Statements are distributed to Covered Entities in the billing period immediately following the Default Period, the Unsecured Non-Municipal Default Amount remaining unpaid shall be reallocated among all of the Unsecured Non-Municipal Covered Entities receiving Statements for ISO Charges for the Default Period (other than the Unsecured Non-Municipal Covered Entity defaulting on its payment obligations), pro rata based, for each Unsecured Non-Municipal Covered Entity being allocated a share of the Unsecured Non-Municipal Default Amount remaining unpaid, on the sum of (i) all ISO Charges due from such Unsecured Non-Municipal Covered Entity that are reflected on its Statement for the Default Period and (ii) all Payments for ISO Charges due to such Unsecured Non-Municipal Covered Entity that are reflected on its Statement for the

Default Period, without giving any effect to the process of netting Charges against Payments on each Statement that is the result of the ISO's single billing system. Thus, by way of example, an Unsecured Non-Municipal Covered Entity with \$2,000 of ISO Charges and no Payments on its Statement for the Default Period and an Unsecured Non-Municipal Covered Entity with \$1,000 of Charges and \$1,000 of Payments for ISO Charges on its Statement for the Default Period would be allocated an equal share of the unpaid Unsecured Non-Municipal Default Amount under this clause (i)(ii). Each Unsecured Non-Municipal Covered Entity that received a Statement for the Default Period shall have the amount of its Invoice or Remittance Advice in the billing period immediately following the Default Period adjusted as necessary to reflect its obligation for the Unsecured Non-Municipal Default Amount remaining unpaid under this clause (i)(ii). As funds attributable to an Unsecured Non-Municipal Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) after such adjusted Statements are distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Non-Municipal Default Amount, shall be distributed to the Unsecured Non-Municipal Covered Entities pro rata based on their allocation of the Unsecured Non-Municipal Default Amount under this clause (i)(ii), up to the full amount of such Unsecured Non-Municipal Default Amount allocated to each such Unsecured Non-Municipal Covered Entity, with interest thereon.

- (iii) An Unsecured Non-Municipal Covered Entity will not be allocated any Unsecured Non-Municipal Default Amounts under this Section 3.3(i) for any Default Period if, at the start of the calendar year in which the applicable Default Period occurred, that Unsecured Non-Municipal Covered Entity provided the ISO with a written request to opt out of that allocation of Unsecured Non-Municipal Default Amounts and that Unsecured Non-Municipal Covered Entity provides the ISO with additional financial assurance in the full amount of all of its “Obligations” under the Financial Assurance Policy at all times during that calendar year.
- j) *Reduction of Payments and Increases in Charges for Other Covered Entities.*
 - (i) If and to the extent that (A) the defaulting Covered Entity is not an Unsecured Municipal Market Participant or an Unsecured Non-Municipal Covered Entity (referred to together herein as an “Unsecured Covered Entity”) or the Default Amount exceeds the Unsecured Municipal Default Amount or the Unsecured Non-Municipal Default Amount (referred to together herein as the “Unsecured Default Amount”) for that Covered Entity and (B) the procedures described in clauses (b), (c), (d), (e), (f), (g) and (h) or (i) (if applicable) above do not yield sufficient funds to pay all Remittance Advice amounts for ISO Charges in full (after payment of amounts due to the ISO, to NEPOOL for Participant Expenses, and to the GIS Administrator and after payment of any amounts due with respect to the Shortfall Funding Arrangement, in accordance with clause (a) above) on the date such Payments are due, the ISO shall reduce Payments to those Covered Entities owed monies for ISO Charges for that Default Period,

pro rata based on the amounts owed to all Covered Entities, to the extent necessary to clear its accounts for ISO Charges by the close of banking business on the date such Payments are due (after giving effect to clause (h) or (i) above if applicable) (the amount of such reduction in Payments for ISO Charges after giving effect to clause (h) or (i) above (if applicable) is referred to herein as the “Uncovered Default Amount”). For the avoidance of doubt, the Uncovered Default Amount is equal to the Default Amount minus any Unsecured Default Amount. As funds attributable to an Uncovered Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) prior to the next billing period’s Statements being distributed, such funds, together with any interest and late charges collected on the applicable Default Amount, shall be distributed pro rata to the Covered Entities that did not receive the full amount of their Payments as a result of such Uncovered Default Amount not being paid, up to the full amount that such Covered Entities did not receive as a result of such Uncovered Default Amount not being paid, with interest thereon.

- (ii) To the extent that any amount of an Uncovered Default Amount remains unpaid to Covered Entities on the date that Statements are distributed to Covered Entities in the billing period immediately following the Default Period, the Uncovered Default Amount remaining unpaid shall be reallocated among all of the Covered Entities receiving Statements for ISO Charges for the Default Period (other than the Covered Entity defaulting on its payment obligations), pro rata based, for each Covered Entity being

allocated a share of the Uncovered Default Amount remaining unpaid, on the sum of (i) all ISO Charges due from such Covered Entity that are reflected on its Statement for the Default Period and (ii) all Payments for ISO Charges due to such Covered Entity that are reflected on its Statement for the Default Period, without giving any effect to the process of netting Charges against Payments on each Statement that is the result of the ISO's single billing system. Thus, by way of example, a Covered Entity with \$2,000 of ISO Charges and no Payments on its Statement for the Default Period and a Covered Entity with \$1,000 of ISO Charges and \$1,000 of Payments for ISO Charges on its Statement for the Default Period would be allocated an equal share of the unpaid Uncovered Default Amount under this clause (j)(ii). Each Covered Entity that received a Statement for the Default Period shall have the amount of its Invoice or Remittance Advice in the billing period immediately following the Default Period adjusted as necessary to reflect its obligation for the Uncovered Default Amount remaining unpaid under this clause (j)(ii). As funds attributable to an Uncovered Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) after such adjusted Statements are distributed, such funds, together with any interest and late charges collected on the applicable Uncovered Default Amount, shall be distributed to the Covered Entities pro rata based on their allocation of the Uncovered Default Amount under this clause (j)(ii), up to the full amount of such Uncovered Default Amount allocated to each such Covered Entity, with interest thereon.

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- k) *Order of Settlement.* As amounts on Default Amounts are received by the ISO, the oldest outstanding ISO Charges will be settled first in the order of the creation of such debts.
- l) Notwithstanding the other provisions of this Section 3.3, an unpaid amount shall not be considered a “Default Amount,” and the ISO will not take any of the actions described in the suspension provisions of the ISO New England Financial Assurance Policy or in this Section 3.3 with respect to that unpaid amount, if the total unpaid amount is attributable to Qualification Process Cost Reimbursement Deposits (including any annual true-up of those amounts). To the extent that a Covered Entity pays only a part of an Invoice that includes a Charge for a Qualification Process Cost Reimbursement Deposit, the unpaid amount shall first be allocated to that Qualification Process Cost Reimbursement Deposit, and other Charges on that Invoice will only be considered not to have been paid if the unpaid amount exceeds the amount of the Qualification Process Cost Reimbursement Deposit.

Section 3.4 – Payment Default for Transmission Charges. If the ISO, in its reasonable opinion, believes that all or any part of any amount of Transmission Charges due to be paid by any Covered Entity will not or has not been paid when due (the “Transmission Default Amount”), then the following procedures shall apply:

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- a) *Use of Set-Offs.* The ISO shall use any and all rights of set-off it has under the Documents, including the Financial Assurance Policy and this Policy, against a defaulting Covered Entity with respect to Transmission Charges due to that Covered Entity to the extent necessary to pay the Default Amount, together with any interest accrued thereon and any late charges assessed under the Documents, including the Financial Assurance Policy, due from such Covered Entity.
- b) *Enforcing the Security of a Defaulting Party.* If and to the extent that the procedure described in clause (a) above is insufficient to effect payment of the Transmission Default Amount and all interest accrued thereon and late charges assessed under the Documents, including the Financial Assurance Policy, the ISO shall use the financial assurance(s) provided by the defaulting Covered Entity under the Financial Assurance Policy to the extent necessary to pay the Transmission Default Amount and such interest and late charges. Any use of financial assurance(s) shall be undertaken in compliance with the Financial Assurance Policy.
- c) *Action Against a Defaulting Party.* If and to the extent that the procedures described in clauses (a) and (b) above are insufficient to effect payment of the Transmission Default Amount and all interest accrued thereon and late charges assessed under the Documents, including the Financial Assurance Policy, the ISO shall take appropriate actions to recover the Transmission Default Amount and such accrued interest and late charges, which actions may include, without limitation, initiating proceedings in accordance with the appropriate dispute resolution mechanisms or actions with Covered Entities or before the Commission or a court of competent jurisdiction against the defaulting Covered Entity. Before initiating any such proceedings, the ISO shall consult with the Chair of the

NEPOOL Budget and Finance Subcommittee or NEPOOL counsel. Any amounts incurred by the ISO or any Market Participant in connection with any such action or proceeding shall be paid by the defaulting Covered Entity.

- d) *Transmission Late Payment Account.* If and to the extent that the procedures described in clauses (a), (b) and (c) above are insufficient to effect payment of the Transmission Default Amount (but not interest accrued thereon and late charges assessed under the Documents, including the Financial Assurance Policy) by the time the corresponding Payment to the Covered Entities is due, the ISO shall withdraw from the Transmission Late Payment Account, as that term is defined in Section 4 of this Policy, an amount equal to such unpaid Transmission Default Amount, to the extent that such amount is available in the Transmission Late Payment Account, and shall apply such amount to any shortfall in Payments resulting from the Transmission Default Amount not being paid. To the extent that the amount on deposit in the Transmission Late Payment Account on any date is insufficient to pay all Unsecured Transmission Default Amounts and Uncovered Transmission Default Amounts (each as defined below) on that date, the amount in the Transmission Late Payment Account shall first be applied to Uncovered Transmission Default Amounts on that date and, once cash has been applied to all Uncovered Transmission Default Amounts, then such amount shall be applied to Unsecured Transmission Default Amounts on that date, in each case pro rata based on the total Uncovered Transmission Default Amounts or total Unsecured Transmission Default Amounts outstanding. Amounts withdrawn from the Transmission Late Payment Account and applied toward any shortfall resulting from the Transmission Default Amount shall not relieve the defaulting Covered Entity of its obligation to pay such Transmission Default Amount. If and

to the extent that such Transmission Default Amount, interest thereon and/or late charges with respect thereto are subsequently collected (including as a result of the use of a financial assurance under the Financial Assurance Policy or through actions or proceedings against the defaulting Covered Entity), such amounts shall first be used to pay Covered Entities for the amount of such Transmission Default Amount allocated to them under clause (f), (g) and (h) below, with interest thereon, and then, after all such amounts have been paid to Covered Entities, such Transmission Default Amount, interest and/or late charges shall be deposited into the Transmission Late Payment Account in accordance with Section 4 of this Policy.

- e) *Payment Default Shortfall Fund.* To the extent that the procedures described in clauses (a), (b), (c) and (d) above are insufficient to effect payment of the Transmission Default Amount (but not interest accrued thereon and late charges assessed under the Documents, including the Financial Assurance Policy), the ISO will draw on the Shortfall Funding Arrangement to the extent the Shortfall Funding Arrangement is available at the time, and to the extent the Shortfall Funding Arrangement is not available at the time, the ISO will withdraw from the Payment Default Shortfall Fund (as that term is defined in Section 5 of this Policy), an amount equal to such unpaid Transmission Default Amount and shall apply such amount to the shortfall in Payments resulting from the Transmission Default Amount not being paid. To the extent that the amount on deposit in the Payment Default Shortfall Fund on any date is insufficient to pay all Unsecured Default Amounts, Uncovered Default Amounts, Unsecured Transmission Default Amounts and Uncovered Transmission Default Amounts (each as defined herein) on that date (after applying all amounts in the Late Payment Account for

defaults on ISO Charges and all amounts in the Transmission Late Payment Account for defaults on Transmission Charges on that date), the amount in the Payment Default Shortfall Fund on that date shall first be applied to Uncovered Default Amounts on that date and, once cash has been applied to all Uncovered Default Amounts, then such amount shall be applied to Unsecured Default Amounts on that date and, once cash has been applied to all Uncovered Default Amounts and all Unsecured Default Amounts, then such amount shall be applied to Uncovered Transmission Default Amounts on that date and, once cash has been applied to all Uncovered Default Amounts, Unsecured Default Amounts and Uncovered Transmission Default Amounts, then such amount shall be applied to Unsecured Transmission Default Amounts on that date, in each case pro rata based on the total Uncovered Default Amounts, total Unsecured Default Amounts, total Uncovered Transmission Default Amounts or total Unsecured Transmission Default Amounts outstanding. Amounts drawn on the Shortfall Funding Arrangement and/or withdrawn from the Payment Default Shortfall Fund and applied to any shortfall resulting from the Transmission Default Amount shall not relieve the defaulting Covered Entity of its obligation to pay such Transmission Default Amount. If and to the extent that a Transmission Default Amount which is paid through a draw on the Shortfall Funding Arrangement and/or through a withdrawal from the Payment Default Shortfall Fund, interest on such a Transmission Default Amount and/or late charges with respect to such a Transmission Default Amount are subsequently collected (including as a result of the use of a financial assurance under the Financial Assurance Policy or through actions or proceedings against the Covered Entity), such amounts shall be paid to certain of the Covered Entities as set forth in Section 5.4 below.

