

Bond No. _____

FORM OF SURETY BOND

KNOW ALL MEN BY THESE PRESENTS that we, CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION, a California nonprofit public benefit Corporation (the “ISO” or “Obligee”), and _____, as surety (the “Surety”), are held firmly bound unto the Obligee, in the amount of _____ (_____) lawful money of the United States of America, to be paid to the Obligee for which payment well and truly to be made, we bind ourselves, our heirs, executors, jointly and severally, firmly by these presents.

WHEREAS, pursuant to, and subject to the terms of, that certain Scheduling Coordinator Agreement, dated as of _____ (the “Scheduling Coordinator Agreement”), between _____, a _____ corporation (the “Scheduling Coordinator”) and the ISO, the Scheduling Coordinator agreed to trade energy pursuant to the terms and conditions of the ISO Operating Agreement and Tariff (the “ISO Tariff”), as may be amended, supplemented or modified from time to time;

WHEREAS, pursuant to the Scheduling Coordinator Agreement, Scheduling Coordinators who do not have and maintain an Approved Credit Rating shall be required to provide other forms of credit support;

WHEREAS, the Scheduling Coordinator does not presently have, nor is it expected to have, such Approved Credit Rating; and

WHEREAS, Surety, who meets the standards required to have such an Approved Credit Rating, has agreed to execute and deliver this Bond as further inducement for the ISO to enter into the Scheduling Coordinator Agreement with the Scheduling Coordinator.

NOW THEREFORE, in consideration of the premises and mutual covenants contained in this Bond and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Surety agrees as follows:

Section 1. Definitions. Each capitalized term used and not otherwise defined in this Bond shall have the meaning assigned to it in the ISO Tariff.

Section 2. The Bond.

2.01 The Bond. Surety hereby guarantees to the ISO and its successors and assigns the full performance by the Scheduling Coordinator of all the Scheduling Coordinator’s payment obligations under the Scheduling Coordinator Agreement (the “Obligations”), which include, without limitation, the payment obligations

of all matters relating to the trading of Energy by it through the ISO Market, ongoing obligations in respect of bidding, Settlement, security requirements, billing and payments, and dispute resolutions. Surety shall provide such credit support and payment to the ISO for the account of the Scheduling Coordinators, in an aggregate amount that is not less than the ISO Security Amount, as calculated in Sections. 2.4.3 and 2.4.4 of the ISO Tariff. Surety shall assume responsibility for and shall fully perform any and all of the Obligations, and shall made any and all required payments, before 3:00 p.m., local time in Los Angeles, California, on the next Business Day after receiving written notice from the ISO that the Scheduling Coordinator has failed to perform any of the obligations in accordance with the Scheduling Coordinator Agreement. "Business Day" means any day other than a Saturday, Sunday or a day on which banks in Los Angeles, California, are authorized or required by law to close. All demands for payment by the Obligee shall be presented to the Surety in the form of a Demand for Payment as shown in Exhibit A to this Bond.

2.02 Obligations Unconditional. The obligations (including, without limitation, the Bond) of the Surety under Section 2.01 of this Bond are a guarantee for payment or collection, and are absolute and unconditional irrespective of the value, genuineness, validity, regularity or enforceability of the Scheduling Coordinator Agreement, or any substitution, release or exchange of any other security for any of the Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a Surety, it being the intent of this Section 2.02 that the obligations of the Surety under this Bond shall be absolute and unconditional under any and all circumstances. Without limiting the generality of the foregoing, it is agreed that the occurrence of any one or more of the following shall not alter or impair the liability of Surety under this Bond which shall remain absolute and unconditional as described above:

(a) at any time or from time to time, without notice to Surety, the Scheduling Coordinator Agreement and the Scheduling Coordinator's Obligations thereunder are amended, increased, supplemented or modified; or

(b) at any time or from time to time, without notice to Surety, the time for any performance of, or compliance with, any of the Obligations shall be extended or such performance or compliance shall be waived.

Surety hereby expressly waives diligence, presentment, demand of payment, protest and all notices whatsoever, any defense based on any legal disability of the Scheduling Coordinator or the lack of validity or enforceability of the Scheduling Coordinator Agreement, any discharge or limitation of the liability of the Scheduling Coordinator to the ISO (whether consensual or arising by operation of law or any bankruptcy, reorganization, receivership, insolvency or debtor-relief proceeding), and any requirement that the ISO exhaust any right, power or remedy against the Scheduling Coordinator under the Scheduling Coordinator Agreement, or against any other Person under any other guarantee of any of the Obligations.

