

2.2.7 and that it is capable of complying with the requirements of all ISO Protocols;

- (b) identify each of the Eligible Customers (including itself if it trades for its own account) which it is authorized to represent as Scheduling Coordinator and confirm that the metering requirements under Section 10 are met in relation to each Eligible Customer for which it is submitting bids under this ISO Tariff;
- (c) confirm that each of the End-Use Customers it represents is eligible for Direct Access;
- (d) confirm that none of the Wholesale Customers it represents is ineligible for wholesale transmission service pursuant to the provisions of FPA Section 212(h);
- (e) demonstrate to the ISO's reasonable satisfaction that it meets the financial criteria set out in Section 2.2.3.2; and
- (f) enter into an SC Agreement with the ISO.

2.2.3.2 Each Scheduling Coordinator, UDC or MSS shall either maintain an Approved Credit Rating or provide in favor of the ISO one of the following forms of security for an amount to be determined by the Scheduling Coordinator, UDC or MSS and notified to the ISO under Section 2.2.7.3:

- (a) an irrevocable and unconditional letter of credit confirmed by a bank or financial institution reasonably acceptable to the ISO;
- (b) an irrevocable and unconditional surety bond posted by an insurance company reasonably acceptable to the ISO;
- (c) an unconditional and irrevocable guarantee by a company which has and maintains an Approved Credit Rating;

- (d) a cash deposit standing to the credit of an interest bearing escrow account maintained at a bank or financial institution designated by the ISO;
- (e) a certificate of deposit in the name of the ISO from a financial institution designated by the ISO; or
- (f) a payment bond certificate in the name of the ISO from a financial institution designated by the ISO.

Letters of credit, guarantees, surety bonds, payment bond certificates, escrow agreements and certificates of deposit shall be in such form as the ISO may reasonably require from time to time by notice to Scheduling Coordinators, UDCs or MSSs. A Scheduling Coordinator, UDC or MSS which does not maintain an Approved Credit Rating shall be subject to the limitations on trading set out in Section 2.2.7.3.

2.2.3.3 Review of Creditworthiness.

The ISO may review the creditworthiness of any Scheduling Coordinator, UDC or MSS which delays or defaults in making payments due under the ISO Tariff and, as a consequence of that review, may require such Scheduling Coordinator, UDC or MSS, whether or not it has (or is deemed to have) an Approved Credit Rating, to provide credit support in the form of:

- (a) an irrevocable and unconditional letter of credit by a bank or financial institution reasonably acceptable to the ISO; or

- (b) a cash deposit standing to the credit of an interest-bearing escrow account maintained at a bank or financial institution designated by the ISO.

The ISO may require the Scheduling Coordinator, UDC or MSS to maintain such credit support for at least one (1) year from the date of such delay or default.

ISO shall reject that Schedule provided that Scheduling Coordinators shall be able to validate their Schedules prior to the deadline for submission to the ISO.

2.2.7.3 Limitation on Trading. A Scheduling Coordinator, UDC or MSS that does not maintain an Approved Credit Rating shall maintain security in accordance with Section 2.2.3.2. For the avoidance of doubt, the ISO Security Amount is intended to cover the entity's outstanding liability for Imbalance Energy, Ancillary Services, Grid Management Charge, Grid Operations Charge, Wheeling Access Charge, High Voltage Access Charge, Transition Charge, and Usage Charges. Each Scheduling Coordinator, UDC or MSS required to provide an ISO Security Amount under Section 2.2.3.2 shall notify the ISO of the initial ISO Security Amount that it wishes to provide at least fifteen (15) days and shall ensure that the ISO has received such ISO Security Amount prior to the date the Scheduling Coordinator commences trading or the UDC or MSS commences receiving bills for the High Voltage Access Charge and Transition Charge. A Scheduling Coordinator, UDC or MSS may at any time increase its ISO Security Amount by providing additional guarantees or credit support in accordance with Section 2.2.3.2. A Scheduling Coordinator, UDC or MSS may reduce its ISO Security Amount by giving the ISO not less than fifteen (15) days notice of the reduction, provided that the Scheduling Coordinator, UDC or MSS is not then in breach of this Section 2.2.7.3. The ISO shall release, or permit a reduction in the amount of, such guarantees or other credit support required to give effect to a permitted reduction in the ISO Security Amount as the Scheduling Coordinator, UDC or MSS may select.