- f) *Reduction of Payments and Increases in Transmission Charges for Unsecured Municipal Market Participants.*
- (i) If and to the extent that (A) the defaulting Covered Entity is an Unsecured Municipal Market Participant and (B) the procedures described in clauses (a), (b), (c), (d), and (e) above do not yield sufficient funds to pay all Remittance Advice amounts for Transmission Charges in full on the date such Payments are due, the ISO shall reduce Payments to all Unsecured Municipal Market Participants owed monies for Transmission Charges for that billing period (the “Transmission Default Period”), pro rata based on the Transmission Charges owed to those Unsecured Municipal Market Participants, to the extent necessary to clear its accounts for Transmission Charges due to Unsecured Municipal Market Participants by the close of banking business on the date such Payments are due; provided, however, that the total amount of reduced Payments under this Section 3.4(f) shall not exceed the defaulting Unsecured Municipal Market Participant’s Transmission Credit Limit under the Financial Assurance Policy (such total amount of reduced Payments being referred to as the “Unsecured Municipal Transmission Default Amount”). As funds attributable to an Unsecured Municipal Transmission Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) prior to the next billing period’s Transmission Statements being distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Transmission Default Amount, shall be distributed pro rata to the

Unsecured Municipal Market Participants that did not receive the full amount of their Payments as a result of such Unsecured Municipal Transmission Default Amount not being paid, up to the full amount that such Unsecured Municipal Market Participants did not receive as a result of such Unsecured Municipal Transmission Default Amount not being paid, with interest thereon.

- (ii) To the extent that any Unsecured Municipal Transmission Default Amount remains unpaid to Unsecured Municipal Market Participants on the date that Transmission Statements are distributed to Covered Entities in the billing period immediately following the Transmission Default Period, the Unsecured Municipal Transmission Default Amount remaining unpaid shall be reallocated among all of the Unsecured Municipal Market Participants receiving Transmission Statements for Transmission Charges for the Transmission Default Period (other than the Unsecured Municipal Market Participant defaulting on its payment obligations), pro rata based, for each Unsecured Municipal Market Participant being allocated a share of the Unsecured Municipal Transmission Default Amount remaining unpaid, on the sum of (i) all Transmission Charges due from such Unsecured Municipal Market Participant that are reflected on its Transmission Statement for the Transmission Default Period and (ii) all Payments for Transmission Charges due to such Unsecured Municipal Market Participant that are reflected on its Transmission Statement for the Transmission Default Period, without giving any effect to the process of netting Charges against Payments on each Transmission Statement that is the result of the ISO's single billing system. Thus, by way of example, an

Unsecured Municipal Market Participant with \$2,000 of Transmission Charges and no Payments on its Transmission Statement for the Transmission Default Period and an Unsecured Municipal Market Participant with \$1,000 of Transmission Charges and \$1,000 of Payments for Transmission Charges on its Transmission Statement for the Transmission Default Period would be allocated an equal share of the unpaid Unsecured Municipal Transmission Default Amount under this clause (f)(ii). Each Unsecured Municipal Market Participant that received a Transmission Statement for the Transmission Default Period shall have the amount of its Invoice or Remittance Advice in the billing period immediately following the Transmission Default Period adjusted as necessary to reflect its obligation for the Unsecured Municipal Transmission Default Amount remaining unpaid under this clause (f)(ii). As funds attributable to an Unsecured Municipal Transmission Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) after such adjusted Transmission Statements are distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Municipal Transmission Default Amount, shall be distributed to the Unsecured Municipal Market Participants pro rata based on their allocation of the Unsecured Municipal Transmission Default Amount under this clause (f)(ii), up to the full amount of such Unsecured Municipal Transmission Default Amount allocated to each such Unsecured Municipal Market Participant, with interest thereon.

- (iii) An Unsecured Municipal Market Participant will not be allocated any Unsecured Municipal Transmission Default Amounts under this Section 3.4(f) for any Transmission Default Period if, at the start of the calendar year in which the applicable Transmission Default Period occurred, that Unsecured Municipal Market Participant provided the ISO with a written request to opt out of that allocation of Unsecured Municipal Transmission Default Amounts and that Unsecured Municipal Market Participant provides the ISO with additional financial assurance in the full amount of all of its “Transmission Obligations” under the Financial Assurance Policy at all times during that calendar year.

- g) *Reduction of Payments and Increases in Transmission Charges for Unsecured Non-Municipal Covered Entities.*

 - (i) If and to the extent that (A) the defaulting Covered Entity is an Unsecured Non-Municipal Covered Entity and (B) the procedures described in clauses (a), (b), (c), (d), and (e) above do not yield sufficient funds to pay all Remittance Advice amounts for Transmission Charges in full on the date such Payments are due, the ISO shall reduce Payments to all Unsecured Non-Municipal Covered Entities owed monies for the applicable Transmission Default Period, pro rata based on the Transmission Charges owed to those Unsecured Non-Municipal Covered Entities, to the extent necessary to clear its accounts for Transmission Charges due to Unsecured Non-Municipal Covered Entities by the close of banking business on the date such Payments are due; provided, however, that the total amount of reduced Payments under this Section 3.4(g) shall not exceed the defaulting Unsecured Non-Municipal Covered Entity’s

Transmission Credit Limit under the Financial Assurance Policy (such total amount of reduced Payments being referred to as the “Unsecured Non-Municipal Transmission Default Amount”). As funds attributable to an Unsecured Non-Municipal Transmission Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) prior to the next billing period’s Transmission Statements being distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Non-Municipal Transmission Default Amount, shall be distributed pro rata to the Unsecured Non-Municipal Covered Entities that did not receive the full amount of their Payments as a result of such Unsecured Non-Municipal Transmission Default Amount not being paid, up to the full amount that such Unsecured Non-Municipal Covered Entities did not receive as a result of such Unsecured Non-Municipal Transmission Default Amount not being paid, with interest thereon.

- (ii) To the extent that any Unsecured Non-Municipal Transmission Default Amount remains unpaid to Unsecured Non-Municipal Covered Entities on the date that Transmission Statements are distributed to Covered Entities in the billing period immediately following the Transmission Default Period, the Unsecured Non-Municipal Transmission Default Amount remaining unpaid shall be reallocated among all of the Unsecured Non-Municipal Covered Entities receiving Transmission Statements for Transmission Charges for the Transmission Default Period (other than the

Unsecured Non-Municipal Covered Entity defaulting on its payment obligations), pro rata based, for each Unsecured Non-Municipal Covered Entity being allocated a share of the Unsecured Non-Municipal Transmission Default Amount remaining unpaid, on the sum of (i) all Transmission Charges due from such Unsecured Non-Municipal Covered Entity that are reflected on its Transmission Statement for the Transmission Default Period and (ii) all Payments for Transmission Charges due to such Unsecured Non-Municipal Covered Entity that are reflected on its Transmission Statement for the Transmission Default Period, without giving any effect to the process of netting Charges against Payments on each Transmission Statement that is the result of the ISO's single billing system. Thus, by way of example, an Unsecured Non-Municipal Covered Entity with \$2,000 of Transmission Charges and no Payments on its Transmission Statement for the Transmission Default Period and an Unsecured Non-Municipal Covered Entity with \$1,000 of Transmission Charges and \$1,000 of Payments for Transmission Charges on its Transmission Statement for the Transmission Default Period would be allocated an equal share of the unpaid Unsecured Non-Municipal Transmission Default Amount under this clause (g)(ii). Each Unsecured Non-Municipal Covered Entity that received a Transmission Statement for the Transmission Default Period shall have the amount of its Invoice or Remittance Advice in the billing period immediately following the Transmission Default Period adjusted as necessary to reflect its obligation for the Unsecured Non-Municipal Transmission Default Amount remaining unpaid under this clause (g)(ii). As funds attributable to an

Unsecured Non-Municipal Transmission Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) after such adjusted Transmission Statements are distributed, such funds, together with any interest and late charges collected on the applicable Unsecured Non-Municipal Transmission Default Amount, shall be distributed to the Unsecured Non-Municipal Covered Entities pro rata based on their allocation of the Unsecured Non-Municipal Transmission Default Amount under this clause (g)(ii), up to the full amount of such Unsecured Non-Municipal Transmission Default Amount allocated to each such Unsecured Non-Municipal Covered Entity, with interest thereon.

- (iii) An Unsecured Non-Municipal Covered Entity will not be allocated any Unsecured Non-Municipal Transmission Default Amounts under this Section 3.4(g) for any Transmission Default Period if, at the start of the calendar year in which the applicable Transmission Default Period occurred, that Unsecured Non-Municipal Covered Entity provided the ISO with a written request to opt out of that allocation of Unsecured Non-Municipal Transmission Default Amounts and that Unsecured Non-Municipal Covered Entity provides the ISO with additional financial assurance in the full amount of all of its “Transmission Obligations” under the Financial Assurance Policy all times during that calendar year.

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- h) *Reduction of Payments and Increases in Transmission Charges for Other Covered Entities.*
- (i) If and to the extent that (A) the defaulting Covered Entity is not an Unsecured Covered Entity or the Transmission Default Amount for that Covered Entity exceeds the Unsecured Municipal Transmission Default Amount or the Unsecured Non-Municipal Transmission Default Amount (referred to together herein as the “Unsecured Transmission Default Amount”) for that Covered Entity and (B) the procedures described in clauses (a), (b), (c), (d), (e) and (f) or (g) (if applicable) above do not yield sufficient funds to pay all Remittance Advice amounts for Transmission Charges in full on the date such Payments are due, the ISO shall reduce Payments to those Covered Entities owed monies for Transmission Charges for that Transmission Default Period, pro rata based on the amounts owed to all Covered Entities, to the extent necessary to clear its accounts for Transmission Charges by the close of banking business on the date such Payments are due (after giving effect to clauses (f) and (g) above if applicable) (the amount of such reduction in Payments for Transmission Charges after giving effect to clauses (f) and (g) above (if applicable) is referred to herein as the “Uncovered Transmission Default Amount”). For the avoidance of doubt, the Uncovered Transmission Default Amount is equal to the Transmission Default Amount minus any Unsecured Transmission Default Amount. As funds attributable to an Uncovered Transmission Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) prior to the next billing period’s Transmission Statements being

distributed, such funds, together with any interest and late charges collected on the applicable Transmission Default Amount, shall be distributed pro rata to the Covered Entities that did not receive the full amount of their Payments as a result of such Uncovered Transmission Default Amount not being paid, up to the full amount that such Covered Entities did not receive as a result of such Uncovered Transmission Default Amount not being paid, with interest thereon.

- (ii) To the extent that any amount of an Uncovered Transmission Default Amount remains unpaid to Covered Entities on the date that Transmission Statements are distributed to Covered Entities in the billing period immediately following the Transmission Default Period, the Uncovered Transmission Default Amount remaining unpaid shall be reallocated among all of the Covered Entities receiving Transmission Statements for Transmission Charges for the Transmission Default Period (other than the Covered Entity defaulting on its payment obligations), pro rata based, for each Covered Entity being allocated a share of the Uncovered Transmission Default Amount remaining unpaid, on the sum of (i) all Transmission Charges due from such Covered Entity that are reflected on its Transmission Statement for the Transmission Default Period and (ii) all Payments due to such Covered Entity that are reflected on its Transmission Statement for the Transmission Default Period, without giving any effect to the process of netting Charges against Payments on each Transmission Statement that is the result of the ISO's single billing system. Thus, by way of example, a Covered Entity with \$2,000 of Transmission Charges and no Payments on its Transmission Statement for

the Transmission Default Period and a Covered Entity with \$1,000 of Transmission Charges and \$1,000 of Payments on its Transmission Statement for the Transmission Default Period would be allocated an equal share of the unpaid Uncovered Transmission Default Amount under this clause (h)(ii). Each Covered Entity that received a Transmission Statement for the Default Period shall have the amount of its Invoice or Remittance Advice in the billing period immediately following the Transmission Default Period adjusted as necessary to reflect its obligation for the Uncovered Transmission Default Amount remaining unpaid under this clause (h)(ii). As funds attributable to an Uncovered Transmission Default Amount are received by the ISO (including amounts received through financial assurances provided under the Financial Assurance Policy or through actions or proceedings commenced against the defaulting Covered Entity) after such adjusted Transmission Statements are distributed, such funds, together with any interest and late charges collected on the applicable Uncovered Transmission Default Amount, shall be distributed to the Covered Entities pro rata based on their allocation of the Uncovered Transmission Default Amount under this clause (h)(ii), up to the full amount of such Uncovered Transmission Default Amount allocated to each such Covered Entity, with interest thereon.

- i) *Order of Settlement.* As amounts on Transmission Default Amounts are received by the ISO, the oldest outstanding Transmission Charges will be settled first in the order of the creation of such debts.