2.03 Reinstatement. The obligations (including, without limitation, the Bond) of Surety under this Section 2 shall be automatically reinstated if and to the extent that, for any reason, any payment or performance by or on behalf of the Scheduling Coordinator in respect of the Obligations is rescinded or must be otherwise restored by any holder of any of the Obligations, whether as a result of any bankruptcy, reorganization, receivership, insolvency or other debtor-relief proceeding, and Surety agrees that it will indemnify the ISO on demand for all reasonable costs and expenses (including, without limitation, attorneys' fees) incurred by the ISO in connection with such rescission or restoration, including, without limitation, any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

2.04 Subrogation. Surety hereby agrees that until the payment and satisfaction in full of all Obligations, it shall not exercise any right or remedy arising by reason of any performance by it of its Obligations in Section 2.01 of this Bond, whether by subrogation or otherwise, against the Scheduling Coordinator or any other Surety of any of the Obligations.

2.05 Remedies.

(a) Surety agrees that, as between Surety and the ISO, the Obligations may be declared to be forthwith due and payable as provided in the Scheduling Coordinator Agreement for purposes of Section 2.01 of this Bond notwithstanding any stay, injunction or other prohibition preventing such declaration (or such Obligation from becoming automatically due and payable) as against the Scheduling Coordinator and that, in the event of such declaration (or such Obligations being deemed to have become automatically due and payable), such Obligations (whether or not due and payable by the Scheduling Coordinator) shall forthwith become due and payable by Surety for purposes of such Section 2.01.

(b) Without limitation on the rights, remedies, powers and privileges of the ISO under Section 2, if any breach shall occur under the Scheduling Coordinator Agreement, the Obligations shall forthwith become due and payable by Surety for purposes of Section 2.01.

2.06 Continuing Obligations. The obligations of Surety in this Section 2 are continuing Obligations and shall apply to all Obligations whenever arising.

2.07 Term: Termination. This Bond shall be effective upon execution and shall continue in effect until terminated by the ISO or the Surety upon thirty (30) days, prior written notice to the non-terminating party. Notwithstanding the foregoing, the ISO shall have the right to terminate the Bond (a) upon written notice in the event that any of the representations and warranties of the Surety contained in Section 3 are

no longer true and correct or (b) upon the Surety's failure to promptly deliver any information requested pursuant to Section 4.

Section 3. Representations and Warranties. Surety represents and warrants to the ISO that:

3.01 Credit Rating. As of the date hereof and for so long as this Bond shall remain in effect, the Surety has, and expects to continue to maintain, an Approved Credit Rating.

3.02 Corporate Existence. The Surety (a) is a corporation duly organized and validly existing under the laws of the jurisdiction of its incorporation, (b) has all requisite corporate power and authority necessary to own its assets and carry on its business as now being or as proposed to be conducted, and (c) is qualified to do business in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure to so qualify would have a material adverse effect on the consolidated financial condition, operations, business or prospects, taken as a whole, of Surety and its subsidiaries.

3.03 Litigation. There are no legal or arbitral proceedings or any proceedings by or before any governmental or regulatory authority, or agency, now pending or (to the best knowledge of Surety) threatened against Surety or any of its subsidiaries that, if adversely determined, could (either individually or in the aggregate) have a material adverse effect on the consolidated financial condition, operations, business or prospects, taken as a whole, of Surety and its subsidiaries.

3.04 No Breach. Neither the execution and delivery of this Bond, nor consummation of the transactions contemplated in this Bond or compliance with the terms and provisions of this Bond, will conflict with, result in a breach of, or require any consent under, the charter or by-laws of Surety, any applicable law or regulation, any order, writ, injunction or decree of any court or governmental authority or agency, any agreement or instrument to which Surety or any of its subsidiaries is a party or by which any of them is bound or to which any of them is subject, or constitute a default under any such agreement or instrument, or result in the creation or imposition of any lien upon any of the revenues or assets of Surety or any of its subsidiaries pursuant to the terms of any such agreement or instrument.

3.05 Corporate Action. Surety has all necessary corporate power and authority to execute, deliver and perform its obligations under this Bond; the execution, delivery and performance by Surety of this Bond have been duly authorized by all necessary corporate action on its part; and this Bond has been duly and validly executed and delivered by Surety and constitutes its legal, valid and binding obligation, enforceable in accordance with its terms.