Section 3.5 – Enforcement of Payment Obligations Against Defaulting Covered Entities. Each Covered Entity that shares in any shortfall in payments under Section

3.3 or Section 3.4 shall have an independent right to seek and obtain payment and recovery of the amount of its share of such shortfall (the “Allocated Assessment”) from the defaulting Covered Entity. Any Covered Entity that recovers any portion of its Allocated Assessment from a defaulting Covered Entity shall promptly so notify the ISO, and such Covered Entity’s share of any recovery of a shortfall in payments hereunder shall be reduced by the amount of its Allocated Assessment that it recovers on its own. In addition to any amounts in default, the defaulting Covered Entity shall be liable to the ISO and each other Covered Entity for all reasonable costs incurred in enforcing the defaulting Covered Entity’s obligations.

Section 3.6 – Set-Off. The ISO shall apply any amount to which any defaulting Covered Entity is or will be entitled for ISO Charges or Transmission Charges toward the satisfaction of any of that defaulting Covered Entity’s debts to the ISO, NEPOOL or the Covered Entities for ISO Charges or Transmission Charges which are incurred under the Documents, including the Financial Assurance Policy; provided that amounts due for ISO Charges will first be applied to ISO Charges then, to the extent of any excess, to Transmission Charges, and amounts due for Transmission Charges will be first be applied to Transmission Charges then, to the extent of any excess, to ISO Charges.

Section 3.7 – Notice and Suspension. Without limiting any of the other remedies described above, in the event that the ISO, in its reasonable opinion, believes that all or any part of any amount due to be paid by any Covered Entity for ISO Charges or Transmission Charges will not be or has not been paid when due (a “Payment Default”), the ISO (on its own behalf or on behalf of the Covered Entities) may (but shall not be required to) notify such Covered Entity in writing, electronically and by first class mail sent in each case to such Covered Entity’s billing contact, of such Payment Default. If a Payment Default is not cured by 10:00 a.m. Eastern Time on the Business Day immediately following the Business Day when such payment was originally due, the ISO

shall notify such Market Participant, the NEPOOL Budget and Finance Subcommittee, all members and alternates of the Participants Committee, the New England governors and utility regulatory agencies and the credit and billing contacts for all Market Participants of (i) the identity of the Covered Entity receiving such notice, (ii) whether such notice relates to a Payment Default, (iii) whether the defaulting Covered Entity has a registered load asset, and (iv) the actions the ISO plans to take and/or has taken in response to such Payment Default. In addition, the ISO will provide any additional information with respect to such Payment Default as may be required under the ISO New England Information Policy. If a Payment Default is not cured by 10:00 a.m., Eastern Time, of the second Business Day after the date when such payment was originally due, the defaulting Covered Entity shall be suspended pursuant to the suspension provisions of the ISO New England Financial Assurance Policy (which will apply to the defaulting Covered Entity regardless of whether it is a “Municipal Market Participant” or a “Non-Municipal Market Participant” under that Financial Assurance Policy). Such defaulting Covered Entity shall be suspended as described in the Financial Assurance Policy until such Payment

If either (x) a Covered Entity is suspended from the New England Markets as a result of a Payment Default as described in this Section 3.7 as a result of a Payment Default involving ISO Charges or (y) a Covered Entity receives more than five notices of Payment Defaults with respect to ISO Charges in any rolling 12-month period, then such Covered Entity shall pay a \$1,000 penalty for such suspension and for each notice after the fifth notice in a rolling 12-month period. All penalties paid under this paragraph shall be deposited in the Late Payment Account.

[Sheet reserved for future use.]

Section 3.8 – Bankruptcy Filings. In the event any Covered Entity files a voluntary or involuntary petition in bankruptcy or commences a proceeding under the United States Bankruptcy Code or any other applicable law concerning insolvency, reorganization or bankruptcy by or against such Covered Entity as debtor (the “Bankruptcy Event”) and the ISO is required to return any payments made by such Covered Entity to the bankruptcy court having jurisdiction over such Bankruptcy Event, the ISO may avail itself of any emergency funding provisions in the Transmission, Markets and Services Tariff to collect the amounts returned by the ISO.

Section 3.9 – Partial Payments of Combined Invoices. If ISO Charges and Transmission Charges are included on the same Invoice and the Covered Entity pays only a portion of the Charges included in that Invoice, then the ISO shall use moneys received by it from that Covered Entity (i) first to pay all amounts due from that Covered Entity to the ISO under Section IV of the Transmission, Markets and Services Tariff, to NEPOOL for Participant Expenses, and to the ISO for acting as Project Manager for the GIS before making any payments to any Covered Entities, then (ii) then to pay all amounts due for that Covered Entity's share, if any, of the amounts due to the GIS Administrator, (iii) then to pay all amounts due from that Covered Entity with respect to the Shortfall Funding Arrangement, and (iv) then, to the extent of any remaining amounts received from that Covered Entity, those amounts will be allocated to the ISO Charges and Transmission Charges on that Invoice pro rata based on the total amount of each set of Charges on that Invoice. Notwithstanding the foregoing, a partial payment of any Invoice shall be a Payment Default.

Section 3.10 – Sharing of Financial Assurance. If the financial assurance(s) provided by a Covered Entity under the Financial Assurance Policy are insufficient to effect payment of all ISO Charges and Transmission Charges that are due on the same date and which have not been paid by that Covered Entity, the ISO shall allocate the amounts available under those financial assurance(s) as follows:

- i. first to pay all amounts due from that Covered Entity to the ISO under Section IV of the Transmission, Markets and Services Tariff, to NEPOOL for Participant Expenses, and to the ISO for acting as Project Manager the GIS;
- ii. second, to pay all amounts due for that Covered Entity's share, if any, of the amounts due to the GIS Administrator;

-
- iii. third, to pay all amounts due from that Covered Entity with respect to the Shortfall Funding Arrangement;
 - iv. fourth, to the Covered Entity's Charges for FTR transactions, up to the FTR Requirements calculated for that Covered Entity by the ISO on the last day of the billing period for which the Payment Default has occurred; and
 - v. fifth, to the remaining unpaid ISO Charges and the unpaid Transmission Charges owed by that Covered Entity pro rata based on the total amount of each set of Charges due.

Section 3.11 – Allocation of Payment Defaults to Other Groups. In some cases, the Default Amount or the Transmission Default Amount may exceed the amounts owed to the specified Covered Entities that are to receive less than the full Payments due to them pursuant to Section 3.3(h)(i), Section 3.3(i)(i), Section 3.4(f)(i) or Section 3.4(g)(i). In such an event, the ISO will reduce the Payments due to Covered Entities pursuant to Section 3.3(j)(i) (for ISO Charges) or Section 3.4(h)(i) (for Transmission Charges) to the extent necessary for the ISO to clear its accounts for ISO Charges or Transmission Charges by the close of banking business on the date the applicable Payments are due. Any amount allocated to Covered Entities under the preceding sentence will be invoiced to and collected from the appropriate Covered Entities under Section 3.3(h)(ii), Section 3.3(i)(ii), Section 3.4(f)(ii) or Section 3.4(g)(ii) in the billing period immediately following the billing period in which that allocation occurred.

Section 3.12 – Other Rights Against Defaulting Parties. Nothing set forth in this Policy shall nullify, restrict or otherwise limit the rights and remedies of the ISO, NEPOOL and the Covered Entities against a defaulting Covered Entity that are set forth in the Documents, including the Financial Assurance Policy or otherwise, including without limitation any late payment charges or rights to terminate or limit trading rights of the defaulting Covered Entity, to the extent such rights and remedies otherwise exist.

SECTION 4 – LATE PAYMENT CHARGES; LATE PAYMENT ACCOUNTS

Section 4.1 – Late Payment Charge.

(a) If a Covered Entity is delinquent two or more times within any period of 12 months in paying on time its ISO Charges, such Covered Entity shall pay, in addition to interest on each such late payment, a late payment charge for its second failure to pay on time, and for each subsequent failure to pay on time within the same 12-month period (a “Late Payment Charge”) in an amount equal to the greater of (i) two percent (2%) of the total amount of such late payment or (ii) \$500.00. In the case of a former Market Participant that applies again for membership in the ISO, a determination of delinquency shall be based on the Market Participant’s history of payment of its ISO Charges in its last 12 months of membership.

(b) If a Covered Entity is delinquent two or more times within any period of 12 months in paying on time its Transmission Charges, such Covered Entity shall pay, in addition to interest on each such late payment, a late payment charge for its second failure to pay on time, and for each subsequent failure to pay on time within the same 12-month period (a “Transmission Late Payment Charge”) in an amount equal to the greater of (i) two percent (2%) of the total amount of such late payment or (ii) \$500.00. In the case of a former Market Participant that applies again for membership in the ISO, a determination of delinquency shall be based on the Market Participant’s history of payment of its Transmission Charges in its last 12 months of membership.

Section 4.2 – Late Payment Account; Transmission Late Payment Account.

(a) Interest collected on late payments of ISO Charges shall be allocated and paid to the Covered Entities to whom such late payments are due, pro rata in accordance with the amount due to each such Covered Entity. Late Payment Charges that are collected and not distributed to the Covered Entities under this Policy and penalties collected under the Financial Assurance Policy shall be deposited by the ISO into a segregated interest-bearing account (the “Late Payment Account”) for disbursement in accordance with Section 3.3 of this Policy; provided, however, that in no event shall the amount in the Late Payment Account, including interest accrued thereon, at any time exceed \$1,000,000 or other amount determined from time to time by the

Participants Committee (the “Late Payment Account Limit”). Any amount in the Late Payment Account (including interest thereon) in excess of the Late Payment Account Limit shall be distributed to the Market Participants, no more frequently than quarterly, pro rata based on their ISO Charges in the month preceding the month in which such distribution is to be made.

(b) Interest collected on late payments of Transmission Charges shall be allocated and paid to the Covered Entities to whom such late payments are due, pro rata in accordance with the amount due to each such Covered Entity. Transmission Late Payment Charges that are collected and not distributed to the Covered Entities under this Policy shall be deposited by the ISO into a segregated interest-bearing account (the “Transmission Late Payment Account”) for disbursement in accordance with Section 3.4 of this Policy; provided, however, that in no event shall the amount in the Transmission Late Payment Account, including interest accrued thereon, at any time exceed \$1,000,000 or other amount determined from time to time by the Participants Committee (the “Transmission Late Payment Account Limit”). Any amount in the Transmission Late Payment Account (including interest thereon) in excess of the Transmission Late Payment Account Limit shall be distributed to the Market Participants, no more frequently than quarterly, pro rata based on their Transmission Charges in the month preceding the month in which such distribution is to be made.

SECTION 5 – SHORTFALL FUNDING ARRANGEMENT; PAYMENT DEFAULT
SHORTFALL FUND

Section 5.1 – Purpose and Creation of the Shortfall Funding Arrangement and the Payment

Default Shortfall Fund. The ISO, acting in consultation with the NEPOOL Budget and Finance Subcommittee and NEPOOL’s Independent Financial Advisor, will arrange separate financing (the “Shortfall Funding Arrangement”) that can be used to make up any non-congestion related differences between ISO Charges received on Invoices and amounts due for ISO Charges in any week and as set forth in Sections 3.3 and 3.4. The Shortfall Funding Arrangement may be effected through third-party financing, through the creation of a special purpose funding entity, through Participant-provided funds or through some other arrangement agreed upon by the ISO, the NEPOOL Budget and Finance Subcommittee and NEPOOL’s Independent Financial Advisor. If and to the extent that, at any time, the Shortfall Funding Arrangement is not available (because, solely for example, it has not been arranged, it does not have sufficient funds available, it has expired or it has been terminated prior to its maturity), the ISO shall create a Payment Default Shortfall Fund that will provide for such non-congestion

related difference between ISO Charges received on Invoices and amounts due for ISO Charges in any week and for payments in accordance with Sections 3.3 and 3.4. The Shortfall Funding Arrangement and/or the Payment Default Shortfall Fund shall be in addition to and not a replacement for the Late Payment Account or the Transmission Late Payment Account described above.

Section 5.2 – Participant Rights with respect to a Participant Financial Payment Default Shortfall Fund. To the extent that the Payment Default Shortfall Fund is in existence at any time, each Participant funding the Payment Default Shortfall Fund at such time would retain title to its share of amounts in the Payment Default Shortfall Fund and any interest accrued on those amounts on a pro rata basis based on the funds in the Payment Default Shortfall Fund provided by it. Each Participant will receive a monthly report that will identify the amount of funds in the Payment Default Shortfall Fund that belong to that Participant and the amount of interest accrued thereon. As Participants withdraw from or otherwise terminate membership in the ISO, the ISO would pay to such Participants their share, if any, of the amounts in the Payment Default Shortfall Fund, with interest. To the extent that the balance in the Payment Default Shortfall Fund exceeds the Required Balance (defined below), the excess will be refunded to Participants on a quarterly basis pro rata based on their share of the funds in the Payment Default Shortfall Fund.

Section 5.3 – Available Amount of Shortfall Funding Arrangement; Initial Funding of the Payment Default Shortfall Fund. The available amount of the Shortfall Funding Arrangement,

combined with any amount on deposit in the Payment Default Shortfall Fund, shall be equal to the amount of a hypothetical Invoice at the 97th percentile of the average amounts due on Invoices rendered to Market Participants over the six calendar months preceding the calculation or a lesser amount as set by the ISO from time to time in consultation with the NEPOOL Budget and Finance Subcommittee (the “Required Balance”), which amount shall be calculated and adjusted by the ISO on a quarterly basis. To the extent that on any Business Day immediately following the date on which Payments for Non-Hourly Charges are due, either the Shortfall Funding Arrangement has not been established or the available amount of the Shortfall Funding Arrangement is less than the Required Balance, the ISO shall establish the Payment Default Shortfall Fund, and the Participants shall be responsible for initially funding the Payment Default Shortfall Fund in an amount equal to the Required Balance less the available amount, if any, of the Shortfall Funding Arrangement on such date (the “Participant Required Balance”). The ISO, in consultation with NEPOOL’s Independent Financial Advisor, shall notify the Market Participants promptly if they believe that the available amount of the Shortfall Funding Arrangement is not, or is reasonably likely not to be, at least equal to the Required Balance, and the ISO will endeavor to arrange a supplement to any existing Shortfall Funding Arrangement at least to the extent required to fund such shortfall. The Market Participant Required Balance shall initially be funded by the Market Participants pro rata in accordance with the methodology used for the shortfall allocation process in Section 3.3(j)(ii) and Section 3.4(h)(ii) of this Policy (but based on Charges and

Payments due over the three months immediately preceding the establishment of the Payment Default Shortfall Fund). A Participant's Payment Default Shortfall Fund payment obligation shall be identified as a separate line item on its Statements and Transmission Statements.

Section 5.4 – Continued Shortfall Fund Funding Obligations; Payments on Shortfall Funding Arrangement.

- (a) The ISO will reallocate the Market Participants' overall obligation with respect to the amounts in the Payment Default Shortfall Fund, if any, annually on each anniversary of the Effective Date in accordance with the methodology used for shortfall allocation process in Section 3.3(j)(ii) and Section 3.4(h)(ii) of this Policy (but based on the Charges and Payment due in the preceding calendar year), with payments from and refunds to Market Participants that have underfunded or overfunded, respectively, the Payment Default Shortfall Fund based on that annual reallocation.
- (b) If the sum of the available amount of the Shortfall Funding Arrangement and the balance in the Payment Default Shortfall Fund (the "Total Available Amount") drops below 90 percent of the Required Balance at any time because of Market Participant terminations (but not because of draws on the Shortfall Funding

Arrangement or the Payment Default Shortfall Fund or adjustments to the Required Balance), each Market Participant would be required to contribute a share of the funds needed to restore the Total Available Amount to the Required Balance. A Market Participant's pro rata share of that obligation would be determined in accordance with the methodology used for shortfall allocation process in Section 3.3(j)(ii) and Section 3.4(h)(ii) of this Policy (but based on Charges and Payments due for the three months immediately preceding the date of that funding).

- (c) If (i) the ISO draws on the Shortfall Funding Arrangement and/or the Payment Default Shortfall Fund and the amount drawn, together with interest and fees thereon, is not replaced through payments on the Payment Default by the date on which the ISO next issues an Invoice that includes Non-Hourly Charges, or (ii) the Required Balance is increased as a result of quarterly adjustments, that next Invoice for Non-Hourly Charges will include a charge for Covered Entities necessary to restore the Total Available Amount to the Required Balance. That charge will be allocated among the Covered Entities according to the methodology used for the shortfall allocation process in Section 3.3(j)(ii) and Section 3.4(h)(ii) of this Policy with respect to the specific Payment Default. If payments on a Payment Default are received after the amount drawn from the Shortfall Funding

Arrangement and/or the Payment Default Shortfall Fund for that Payment Default has been refunded, the amount of the Payment Default so received shall be allocated and paid to the Covered Entities providing that funding according to the methodology of Section 3.3(j)(ii) and Section 3.4(h)(ii) of this Policy.

- (d) In addition to the other obligations described in this Section 5.4, each Market Participant shall be charged a pro rata share of all interest, fees and other expenses incurred in connection with the Shortfall Funding Arrangement to the extent that such interest, fees and expenses are not paid by a Covered Entity with respect to a Payment Default. The pro rata allocation of fees and expenses described herein shall be made on the same basis as set forth in Section 5.4(c) above. A Market Participant's obligation with respect to the Shortfall Funding Arrangement shall be identified as a separate line item on its statements.
- (e) Without limiting the generality of Section 3.3 and Section 3.4, to the extent that a Covered Entity fails to pay an Invoice, requiring a draw on the Shortfall Funding Arrangement, that Covered Entity shall be required to pay the amount of such draw, plus any interest accrued thereon and premium or other fees or expenses with respect thereto.

Transmission, Markets and Services Tariff. Furthermore, a Requested Billing Adjustment must not involve Disputed Amounts paid on an Invoice for Non-Hourly Charges pursuant to the Financial Assurance Policy, provided, however, that this provision shall not preclude a Disputing Party from submitting a Requested Billing Adjustment for a Disputed Amount on a fully paid monthly Invoice for Non-Hourly Charges which has been paid pursuant to an Invoice for Non-Hourly Charges in that month.

Section 6.2 – Effect of this Policy on Rights of Market Participant, PTO, or Non-Market Participant Transmission Customer with Respect to a Disputed Amount. Except as otherwise set forth in this Section 6.2, nothing in this Section 6 shall in any way abridge the right of any Covered Entity to seek legal or equitable relief under the Federal Power Act and/or any other applicable laws with respect to any Disputed Amount. Prior to commencing a proceeding before the Commission or other regulatory or judicial authority with jurisdiction to resolve the dispute which is the subject of the Requested Billing Adjustment, the Disputing Party must first submit the Requested Billing Adjustment to the ISO for review pursuant to Section 6.3 of this Policy.

Section 6.3 – ISO Review of Requested Billing Adjustment.

Section 6.3.1 – Submission of Requested Billing Adjustment to the ISO; Required Contents of Requested Billing Adjustment. A Disputing Party shall submit a Requested

identify a specific representative of the ISO to whom all communications regarding the Requested Billing Adjustment are to be sent.

Section 6.3.3 – ISO Review of Requested Billing Adjustments. The ISO shall complete its review of a Requested Billing Adjustment received pursuant to Section 6.3 within twenty (20) Business Days of the date the ISO distributes the Notice of RBA. To the extent that either party makes such a request and both parties agree to such request, the ISO and Disputing Party may meet or otherwise confer during this period in an effort to resolve the Requested Billing Adjustment.

the ISO shall consider the written response filed by the Disputing Party. The ISO may but is not required to consider any written comments that are filed by any other interested party.

Section 6.3.5 – ISO Action on Requested Billing Adjustment. The ISO shall provide to the Disputing Party and to the Chair of the NEPOOL Budget and Finance Subcommittee a written decision (the “RBA Decision”) accepting or denying a Requested Billing Adjustment received pursuant to this Section 6.3 within twenty (20) Business Days of the date the ISO distributes the Notice of RBA, unless some later date is agreed upon by the Disputing Party and the ISO. The ISO shall provide written notice and a copy of each RBA Decision to each Covered Entity either eligible for reimbursement, denied reimbursement of a Disputed Amount or required to provide reimbursement of a Disputed Amount because of an RBA Decision (hereafter referred to as an “Affected Party” or the “Affected Parties”) within five (5) Business Days of the date the RBA Decision is rendered. In providing such notice to any Affected Party required to provide reimbursement of a Disputed Amount, the ISO shall specify the amount to be reimbursed by such Affected Party and the calculations supporting the determination of such reimbursement amount. Subsequent to the provision of the written notice of the RBA Decision as set forth above, the ISO shall provide each Affected Party with respect to that

designated representative for that particular RBA Decision; and (ii) to each of the Affected Parties; and (iii) to the Chair of the NEPOOL Budget and Finance Subcommittee. The ISO and any Affected Party shall be joined as parties to the arbitration. NEPOOL and other Covered Entities shall be permitted to intervene in the arbitration if they desire to do so.

Section 6.4.2 – Finality of the AAA Neutral’s Decision. Except as otherwise provided in this Section 6.4.2, the written, final decision of the AAA neutral (the “Neutral’s Decision”) shall become final and binding on the Affected Parties, including the ISO, and shall not be appealable in any forum on the twenty-first (21st) Business Day after the date on which the Neutral’s Decision was issued. The Neutral’s Decision shall not become final or binding if on or before the twentieth (20th) Business Day after the date on which the Neutral’s Decision was issued, an Affected Party or Parties or the ISO has appealed the Neutral’s Decision by commencing a proceeding before the Commission or other regulatory or judicial authority with jurisdiction over the dispute. If any such appeal is filed, the Neutral’s Decision shall have no force or effect unless or until it is affirmed or upheld upon completion of the appeal process.

Representatives shall take all reasonable precautions to ensure that Confidential Information is not distributed to unauthorized persons.

- e) *ISO Right to Object to Access to Confidential Information.* Nothing in this Section shall be construed as precluding the ISO from objecting to providing any party access to Confidential Information on any legal grounds other than those provided under the ISO New England Information Policy, as it may be amended time to time.

SECTION 7 – WEEKLY BILLING PRINCIPLES FOR NON-HOURLY CHARGES.

The ISO shall administer weekly billing arrangements for Non-Hourly Charges and Transmission Charges that have been effected in special circumstances pursuant to the Financial Assurance Policy according to the following principles:

Section 7.1 – Weekly Invoices. The ISO shall issue weekly Invoices for such Non-Hourly Charges and such Transmission Charges to any Market Participant or Non-Market Participant Transmission Customer for which such a weekly billing arrangement has been established to the extent such Market Participant's or Non-Market Participant Transmission Customer's Non-Hourly Charges and Transmission Charges exceed the Payments due to it for Non-Hourly Charges and Transmission Charges, respectively, for the current billing week. Such weekly Invoices for Non-Hourly Charges and for Transmission Charges would be issued and due at the same times as one of the twice weekly Invoices for Hourly

Charges as determined by the ISO. Remittance Advices for Non-Hourly Charges and for Transmission Charges for such Market Participants and Non-Market Participant Transmission Customers will still be issued monthly, in accordance with the procedures set forth above.

Section 7.2 – Basis for Billing. The amounts due from such Market Participant or Non-Market Participant Transmission Customer on weekly Invoices for Non-Hourly Charges and Transmission Charges shall be based on estimates derived by pro-rating the most recent final monthly Statements and Transmission Statements issued for such Market Participant or Non-Market Participant Transmission Customer.

Section 7.3 – Monthly Reconciliation. In connection with each monthly billing cycle, the ISO shall reconcile the sum of the weekly Invoices for Non-Hourly Charges and for Transmission Charges issued with the normal monthly billing quantities for such Non-Hourly Charges and Transmission Charges calculated for the Market Participant or Non-Market Participant Transmission Customer. The ISO shall perform a true-up of any amounts owed or due on the following weekly Statements or monthly Transmission Statements.

Section 7.4 – FTR-Only Customers/DRP-Only Customers/ODR-Only Customers. FTR-Only Customers and DRP-Only Customers and ODR-Only Customers are not eligible for weekly billing arrangements for Non-Hourly Charges.

Attachment 3

1 UNITED STATES OF AMERICA
2 BEFORE THE
3 FEDERAL ENERGY REGULATORY COMMISSION
4
5

6 ISO New England Inc.)
7) Docket No. ER10-__-000
8 New England Power Pool)
9

10 JOINT TESTIMONY OF ROBERT C. LUDLOW AND JEFFREY B. IAFRATI

11 I. INTRODUCTION

12 BACKGROUND AND QUALIFICATIONS OF ROBERT C. LUDLOW

13 *Mr. Ludlow.* My name is Robert C. Ludlow. My business address is One Sullivan Road,
14 Holyoke, Massachusetts 01040-2841.

15 I am a Vice President and the Chief Financial and Compliance Officer of ISO New
16 England Inc. (the "ISO"). I served in the role of Vice President and Chief Financial
17 Officer from the time the ISO commenced its operations on July 1, 1997 until September
18 2000. At that time, I began working as an outside consultant for the ISO until August
19 2002, when I rejoined the ISO as Vice President and Chief Financial Officer. In July of
20 2008 my title changed to reflect my expanded responsibility for compliance. The
21 compliance organization is responsible for developing and maintaining the Company's
22 compliance management system. This system includes capturing the Company's
23 compliance obligations including those of the Commission, the North American Electric
24 Reliability Corporation ("NERC"), North American Energy Standards Board, the
25 Northeast Power Coordinating Council ("NPCC") as well as other regulatory obligations.

1 I hold a B.B.A. in Accounting from St. Bonaventure University. Prior to joining the ISO,
2 I was a Partner at the accounting firm of Marden, Harrison & Kreuter, CPAs. I also
3 served as the Chief Financial Officer of Western Beef, Inc. I am a Certified Public
4 Accountant.

5 I previously have testified before the Commission to support prior administrative rate
6 filings by the ISO in Docket Nos. ER10-154-000 (rates proposed for 2010), ER09-197-
7 000 (rates proposed for 2009), ER08-189-000 (rates proposed for 2008), ER07-116-000
8 (rates proposed for 2007), ER06-94-000 (rates proposed for 2006), ER00-395-000 (rates
9 proposed for 2000), and ER98-3554- 000 (rates proposed for 1998).