3.06 Approvals. No authorizations, approvals or consents of, and no filings or registrations with, any governmental or regulatory authority or agency

including, but not limited to, the California Commissioner of Insurance, or any securities exchange, are necessary for the execution, delivery or performance by Surety of this Bond or for the validity or enforceability of this Bond. In this regard, Surety warrants and represents that it has all necessary authorizations, approvals, and consents of, all governmental or regulatory authority or agency including, but not limited to, the California Commissioner of Insurance, or any securities exchange, for the execution, delivery and performance by Surety of this Bond.

Section 4. Delivery of Information. Surety shall deliver to the ISO:

(a) promptly after Surety knows or has reason to believe that any breach by it under this Bond or by the Scheduling Coordinator under the Scheduling Coordinator Agreement has occurred, a notice of such breach describing the same in reasonable detail and, together with such notice or as soon thereafter as possible, a description of the action that Surety has taken or proposes to take with respect thereto;

(b) promptly after Surety knows or has reason to believe, but no later than the next business day, that the representations or warranties of the Surety contained in this Bond are no longer true or correct; and

(c) from time to time, such other information regarding the financial condition, operations, or business of Surety or the Scheduling Coordinator as the ISO may reasonably request.

Section 5. Miscellaneous.

5.01 Dispute Resolution. Except as otherwise expressly set forth herein, Surety acknowledges and agrees that any dispute under this Bond shall be resolved in accordance with the dispute resolution provisions set forth in Section 13 of the ISO Tariff (references to the Scheduling Coordinator in such Section 13 shall be deemed to be references to Surety).

5.02 No Waiver. No failure on the part of the ISO to exercise, and no course of dealing with respect to, and no delay in exercising, any right, power or remedy under this Bond shall operate as a waiver thereof, nor shall any single or partial exercise by the ISO of any right, power or remedy under this Bond preclude any other or further exercise thereof or the exercise of any other rights, power or remedy. The remedies in this Bond are cumulative and are not exclusive of any remedies provided by law.

5.03 Notices. All notices, requests, consents and demands under this Bond shall be in writing and telecopied or delivered to the intended recipient as set forth below or at such other address as shall be designated by Surety or the ISO, as appropriate. Except as otherwise provided in this Bond, all such communications shall be deemed to have been duly given when transmitted by telecopier or personally

delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as aforesaid.

Notice to the ISO: California Independent System Operator Corporation
P.O. Box 639014 / 151 Blue Ravine Road
Folsom, California 95763-9014
Attention: Philip Leiber, Treasurer
Telecopier: (916) 351-2259

Notice to Surety: _____

Attention: _____
Telecopier: _____

5.04 Costs and Expenses. Surety agrees to pay all of the ISO's costs and expenses (including, without limitation, reasonable attorneys' fees) which may be incurred in connection with the collection or enforcement of the Obligations or any part of them or any term of this Bond, including all such costs and expenses incurred by the ISO in any legal action, reference or dispute resolution proceeding.

5.05 Amendments and Waivers. The terms of this Bond may be waived, altered or amended only by an instrument in writing duly executed by Surety and the ISO. Any waiver or consent given shall be effective only in the specific instance and for the specific purpose for which it was given. Any such amendment or waiver shall be binding upon the ISO, each holder of any of the guaranteed Obligations and Surety.

5.06 Successors and Assigns. This bond shall be binding upon and insure to the benefit of the respective successors and assigns of Surety, the ISO and each holder of any of the guaranteed Obligations; provided, however, that Surety shall not assign or transfer its rights under this Bond without the prior written consent of the ISO.

5.07 Captions. The captions and section headings appearing in this Bond are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Bond.

5.08 Governing Law. THIS BOND SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF CALIFORNIA.

5.09 Severability. The illegality or unenforceability of any provision of this Bond shall not in any way affect or impair the legality or enforceability of the remaining provisions of this Bond.

5.10

Signed, sealed and dated this _____ day of _____, 200_.

SCHEDULING COORDINATOR:

By: _____ (Seal)
Title: _____

SURETY:

By: _____ (Seal)
Attorney-in-Fact

AGREED:

California Independent System
Operator Corporation:

By: _____ (Seal)
Title: _____

EXHIBIT A TO BOND NUMBER_____

(Form of Demand for Payment)

(Date)

(Address of Surety)

RE: Surety Bond Number_____ Demand for Payment

Gentlemen:

This letter constitutes a Demand for Payment as defined in the Surety Bond. An event of default has occurred under the Scheduling Coordinator Agreement dated the _____ day of _____, 200_, as referenced in the Surety Bond. The amount of unpaid obligations as of the date hereof is _____. Please pay such amount in accordance with the following payment instructions:

California Independent System Operator Corporation

By:_____

Name:_____

Title:_____