10 **BACKGROUND AND QUALIFICATIONS OF JEFFREY B. IAFRATI**

11 *Mr. Iafrati.* My name is Jeffrey B. Iafrati. My business address is One Sullivan Road,
12 Holyoke, Massachusetts 01040-2874. I joined the ISO in 2008 to manage its Market &
13 Credit Risk Department. In this role, I am primarily responsible for the development and
14 implementation of ISO New England’s credit policies as well as integrating risk theory
15 into the ISO’s market design process. Prior to joining the ISO, I worked for seven years
16 as an independent consultant focusing primarily on the energy industry. Engagements
17 included conducting extensive cost/benefit and feasibility analyses of third-party
18 clearinghouse providers and developing credit coverage requirements for Financial
19 Transmission Right (“FTR”) and virtual markets for the ISO. My experience also
20 includes providing supply chain and strategic consulting services to the U.S. and
21 European automakers on behalf of Carlisle & Company, Inc. and 9 years of energy
22 consulting at Levitan & Associates, Inc. (“LAI”), last performing as an Executive

1 Consultant. At LAI, I worked extensively on merger and acquisition analyses, generator
2 asset valuations, project viability analyses and non-utility generation contract
3 restructuring efforts. I hold an A.B. in Economics from Harvard College.

4 **II. CONTENT AND ORGANIZATION OF THIS TESTIMONY**

5 **Q. PLEASE EXPLAIN THE CONTENT AND ORGANIZATION OF YOUR**
6 **TESTIMONY.**

7 A. Our testimony has three elements.

8 First, we provide an overview of the manner in which the proposed changes (the
9 “Amendments”) to the ISO New England Financial Assurance Policy (the “Financial
10 Assurance Policy,” which is Exhibit IA to the ISO’s Transmission, Markets and Services
11 Tariff (“ISO Tariff”))¹ and the ISO New England Billing Policy (the “Billing Policy”
12 and, together with the Financial Assurance Policy, the “Policies”), which is Exhibit ID to
13 the ISO Tariff, improve credit and risk management practices in the New England
14 electricity markets, as part of the ongoing evolution of those practices (see Section III of
15 our testimony).

16 Second, we describe the Amendments’ core elements and demonstrate that the
17 Amendments will enhance the efficiency of the markets by further limiting the Pool’s
18 exposure in case of payment default by a Market Participant and making other changes,
19 including: (i) reducing the amount of financial assurance needed; (ii) eliminating the use
20 of unsecured credit for Market Participants that do not serve retail load at government-

¹ Any capitalized terms we use in this testimony that are not otherwise defined have the meanings assigned to them in the accompanying filing letter or the ISO Tariff.

1 established rates; (iii) reallocating the costs of default where unsecured credit is still used;
2 (iv) segregating the billing and collateralization of transmission charges from other ISO
3 charges; and (v) improving the quality of the security that is provided pursuant to the
4 Policies (see Section IV of our testimony).

5 Third, and in conclusion, we show that the Amendments are beneficial from a broader
6 policy perspective (see Section V of our testimony).

7 **III. OVERVIEW OF THE CONTEXT OF THE AMENDMENTS, AND OF THE**
8 **MANNER IN WHICH THE AMENDMENTS IMPROVE CREDIT AND RISK**
9 **MANAGEMENT IN THE NEW ENGLAND ELECTRICITY MARKETS**

10 **Q. DO THE AMENDMENTS REPRESENT THE FIRST TIME THAT THE ISO**
11 **AND THE NEW ENGLAND POWER POOL (“NEPOOL”) HAVE SOUGHT TO**
12 **IMPROVE ITS ORIGINAL CREDIT AND RISK MANAGEMENT POLICIES?**

13 A. No. We wish to underscore that the Amendments build on significant progress already
14 made in recent years – through collaborative efforts of NEPOOL and the ISO, and with
15 the support of the Commission through its orders – to improve these credit and risk
16 management practices. These improvements have included a transition to weekly billing
17 for the New England hourly energy markets and a reduction in unsecured credit limits.

18 **Q. WHAT IS THE FUNDAMENTAL IMPETUS FOR THE AMENDMENTS?**

19 A. The ISO believes that the existing financial assurance provisions of the ISO Tariff need
20 to be changed to improve the efficiency of the markets by reducing the risk of
21 nonpayment across a broad range of possible scenarios and, by so doing, assure the
22 liquidity of the markets, even in the most difficult financial times.

23 **Q. WHAT ARE THE CURRENT OPPORTUNITIES TO IMPROVE THE CREDIT**
24 **AND RISK MANAGEMENT PRACTICES IN THE NEW ENGLAND**

1 **ELECTRICITY MARKETS, AND (AT A HIGH LEVEL) HOW DO THE TYPES**
2 **OF CHANGES REFLECTED IN THE AMENDMENTS ACHIEVE THESE**
3 **IMPROVEMENTS?**

4 A. Opportunities are present at this time to improve three areas of credit and risk
5 management practices. The Amendments offer an appropriate and effective mechanism
6 for achieving those improvements.

7 First, there is a significant opportunity to reduce the required amount of financial
8 assurance by further shortening the billing and payment cycle.

9 Second, there is a substantial opportunity to improve the manner in which the risks and
10 costs of default are allocated among Market Participants, through minimizing the use of
11 unsecured credit and reallocating default costs primarily among those using such credit.
12 Under the current rules, the risks and costs of a default where unsecured credit is used are
13 socialized among all Market Participants. Socializing the costs of a default among the
14 customers of a single utility may have been reasonable prior to restructuring of the New
15 England electric industry, but there is no compelling rationale for continuing to require
16 all Market Participants to share in the risks and costs of default of an individual Market
17 Participant using unsecured credit. Spreading the risk of unsecured credit in this manner
18 provides Market Participants with the opportunity, and an undesirable incentive, to
19 behave in a way that increases the risks associated with a default. Furthermore, the
20 availability of unsecured credit facilitates the potential “sleeving” of bilateral
21 transactions, by which the credit risk associated with private contracts is inappropriately
22 shifted to the pool. These issues can be addressed by minimizing the use of unsecured
23 credit and, where it is used, by ensuring that the costs of default by a user of unsecured
24 credit are allocated primarily among those parties using unsecured credit.

1 Third, there is clearly room to improve the quality of the security that is provided
2 pursuant to the Policies by enhancing the requirements associated with letters of credit
3 and proof of financial viability.

4 **IV. OVERVIEW OF THE CORE ELEMENTS OF THE AMENDMENTS, AND WHY**
5 **THE AMENDMENTS ARE APPROPRIATE**

6 **Q. PLEASE SUMMARIZE THE CORE ELEMENTS OF THE AMENDMENTS.**

7 A. The Amendments have five core elements:

- 8 • shortening the billing and payment cycle;
- 9 • separate collateralization of ISO Charges and Transmission Charges;
- 10 • elimination of most uses of unsecured credit;
- 11 • reallocation of the costs of payment defaults associated with unsecured credit; and
- 12 • improving the quality of required security and making other refinements.

13 Each of these core elements is discussed below.

14 A. **Shortening the Billing and Payment Cycle**

15 **Q. TO WHAT EXTENT DO THE AMENDMENTS SHORTEN THE BILLING AND**
16 **PAYMENT CYCLE, AND WHY THIS IS JUSTIFIED?**

17 A. A primary feature of the Amendments is the further shortening of the billing and payment
18 cycle for Hourly Charges to twice each week, instead of only once each week.

19 Shortening the billing and payment cycle is an effective way to reduce credit risk in the
20 markets. It reduces the need for financial assurance in the first instance because the
21 amounts outstanding at any given time are smaller due to the shorter intervals between
22 payment dates. The Commission notes the multiple benefits of shortened settlement

1 cycles in its recently issued notice of proposed rulemaking on credit in organized
2 wholesale markets, including “(1) lower[ing] the level of financial assurances required
3 (i.e., collateral requirement provided by individual participants); (2) reduc[ing] the
4 quantity of the aggregate level of payables outstanding at any point in time, thereby
5 reducing the potential exposure of a defaulting entity; (3) enabl[ing] updated transaction
6 prices and charges to be utilized in a timely manner in determining credit risk exposure;
7 and (4) provid[ing] earlier identification of default situations by lessening the opportunity
8 for an unrecognized default and its severity.”²

9 In July 2004, the ISO effectuated a change from monthly billing to weekly billing for
10 hourly energy markets, and saw significant benefits in this regard (including a reduction
11 in the amount of collateral required from Market Participants and in the exposure of
12 NEPOOL to potential defaults by those participants). Further shortening the cycle for
13 billing and settling Hourly Charges to twice each week will further reduce the total
14 outstanding liability of participants in the New England energy markets and, therefore,
15 the exposure for non-payment of Hourly Charges. Shortening the billing cycle reduces
16 potential default exposure for all participants and, by so doing, lowers costs.

² *Credit Reforms in Organized Wholesale Markets*, 130 FERC ¶ 61,055, at P 13 (2010) (the “Credit NOPR”).

1 **B. Separate Collateralization of ISO Charges and Transmission Charges**

2 **Q. PLEASE EXPLAIN THE SEPARATE COLLATERALIZATION OF ISO**
3 **CHARGES AND TRANSMISSION CHARGES REFLECTED IN THE**
4 **AMENDMENTS, AND WHY THIS IS JUSTIFIED.**

5 A. Currently, ISO Charges and Transmission Charges are collateralized by the same
6 financial assurance. Under the Amendments, ISO Charges and Transmission Charges
7 will be accounted for and collateralized separately.³ The primary reason for this change
8 is that ISO Charges are primarily related to market activity, while Transmission Charges
9 (which are often paid among different parts of the same entities – such as a distribution
10 company paying its affiliated transmission company) essentially reflect an administrative
11 billing and collection function on behalf of Transmission Owners in New England,
12 pursuant to the Transmission Operating Agreement with the New England Participating
13 Transmission Owners. Given the differing nature of the risks related to these charges, it
14 is appropriate that they be subject to different credit limit calculations, as discussed in
15 more detail below. Furthermore, separating out these two types of charges is necessary to
16 effectuate the revised payment default allocation provisions, which are another key
17 component of the Amendments, also as discussed below.

³ See generally Section 2 of the revised Billing Policy. The separation creates two categories of charges:

- (1) Transmission Charges, collected under Schedule 1 (Scheduling and Dispatch Surcharge), Schedule 8 (Through or Out Service Revenues) and Schedule 9 (Regional Network Service); and
- (2) ISO Charges, including all amounts billed by the ISO that are not Transmission Charges as defined in (1) above.

1 In connection with the separation of ISO Charges and Transmission Charges, the
2 Amendments include a number of conforming revisions to the Billing Policy, including:
3 (1) amendment to permit prepayment of ISO Charges and Transmission Charges
4 separately; (2) revision to the set-off provisions to reflect that amounts due for ISO
5 Charges will first be applied to ISO Charges and then, to the extent of any excess, to
6 Transmission Charges, and that amounts due for Transmission Charges will first be
7 applied to Transmission Charges and then, to the extent of any excess, to ISO Charges;
8 (3) clarification regarding application of suspension provisions to both ISO Charges and
9 Transmission Charges consistent with the priority of payments set forth in Section 3.3(a)
10 of the Billing Policy; (4) inclusion of a new procedure for application of partial payments
11 of combined Invoices for ISO and Transmission Charges consistent with the priority of
12 payments set forth in Section 3.3(a) of the Billing Policy; (5) inclusion of a new
13 procedure for application of financial assurance between Transmission Charges and ISO
14 Charges; (6) establishment of a late payment account relating to Transmission Charges
15 (“Transmission Late Payment Account”) with substantially the same provisions as the
16 Late Payment Account relating to ISO Charges; (7) clarifying revisions to the Shortfall
17 Funding Arrangement provisions reflecting the split of ISO Charges and Transmission
18 Charges; and (8) inclusion of new provisions permitting weekly billing for Transmission
19 Charges under certain circumstances in a similar manner to those currently in place that
20 permit weekly billing of Non-Hourly Charges.

1 **C. Elimination of Most Uses of Unsecured Credit**

2 **Q. PLEASE EXPLAIN THE AMENDMENTS' ELIMINATION OF MOST USES OF**
3 **UNSECURED CREDIT, AND WHY THIS IS JUSTIFIED.**

4 A. Another primary feature of the Amendments is the elimination of the use of unsecured
5 credit in most instances. Minimizing the use of unsecured credit will reduce credit risks,
6 as well as the inefficiencies associated with the inappropriate socialization of the risks
7 and costs of uncovered defaults.⁴

8 During 2009, on average, over 80 percent of the total financial assurance requirements
9 for all Market Participants for all New England market and transmission charges were
10 covered by the use of collateral (*i.e.*, cash or letters of credit), leaving less than 20
11 percent, on average, being covered by the use of unsecured credit. For that 20 percent of
12 the total payment obligations that are unsecured, as well as any payment obligation of a
13 Market Participant that exceeds its posted collateral, the risks and costs of a payment
14 default are, under the current rules, socialized among all Market Participants with
15 settlement activity during the billing period for which the default occurred. In the pre-
16 restructuring context of a NEPOOL largely composed of integrated utilities with
17 assurance of cost recovery, it may have been reasonable for customers of each utility in
18 the power pool to share in the utility's default risks, and for power pool members to share
19 in other members' risks and rewards, but there is no compelling rationale in the
20 restructured New England electric industry for socialization among all Market
21 Participants of the risks and costs of default of an individual Market Participant using

⁴ As described more fully in the accompanying filing letter, the Commission has recently approved tariff revisions filed by California ISO and PJM reducing unsecured credit levels in connection with shortening of settlement periods.

1 unsecured credit. Indeed, continuing the current practice of forced mutualization of such
2 risk is imposing a discriminatory burden on Market Participants who are required to
3 provide security for their full market positions.

4 “Moral hazard” concerns

5 Continued use of unsecured credit raises two other concerns for the ISO, as well. The
6 first concern is a “moral hazard,” that is, the risky behavior that can occur when an entity
7 is not required to employ capital to cover the entire magnitude of its market activity. In
8 the current context, the concern is that an entity’s utilization of unsecured credit can lead
9 to outsized risk-taking and specifically, that entities allowed the use of unsecured credit
10 may increase their unsecured market positions beyond their capacity, or willingness, to
11 pay for them. A system that privatizes gain and socializes loss is welcomed by those who
12 benefit from it, but can have highly adverse impacts on the broader marketplace.

13 Until recently, it has been argued that private corporations could be trusted to manage
14 their own risk largely through self-regulation. That argument, however, has been shaken
15 to its core amidst the current financial crises as illustrated through the words of former
16 Federal Reserve Chairman Alan Greenspan in October 2008: “[t]hose of us who have
17 looked to the self-interest of lending institutions to protect shareholders’ equity, myself
18 included, are in a state of shocked disbelief.”⁵

19 Moreover, the operation of this moral hazard has other significant, though perhaps more
20 subtle, impacts. For example, wholesale market confidence can be threatened by an

⁵ Testimony before the U.S. House of Representatives, Committee on Oversight and Government Reform, October 23, 2008.

1 underlying anxiety about the insufficiency of cash to clear those markets. The ISO has
2 the responsibility to manage efficient energy markets, and a hallmark of efficiency is the
3 ability to clear transactions in a timely fashion.

4 Minimizing the use of unsecured credit can directly reduce these dangers.

5 “Sleeving” concerns

6 The second concern relates to the potential “sleeving” of bilateral transactions, which can
7 result in a shift to the broader pool of Market Participants of the credit risks presented by
8 individual Market Participants’ private energy contracts. In the context of this filing, the
9 term “sleeving” denotes the following activities by Market Participants in circumstances
10 where the pertinent transactions are not collateralized: (i) entering into bilateral
11 transactions, (ii) not submitting those transactions to the ISO, (iii) satisfying the terms of
12 the bilateral transactions by bidding for and offering energy products through the New
13 England spot markets, and (iv) settling their bilateral contractual arrangements based on
14 the difference between contract prices and the applicable spot price.

15 Though participation in the New England energy markets and the amount of obligations
16 met through the use of unsecured credit have both increased since the implementation of
17 weekly billing in 2004, there has been a sharp decline in the submittal of internal bilateral
18 transactions to the ISO.⁶ The ISO is concerned that one of the reasons for this decline
19 may be that contracting parties (at least one of which is using unsecured credit to meet its

⁶ During 2004, the sum of all bilateral submittals equaled greater than 80% of the total real-time load obligation in New England. This percentage has fallen to just over 40% in 2009.

1 financial assurance obligations) are choosing to sleeve the large majority of the credit risk
2 associated with such transactions by shifting the majority of the payment obligation under
3 the bilateral arrangements to the ISO's settlement and billing function.

4 Based upon our observations and discussions with Market Participants it is clear that
5 Market Participants are appropriately contracting bilaterally for energy products outside
6 of the ISO's purview. However, to the extent that Market Participants choose not to
7 register those contracts with the ISO, and those agreements are structured as "contracts
8 for differences," the seller (e.g., a generator) can, based on spot prices, contract
9 bilaterally without making provisions to ensure the creditworthiness of the buyer (e.g., a
10 supplier/load-serving entity). This is feasible because the seller is being paid by the
11 market, through the ISO, for the majority of the value of the contract and the buyer is
12 simultaneously purchasing from the market, with only the difference between the contract
13 rate and the spot price being settled bilaterally. It is reasonable to assume that buyers that
14 are permitted to use unsecured credit in the ISO markets, thereby avoiding the
15 requirement to post collateral, are amenable to this practice.

16 Under the arrangements described above, if the load-serving buyer using unsecured credit
17 defaults on its obligations to the ISO to pay for the power purchased in the market, the
18 costs of that default are borne by the pool generally, rather than exclusively by the
19 bilateral counterparty. This may lead to several undesirable outcomes, including
20 distorted spot-market prices (caused by the fact that the buyer will no longer be
21 contracting in the day-ahead market to serve that load), consequent impairment of the fair
22 and orderly market price discovery process, increased energy and administrative costs to
23 load from a shift back to standard-offer rates of its host utility, and a loss of confidence in

1 the wholesale markets. In addition, depending on the amount of the default, there may
2 not be sufficient cash to clear the markets. Shifting the costs of a default associated with
3 bilateral arrangements to all Market Participants in this manner is inappropriate and
4 costly, and hence it is important to revise the rules to eliminate this potential practice.

5 Addressing these concerns through unsecured credit reduction

6 The Amendments are intended to address the foregoing important concerns by
7 eliminating the use of unsecured credit in most of the instances in which it is currently
8 permitted. Again, only about 20 percent of the total financial assurance requirement in
9 New England is currently met using unsecured credit; the Amendments will reduce that
10 number significantly, and will only retain the use of unsecured credit in narrow and
11 justifiable circumstances. As part of this change, the use of unsecured credit for FTRs
12 will be completely eliminated, without exception. This elimination is consistent with the
13 approach taken in the Credit NOPR and, as described in the accompanying filing letter,
14 by a recent Commission order involving PJM.⁷

15 Putting participants on more equal credit terms will minimize mandatory risk-sharing
16 among all Market Participants, will allow the market to operate more efficiently, and will
17 increase the assurance that the ISO will be able to settle the markets in a timely and
18 efficient manner in the event of a default. Market Participants will still be free, of course,
19 to negotiate whatever credit terms they choose on a bilateral basis, including the use of
20 unsecured credit.

⁷ Credit NOPR, at P 23.

1 **Q. ARE THERE ANY EXCEPTIONS TO THE AMENDMENTS' ELIMINATION OF**
2 **THE USE OF UNSECURED CREDIT?**

3 A. A small number of entities will be permitted to use unsecured credit in a narrow set of
4 circumstances. Specifically, certain municipal utilities, transmission owners and non-
5 Market Participant transmission customers that provide native load service will be
6 permitted to use unsecured credit. These entities are entitled to recover their costs for
7 native load service through governmentally established retail rates and, accordingly, are
8 able to provide a form of financial security (i.e., the ability to request a retail rate increase
9 to cover increased costs) that is unavailable to other participants in the New England
10 energy markets.⁸ As such, the risk of default by such entities is materially different from
11 other Market Participants, and so the ISO and NEPOOL agreed in the Amendments to
12 allow these entities to continue to use unsecured credit. These entities will not be
13 permitted to use unsecured credit in association with any other market activity not
14 directly related to serving native load. The ISO has made clear throughout the
15 stakeholder process that should these or other risk factors change for these types of
16 entities, the ISO will reconsider the limited exclusion provided to these entities.

17 To be eligible to use unsecured credit pursuant to this exception, the entity must be
18 considered “Qualifying;” that is, the entity must have an Investment Grade Rating or
19 must satisfy the Credit Threshold, as described further below.

20 For purposes of perspective, approximately 80% of financial assurance requirements in
21 New England are secured. Of the approximately 20% that are currently satisfied through

⁸ Further, these types of entities have traditionally avoided both speculative trading and excessive risk-taking. In the Credit NOPR, the Commission noted that “some market participants may pose different credit risks than others.” Credit NOPR at P 11.

1 unsecured credit, 53% are satisfied through guarantees from affiliates that are not Market
2 Participants. The Amendments, as discussed below, will discontinue the use of
3 guarantees to satisfy financial assurance requirements, even for Municipal Market
4 Participants and T&D Companies.

5 **Q. WHAT IS THE CURRENT MAXIMUM UNSECURED CREDIT PERMITTED**
6 **UNDER THE POLICIES?**

7 A. Currently, the maximum unsecured credit for market risk permitted under the Policies is
8 \$75 million (including under corporate guarantees). This level of unsecured credit can be
9 used by qualified Market Participants in connection with the risks of default associated
10 with market activity and with transmission rate collection under Schedules 1, 8 and 9 of
11 Section II of the ISO Tariff.

12 **Q. IS THIS CREDIT LIMIT BEING REVISED AS PART OF THE AMENDMENTS**
13 **AND, IF SO, HOW?**

14 A. Yes, as indicated in the detailed descriptions below, this maximum level of unsecured
15 limit is being revised as part of the Amendments, and separate credit limits will apply to
16 ISO Charges and Transmission Charges. The Market Credit Limit⁹ will apply to ISO
17 Charges, and the Transmission Credit Limit will apply to Transmission Charges. Subject
18 to these new maximum limits, specific unsecured credit limits are determined for each
19 entity depending on its status, as described below.

⁹ What is referred to in this Testimony as a “Market Credit Limit” is simply called a “Credit Limit” in the Amendments. The term “Market Credit Limit” is used in this filing to better differentiate that term from the term “Transmission Credit Limit.”

1 The Market Credit Limit and the Transmission Credit Limit for all entities other than
2 those listed below, and for any of the entities listed below that are not Qualifying, will be
3 \$0.

4 **Q. PLEASE EXPLAIN THE MARKET CREDIT LIMITS ESTABLISHED IN THE**
5 **AMENDMENTS FOR THE TYPES OF ENTITIES THAT WILL BE**
6 **PERMITTED TO CONTINUE USING UNSECURED CREDIT.**

7 A. The Market Credit Limit for a Rated Municipal Market Participant (the term “Rated”
8 denotes that the entity has an Investment Grade Rating) will be equal to the lesser of: (i)
9 20 percent of the total amount due and owing from all Market Participants (“TADO”); or
10 (ii) \$25 million.

11 The Market Credit Limit for a Rated T&D Company or a Rated Non-Market Participant
12 Transmission Customer will at any time be equal to the lesser of: (i) the applicable
13 percentage of such Rated T&D Company’s or Rated Non-Market Transmission
14 Customer’s Tangible Net Worth as specified in the revised Policies; (ii) \$50 million (a
15 reduction from the \$75 million that may currently, if desired, be used solely for market
16 risk); or (iii) 20 percent of TADO.

17 The Market Credit Limit for an Unrated T&D Company or an Unrated Non-Market
18 Participant Transmission Company that satisfies the Credit Threshold will be equal to the
19 lesser of: (i) 0.50 percent of such Unrated T&D Company’s or Unrated Non-Market
20 Participant Transmission Company’s Tangible Net Worth; (ii) \$25 million; or (iii) 20
21 percent of TADO. The Market Credit Limit for an Unrated T&D Company or an
22 Unrated Non-Market Participant Transmission Customer that does not satisfy the Credit
23 Threshold will be \$0.

1 **Q. PLEASE EXPLAIN THE TRANSMISSION CREDIT LIMITS ESTABLISHED IN**
2 **THE AMENDMENTS FOR THE TYPES OF ENTITIES THAT WILL BE**
3 **PERMITTED TO CONTINUE USING UNSECURED CREDIT.**

4 A. The Transmission Credit Limit for a Qualifying Municipal Market Participant will be
5 equal to \$25 million.

6 The Transmission Credit Limit for a Rated T&D Company or a Rated Non-Market
7 Participant Transmission Customer will be equal to the lesser of: (i) the applicable
8 percentage of such Rated T&D Company's or Rated Non-Market Participant
9 Transmission Customer's Tangible Net Worth specified in the Policies; or (ii) \$50
10 million.

11 The Transmission Credit Limit for an Unrated T&D Company or an Unrated Non-Market
12 Participant Transmission Customer that satisfies the Credit Threshold will be equal to the
13 lesser of: (i) 0.50 percent of such Unrated T&D Company's or Unrated Non-Market
14 Participant Transmission Company's Tangible Net Worth; or (ii) \$25 million. The
15 Transmission Credit Limit for an Unrated T&D Company or an Unrated Non-Market
16 Participant Transmission Customer that does not satisfy the Credit Threshold will be \$0.

17 **Q. DO THE AMENDMENTS MODIFY ANY QUALIFICATION REQUIREMENTS**
18 **ON THE ENTITIES THAT ARE STILL ALLOWED TO USE UNSECURED**
19 **CREDIT?**

20 A. Yes, the Amendments modify the definition of "Investment Grade Rating," which an
21 entity is required to have (among other qualifications) to use unsecured credit.

22 Under the current rules, the Investment Grade Rating can be satisfied in three ways: (i)
23 by having a corporate investment grade rating from one or more of the Rating Agencies;
24 (ii) if the Market Participant cannot satisfy subpart (i), then by having an investment

1 grade rating for the Market Participant’s senior unsecured debt from one or more of the
2 Rating Agencies; or (iii) if the Market Participant cannot satisfy subpart (i) or (ii), then by
3 having a rating for the Market Participant’s lowest rated senior secured debt that is at
4 least one notch above the lowest investment grade rating from one or more of the Rating
5 Agencies.

6 The Amendments revise the definition of the term “Investment Grade Rating” in two
7 ways, both intended to take a more financially conservative approach to the Investment
8 Grade Rating determination. First, the Amendments eliminate the third option for
9 obtaining an Investment Grade Rating. That is, the Amendments eliminate the possible
10 use of senior secured debt ratings for a Market Participant that does not have a corporate
11 rating (subpart (i)) or a rating for its senior unsecured debt (subpart (ii)). It is appropriate
12 to eliminate this path to achieving an Investment Grade Rating because it only reflects the
13 likelihood of default for the securing party, rather than for the Market Participant itself.

14 Second, where ratings from more than one rating agency are available, then the lowest
15 rating will apply. This is a change from the current rules, where under certain
16 circumstances, a rating other than the lowest might apply. Using the lowest available
17 rating represents a more conservative approach because it ensures that the Investment
18 Grade Rating is based on the most pessimistic of the major ratings, consistent with a
19 recent Commission order regarding the California ISO (as cited in the filing letter).

1 **Q. UNDER THE AMENDMENTS, WILL CORPORATE GUARANTEES STILL BE**
2 **A FORM OF ACCEPTABLE FINANCIAL ASSURANCE AND IF NOT, WHY**
3 **NOT?**

4 A. Under the current rules, a corporate guaranty from an entity affiliated with a Market
5 Participant is considered an acceptable form of financial assurance. With the elimination
6 of most uses of unsecured credit, however, the Amendments also eliminate the use of
7 corporate guarantees as financial assurance in all cases – even in the narrow
8 circumstances where unsecured credit may still be used.

9 This is appropriate and consistent with the general limitations on the use of unsecured
10 credit described above, because corporate guarantees are a form of unsecured credit.
11 Indeed, corporate guarantees are an even more attenuated form of security than the
12 extension of unsecured credit to the Market Participant itself, and introduce, at a
13 minimum, increased contract, legal, and bankruptcy risk. Furthermore, when the
14 guarantor is not a Market Participant, the ISO’s ability to monitor the default risk of that
15 entity is diminished. For these reasons, it is appropriate to eliminate the use of corporate
16 guarantees for the provision of financial assurance in all circumstances, even where the
17 use of unsecured credit will still be permitted.

18 **D. Reallocation of the Costs of Payment Defaults Associated With Unsecured Credit**

19 **Q. HOW DO THE AMENDMENTS ADDRESS THE ALLOCATION OF THE**
20 **COSTS OF PAYMENT DEFAULTS ASSOCIATED WITH THE USE OF**
21 **UNSECURED CREDIT?**

22 A. Complementing the significant curtailment of the use of unsecured credit described
23 above, the Amendments change how the costs associated with payment defaults are
24 allocated in the limited remaining cases where unsecured credit is used. As we explained

1 previously in our testimony, under the current market rules, if a Market Participant using
2 unsecured credit defaults, the costs of that default are socialized among all Market
3 Participants, including those that do not use unsecured credit. Again, while this type of
4 socialization may have been reasonable in the past, we see no compelling reason to
5 socialize the costs of a default among various distinct Market Participants in this manner
6 today. In fact, as discussed above, this practice creates considerable inefficiencies.

7 To directly address this socialization issue, the Amendments revise the allocation
8 methodologies such that any shortfalls caused by a default by a Market Participant using
9 unsecured credit will be allocated first to the set of Market Participants that are of the
10 same entity type that are also using unsecured credit, up to the credit limit of the
11 defaulting Market Participant.¹⁰ Market Participants will be able to control their
12 exposure to unsecured default allocations through an annual election process whereby the
13 Market Participant may choose to forego its use of unsecured credit for the upcoming
14 year, replacing such financial assurance with secured collateral. The allocation
15 provisions described below apply to both ISO Charges and Transmission Charges.

16 **Q. PLEASE EXPLAIN IN GREATER DETAIL HOW THIS ALLOCATION**
17 **METHODOLOGY WILL BE APPLIED TO MUNICIPAL MARKET**
18 **PARTICIPANTS AND THE OTHER TYPES OF MARKET PARTICIPANTS**
19 **WHO WILL STILL BE ALLOWED TO USE UNSECURED CREDIT.**

20 A. The Amendments provide that if and to the extent that: (i) the defaulting Covered Entity
21 is a Municipal Market Participant with a Market Credit Limit or a Transmission Credit
22 Limit of greater than \$0 under the Policies (an “Unsecured Municipal Market

¹⁰ Payment default allocations not associated with the use of unsecured credit will continue to be allocated to all Market Participants in the same manner as described in the currently effective Billing Policy.

1 Limit of greater than \$0 under the Policies (an “Unsecured Municipal Market
2 Participant”); and (ii) the other procedures specified in the Billing Policy do not yield
3 sufficient funds to pay all amounts for ISO Charges or Transmission Charges in full on
4 the date such payments are due, then the ISO will reduce payments to all Unsecured
5 Municipal Market Participants owed monies for ISO Charges or Transmission Charges
6 for that billing period on a *pro rata* basis. Such reduced payments may not exceed the
7 defaulting Unsecured Municipal Market Participant’s applicable credit limit under the
8 Policies. As funds attributable to the default are received by the ISO (including amounts
9 received through financial assurances provided under the Policies or through actions or
10 proceedings commenced against the defaulting Covered Entity) prior to the next billing
11 period’s statements being distributed, such funds, together with any interest and late
12 charges collected on the applicable default, will be distributed *pro rata* to the Unsecured
13 Municipal Market Participants that received reduced payments as a result of the default.

14 To the extent that any amount remains unpaid to Unsecured Municipal Market
15 Participants on the date that statements are distributed to Covered Entities in the billing
16 period immediately following the period including the default, the amount remaining
17 unpaid will be reallocated among all of the Unsecured Municipal Market Participants
18 receiving statements for ISO Charges or Transmission Charges (as applicable) for the
19 period including the default (other than the Unsecured Municipal Market Participant
20 defaulting on its payment obligations), on a *pro rata* basis.

21 The Amendments include substantially the same reallocation procedures for Unsecured
22 Non-Municipal Market Participants as those for Unsecured Municipal Market
23 Participants described above. The two participant types are treated separately, however,

1 and shortfalls related to a default will generally not be socialized between the two
2 participant types. That is, the costs associated with a default by an Unsecured Municipal
3 Market Participant will be shared primarily by other Unsecured Municipal Market
4 Participants, and will not be shared by Unsecured Non-Municipal Market Participants.
5 Similarly, the costs associated with a default by an Unsecured Non-Municipal Market
6 Participant will be socialized primarily to the pool of Unsecured Non-Municipal Market
7 Participants.

8 **Q. WHAT ARE THE PRACTICAL CONSIDERATIONS THAT AFFECT THE**
9 **TIMING OF THE ELIMINATION OF THE USE OF UNSECURED CREDIT?**

10 A. Like all of the Amendments, this elimination of most uses of unsecured credit will not
11 become effective until on or after December 1, 2010. Before it can be implemented, the
12 ISO must: (i) make substantial changes to its software and business processes; and (ii)
13 implement changes to the Marginal Loss Revenue Fund allocation methodology.

14 **E. Improving the Quality of Required Security; Other Revisions**

15 **Q. DO THE AMENDMENTS ALSO REFLECT MEASURES TO IMPROVE THE**
16 **QUALITY OF SECURITY PROVIDED TO SATISFY FINANCIAL ASSURANCE**
17 **REQUIREMENTS?**

18 A. Yes. The Amendments include several other provisions designed to benefit Market
19 Participants by improving the quality of security that is provided pursuant to the Policies.
20 We discuss these provisions below.

1 Definition of “Investment Grade Rating”

2 As noted above, the definition of Investment Grade Rating (one of the criteria for an
3 entity to qualify to use unsecured credit where its use is still permitted) is revised to be
4 more financially conservative.

5 New eligibility requirements for banks issuing letters of credits

6 The Amendments include significant new eligibility requirements for banks that seek to
7 be suppliers of letters of credit that are used as financial assurance. The Amendments
8 require that each bank issuing a letter of credit be on the ISO’s “List of Eligible Letter of
9 Credit Issuers.” The ISO will maintain the List of Eligible Letter of Credit Issuers on its
10 website, and will update that list no less frequently than once each quarter. To be
11 included on the List of Eligible Letter of Credit Issuers, a bank must either be a bank
12 organized under the laws of the United States or any state thereof, or be the United States
13 branch of a foreign bank, and must either:

- 14 • be recognized by the Chicago Mercantile Exchange (“CME”) as an approved
15 letter of credit bank; or
- 16 • have a minimum long-term debt rating (or, if the bank does not have minimum
17 long-term debt rating, then a minimum corporate rating) of an “A-” by S&P, or
18 “A3” by Moody’s, or “A-” by Fitch and have its letter of credit confirmed by a
19 bank that is recognized by CME as an approved letter of credit issuer; or
- 20 • have a minimum long-term debt rating (or, if the bank does not have minimum
21 long-term debt rating, then a minimum corporate rating) of an “A-” by S&P, or
22 “A3” by Moody’s, or “A-” by Fitch and be approved by the ISO in its sole

1 discretion (the ISO will promptly advise the NEPOOL Budget and Finance
2 Subcommittee of any additional bank approved by it under this provision).¹¹

3 If an entity that is included on the List of Eligible Letter of Credit Issuers fails to satisfy
4 the criteria set forth above, the applicable Market Participant will have five Business
5 Days from the date on which the ISO provides notice of such failure to replace the letter
6 of credit with a letter of credit from an entity satisfying those criteria or provide other
7 financial assurance satisfying the requirements of the Financial Assurance Policy. In the
8 case of a letter of credit issuer that is removed from the CME list of approved letter of
9 credit banks, the ISO, in its sole discretion, may extend the cure period to twenty
10 Business Days. The ISO must promptly advise the Budget and Finance Subcommittee of
11 any extension of a cure period beyond five Business Days under this provision.

12 Preclusion of letters of credit from Market Participant affiliates; limits on letters of credit
13 from a single entity

14 The Amendments specify that no Market Participant may provide a letter of credit that
15 has been issued or confirmed by a letter of credit issuer affiliated with that Market
16 Participant. This provision is necessary for reasons similar to the reasons that the
17 Amendments eliminate corporate guarantees. A letter of credit from an issuer affiliated
18 with the Market Participant simply shifts the risk among affiliates, which may do little to
19 improve the likelihood of default recovery.

¹¹ The Amendments reference the approved letter of credit issuer lists of CME and the New York Mercantile Exchange (“NYMEX”). NYMEX has merged into CME, and only one list of those approved issuers is currently kept by the combined organization.

1 In addition to the eligibility requirements described above, the Amendments also include
2 new limits on the amount of financial assurance that may be provided through letters of
3 credit from a single entity. Specifically, no entity may issue or confirm letters of credit
4 under the Financial Assurance Policy in an amount exceeding either: (i) \$100 million in
5 the aggregate for any single Market Participant; or (ii) \$150 million in aggregate for a
6 group of affiliated entities. These caps are designed to lessen the risk and costs
7 associated with too much exposure to any single letter of credit issuer, while not being so
8 restrictive as to limit a Market Participant's access to capital.

9 **Q. ARE THERE OTHER CHANGES MADE IN THE AMENDMENTS THAT YOU**
10 **WISH TO DISCUSS?**

11 A. Yes, we wish to discuss the changes that conform the requirements for Municipal Market
12 Participants to the existing requirements for Non-Municipal Market Participants.

13 The Amendments extend to Municipal Market Participants the currently-existing
14 provisions requiring that entities seeking to become Market Participants submit proof of
15 financial viability. In the currently-effective rules, Municipal Market Participant
16 applicants are exempted from these provisions, which require an applicant to demonstrate
17 its ability to meet its obligations through the submission of various documents, including
18 various financial statements and references. Municipal Market Participant applicants
19 were previously excluded from these requirements because for those entities, such
20 financial statement data is often unavailable. The Amendments revise these provisions
21 such that Municipal Market Participant applicants will be treated in the same manner as
22 T&D Company and Non-Distribution Company applicants, where such financial data is
23 available.

1 Under the Amendments, the suspension provisions that currently apply to Non-Municipal
2 Market Participants will also apply to Municipal Market Participants. The existing rules
3 do not specify under what circumstances Municipal Market Participants will be subject to
4 suspension. Thus, the Amendments address this issue by including Municipal Market
5 Participants in the suspension provisions that already exist in the Financial Assurance
6 Policy.

7 **Q. DO THE AMENDMENT'S REFORMS TO FINANCIAL ASSURANCE AND**
8 **BILLING REQUIREMENTS ENABLE THE ISO TO DISCONTINUE**
9 **CARRYING CREDIT INSURANCE AND THEREBY REALIZE SAVINGS FOR**
10 **ITS CUSTOMERS?**

11 A. Yes, adoption of the Amendments will allow the ISO to discontinue its use of credit
12 insurance. As explained below, having credit insurance should not (either in relation to
13 the existing Policies or on a going-forward basis) be viewed as a true alternative or
14 substitute for improved financial assurance and billing requirements that reduce default
15 risk.

16 By way of background, in its Credit Policy Statement the Commission suggested that
17 RTOs and ISOs may obtain credit insurance as a potential mechanism to mitigate
18 payment default risk. Although this insurance coverage may mitigate the financial
19 burden from defaults in certain circumstances, these circumstances are fairly limited, and
20 exclude a number of defaults, including those where a guarantee (the largest source of
21 unsecured credit in New England) is in place or where a Market Participant loses its
22 investment grade credit rating. Furthermore, the terms of coverage are subject to the
23 underwriting decisions of the insurer where insurance limits for individual participants
24 may be set at levels that are below that necessary to cover the full credit exposure they

1 present. Moreover, even if the insurance does cover a default, it will not protect Market
2 Participants from the default's price and market impacts (as described above) and does
3 not allow for the timely clearing of stakeholder funds.

4 **V. THE APPROPRIATENESS OF THE AMENDMENTS**

5 **Q. FUNDAMENTALLY, WHY ARE THE AMENDMENTS APPROPRIATE?**

6 A. The Amendments are appropriate because their implementation will increase the
7 efficiency of the New England markets by further reducing payment default exposure for
8 participants in those markets, by helping to ensure the timely clearing of the markets and
9 by facilitating Market Participants' reduction of any default risk premiums that may
10 currently be priced into their Supply Offers. Additionally, the Amendments obviate the
11 need for additional expenditures related to the monitoring of Market Participant
12 unsecured credit risks. Moreover, the Amendments will include savings due to the
13 elimination of credit insurance policy premiums, which will further reduce financial
14 obligations for participants in the New England markets. In sum, the Amendments
15 promote a more rigorous approach towards market risk management in the New England
16 markets.

17 **Q. DOES THAT CONCLUDE YOUR PRE-FILED TESTIMONY?**

18 A. Yes.

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

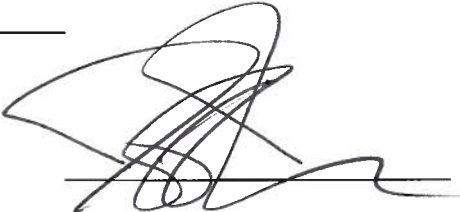
Executed on March 25, 2010



Robert C. Ludlow

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

Executed on March 25, 2010



Jeffrey B. Iafrati

Attachment 4

**New England Governors
and Utility Regulatory
and Related Agencies**

Connecticut

The Honorable M. Jodi Rell
State Capitol
210 Capitol Ave.
Hartford, CT 06106

Connecticut Department of Public Utility Control
10 Franklin Square
New Britain, CT 06051-2605

Maine

The Honorable John E. Baldacci
One State House Station
Rm. 236
Augusta, ME 04333-0001

Maine Public Utilities Commission
State House, Station 18
242 State Street
Augusta, ME 04333-0018

Massachusetts

The Honorable Deval Patrick
Office of the Governor
Rm. 360 State House
Boston, MA 02133

Massachusetts Department of Public Utilities
One South Station
Boston, MA 02110

New Hampshire

The Honorable John H. Lynch
State House
25 Capitol Street
Concord, NH 03301

New Hampshire Public Utilities Commission
21 South Fruit Street
Suite 10
Concord, NH 03301-2429

Rhode Island

The Honorable Donald L. Carcieri
State House Room 115
Providence, RI 02903

Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Vermont

The Honorable James H. Douglas
109 State Street, Pavilion
Montpelier, VT 05609

Vermont Public Service Board
112 State Street, Drawer 20
Montpelier, VT 05620-2701

**New England Governors
and Utility Regulatory
and Related Agencies**

Tim Woolf, President
New England Conference of
Public Utilities Commissioners, Inc.
c/o Massachusetts Department of Public Utilities
One South Station
Boston, MA 02110

William M. Nugent
Executive Director
New England Conference of
Public Utilities Commissioners, Inc.
50 Forest Falls Drive, Suite 6
Yarmouth, ME 04096-6937

Harvey L. Reiter, Esq.
Counsel for New England Conference
of Public Utilities Commissioners, Inc.
c/o Stinson Morrison Hecker LLP
1150 18th Street, NW, Suite 800
Washington, DC 20036-3816

Power Planning Committee
New England Governors' Conference, Inc.
76 Summer Street, 2nd Floor
Boston, MA 02110-1226

Heather Hunt
Executive Director
New England States Committee on Electricity
HeatherHunt@NESCOE.com

Attachment 5

NEPOOL PARTICIPANTS COMMITTEE
ROLL CALL VOTES TAKEN AT MAY 1, 2009 MEETING
CHANGES TO ISO-NE FINANCIAL ASSURANCE AND BILLING POLICIES
(UNSECURED CREDIT, LETTERS OF CREDIT AND ALLOCATION OF PAYMENT DEFAULTS)

TOTAL

Participant Name	Alternative Proposal	ISO Proposal
GENERATION	12.015	7.802
TRANSMISSION	14.712	17.164
SUPPLIER	8.827	10.096
ALTERNATIVE RESOURCES	2.518	12.922
PUBLICLY OWNED ENTITY	1.040	17.164
END USER	<u>0.452</u>	<u>16.735</u>
% IN FAVOR	39.563	81.883

SUPPLIER SECTOR

Participant Name	Alternative Proposal	ISO Proposal
AB Energy Inc.	O	F
Argo Navis Fundamental Power Fund	O	F
BJ Energy, LLC	O	F
Black Oak Energy, LLC	O	F
BP Energy Company	F	O
Brookfield Energy Marketing Inc.	F	A
Consolidated Edison Energy, Inc.	F	O
Constellation Energy Commodities Group	F	O
Cross Sound Cable Company, LLC	O	F
DC Energy, LLC	O	F
DTE Energy Trading, Inc.	F	O
Dynegy Power Marketing, Inc.	O	F
Edison Mission Marketing & Trading	O	F
Energy America, LLC	F	O
Energy Endeavors, LLC	O	F
Epic Merchant Energy NE, LP	O	F
Exelon Generation, LLC	F	O
Granite Ridge/Merrill Lynch Commodities/BoA	O	F
Hess Corporation	F	O
H.Q. Energy Services (U.S.) Inc.	O	F
Integrus Energy Services, Inc.	F	O
Jump Power LLC	O	F
Kimberly-Clark Corporation	F	F
Linde Energy Services, Inc.	F	A
LIPA	A	A
Louis Dreyfus Energy Services L.P.	O	F
Morgan Stanley Capital Group. Inc.	F	O
North American Energy Credit and Clearing-Delivery LLC	O	F
Pepco Energy Services, Inc.	F	O
Power Bidding Strategies, LLC	O	F
PPL EnergyPlus, LLC	F	O
PSEG Energy Resources & Trade	F	O
Saracen Energy, LP	O	F
Sempra Energy Trading Corp.	F	O
Shell Energy North America (US) LP	F	O
Silverhill Ltd.	F	F
Solios Power, LLC	A	F
SUEZ Energy Marketing/FirstLight	A	A
IN FAVOR (F)	18	20
OPPOSED	17	14
TOTAL VOTES	35	34
ABSTENTIONS (A)	3	4

GENERATION SECTOR

Participant Name	Alternative Proposal	ISO Proposal
BG Dighton Power, LLC	O	F
Boston Generating, LLC	O	F
Caithness New England Services Co	F	O
NAEA Energy Massachusetts, LLC	F	O
Dominion Energy Marketing, Inc.	F	A
Energy Nuclear Power Marketing	F	O
International Power America (ANP Funding I, LLC)	O	F
Millennium Power Partners	A	F
Mirant Energy Trading, LLC	F	O
NextEra Energy Resources, LLC	F	O
NRG Power Marketing, LLC	A	F
TransCanada Power Marketing Ltd.	F	O
IN FAVOR (F)	7	5
OPPOSED (O)	3	6
TOTAL VOTES	10	11
ABSTENTIONS (A)	2	1

TRANSMISSION SECTOR

Participant Name	Alternative Proposal	ISO Proposal
Bangor Hydro-Electric Company	O	F
Central Maine Power Company	F	A
New England Power Company	F	F
The United Illuminating Company	F	F
Northeast Utilities System Companies	F	F
NSTAR Electric Company	F	F
Vermont Electric Power Company	F	F
Provisional Group Member	A	A
IN FAVOR (F)	6	6
OPPOSED	1	0
TOTAL VOTES	7	6
ABSTENTIONS (A)	1	2

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PUBLICLY OWNED ENTITY SECTOR

Participant Name	Alternative Proposal	ISO Proposal
Ashburnham Municipal Light Plant	O	F
Belmont Municipal Light Department	O	F
Boylston Municipal Light Department	O	F
Chicopee Municipal Lighting Plant	A	F
Conn. Municipal Electric Energy Coop.	F	F
Concord Municipal Light Plant	O	F
Danvers Electric Division	O	F
Georgetown Municipal Light Dept.	O	F
Groton Electric Light Department	O	F
Holden Municipal Light Department	O	F
Holyoke Gas & Electric Department	O	F
Hudson Light and Power Department	O	F
Hull Municipal Lighting Plant	O	F
Ipswich Municipal Light Department	O	F
Littleton (MA) Electric Light Dept.	O	F
Mansfield Municipal Electric Dept.	O	F
Marblehead Municipal Light Dept.	O	F
Mass. Municipal Wholesale Electric Co	O	F
Middleborough Gas and Electric Dept.	O	F
Middleton Municipal Electric Dept.	O	F
NH Electric Cooperative, Inc.	F	F
North Attleborough Electric Dept.	O	F
Pascoag Utility District	O	F
Paxton Municipal Light Department	O	F
Peabody Municipal Light Plant	O	F
Princeton Municipal Light Department	O	F
Rowley Municipal Lighting Plant	O	F
Shrewsbury's Electric & Cable Ops	O	F
South Hadley Electric Light Dept.	O	F
Sterling Municipal Electric Light Dept.	O	F
Taunton Municipal Lighting Plant	A	F
Templeton Municipal Lighting Plant	O	F
Wakefield Municipal Gas & Light Dept.	O	F
West Boylston Municipal Lighting Plant	O	F
Westfield Gas & Electric Light Dept.	O	F
IN FAVOR (F)	2	35
OPPOSED	31	0
TOTAL VOTES	33	35
ABSTENTIONS (A)	2	0

END USER SECTOR

Participant Name	Alternative Proposal	ISO Proposal
511 Plaza, LP	O	F
Associated Industries of Mass.	A	A
Conservation Law Foundation	O	F
Corinth Wood Pellets, LLC	O	F
Correct Building Products	O	F
CT Office of Consumer Counsel	O	F
Dennis Beverage	O	F
Dragon Products Company	O	F
Elektrisola, Inc.	O	F
Fairchild Semiconductor Corporation	O	F
Food City, Inc.	O	F
Garland Manufacturing Company	O	F
Hammond Lumber Company	O	F
Hardwood Products Company	O	F
Harvard Dedicated Energy Limited	A	F
Industrial Energy Consumer Group	O	F
Lavalley Lumber Co.	O	F
Lincoln Paper and Tissue, Inc.	F	O
Luminescent Systems, Inc.	O	F
Maine Skiing, Inc.	O	F
Maine Woods Pellet Company	O	F
Marden's Inc.	O	F
Mass. Attorney General's Office	O	F
Mead Oxford	O	F
NH Office of Consumer Advocate	O	F
Old Town Lumber Co., Inc.	O	F
PalletOne of Maine	O	F
Parkview Adventist Medical Center	O	F
PowerOptions, Inc.	O	F
Praxair, Inc.	A	A
Quality Egg of New England	O	F
Robbins Lumber	O	F
St. Anselm College	O	F
St. Joseph Health Services of RI	O	F
Shipyards Brewing Co., LLC	O	F
The Energy Consortium	O	F
The Energy Council of Rhode Island	A	F
Union Leader	O	F
Union of Concerned Scientists	O	F
Westerly Hospital	O	F
Whole Foods Market Group, Inc.	O	F
Z-TECH, LLC	O	F
IN FAVOR (F)	1	39
OPPOSED	37	1
TOTAL VOTES	38	40
ABSTENTIONS (A)	4	2

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ALTERNATIVE RESOURCES SECTOR

Participant Name	Alternative Proposal	ISO Proposal
Renewable Generation Sub-Sector		
Gas Recovery Systems, Inc.	O	F
Distributed Generation Sub-Sector		
Pinpoint Power LLC	A	A
Small DG Group Member	O	F
Load Response Sub-Sector		
Comverge, Inc.	O	F
Conservation Services Group	F	F
CPower, Inc.	O	F
EnerNOC, Inc.	O	F
Vermont Energy Investment Corp.	O	F
Small LR Group Member	F	O
IN FAVOR (F)	2	7
OPPOSED	6	1
TOTAL VOTES	8	8
ABSTENTIONS (A)	1	1