Following the date on which a Scheduling Coordinator commences trading, the Scheduling Coordinator shall not be entitled to submit a Schedule to the ISO and the ISO shall reject any Schedule submitted if, at the time of submission, the Scheduling Coordinator's ISO Security Amount is exceeded by the Scheduling Coordinator's

estimated aggregate liability for Imbalance Energy, Ancillary Services, Grid Management Charge, Grid Operations Charge, Wheeling Access Charge, Transmission Loss Imbalance Charge, and Usage Charges on each Trading Day for which Settlement has not yet been made in accordance with Section 11.3.1 and the Scheduling Coordinator's estimated liability for High Voltage Access Charge and Transition Charge for which Settlement has not yet been made in accordance with Section 11.3. The ISO shall notify a Scheduling Coordinator if at any time such outstanding liability exceeds 90% of the ISO Security Amount. For the purposes of calculating the Scheduling Coordinator's liability, for any Trading Day for which all relevant Settlement data is not yet available, calculation of the Scheduling Coordinator's liability shall be equal to the gross Energy (in kWh) scheduled for delivery to Gross Load by the Scheduling Coordinator on that Trading Day multiplied by the ISO's estimated average cost for Imbalance Energy, Ancillary Services and Usage Charges per kWh of Energy traded, as such estimated cost is notified by the ISO to Scheduling Coordinators from time to time. Following the date on which a UDC or MSS commences operation, the UDC's or MSS's Scheduling Coordinator shall not be entitled to submit a Schedule to the ISO and the ISO shall reject any Schedule submitted if, at the time of submission, the UDC's or MSS's ISO Security Amount is exceeded by the UDC's or MSS's estimated aggregate liability for High Voltage Access Charges and Transition Charges for which Settlement has not yet been made in accordance with Section 11.3. The ISO shall notify a UDC or MSS if at any time such outstanding liability exceeds 90% of the ISO Security Amount. For

the purposes of estimating the UDC's or MSS's aggregate liability for High Voltage Access Charges and Transition Charges, the UDC's or MSS's liability shall be equal to the billed Load (in kWh) for a month in the UDC's or MSS's Service Area (including exports from the Service Area) multiplied by the ISO's estimated High Voltage Access Charge and Transition Charge for that month, as such estimated cost is notified by the ISO to UDCs and MSSs from time to time.

2.2.7.4 The ISO shall notify the relevant Scheduling Coordinator if it rejects a Schedule under Section 2.2.7.3 in which event the Scheduling Coordinator shall not be entitled to submit any further Schedules until it has demonstrated to the ISO's satisfaction that its ISO Security Amount has been increased sufficiently to avoid the limit on trading imposed under Section 2.2.7.3 from being exceeded.

2.2.7.5 The ISO may restrict, or suspend a Scheduling Coordinator's right to Schedule or require the Scheduling Coordinator to increase its ISO Security Amount if at any time such Scheduling Coordinator's liability for Imbalance Energy is determined by the ISO to be excessive by comparison with the likely cost of the amount of Energy scheduled by the Scheduling Coordinator.

2.2.8 The Scheduling Process.

The ISO scheduling process is described for information purposes only in tabular form in Appendix C. The scheduling process by nature will need constant review and amendment as the market develops and matures and, therefore, is subject to change. The description in Appendix C aids understanding of the implementation and operation of the various markets administered by the ISO and is filed for information purposes only.

2.2.8.1 Preferred Schedule. A Preferred Schedule shall be submitted by each Scheduling Coordinator on a daily and/or hourly basis to the ISO. Scheduling Coordinators may also submit to the ISO, Ancillary Services bids in accordance with Section 2.5.10 and, where they elect to self provide Ancillary Services pursuant to Section 2.5.20.1, an Ancillary Service schedule meeting the requirements set forth in Section 2.5.20.6. The Preferred Schedule shall also include an indication of which resources (Generation or Load) if any may be adjusted by the ISO to eliminate Congestion. On receipt of the Preferred Schedule in the Day-Ahead scheduling process, the ISO shall notify the Scheduling Coordinator of any specific Reliability Must-Run Units which have not been included in the Preferred Schedule but which the ISO requires to run in the next Trading Day. The ISO will also notify the

FPA or as otherwise provided by law, are preserved consistent with the terms of the Existing Contract. Unless and until the necessary changes to the Existing Contract are made, all terms and conditions of the Existing Contracts will continue to be honored by the parties to the contracts.

2.4.4.2 Conversion of Participating TOs' Rights and Obligations Under Existing Contracts.

2.4.4.2.1 Parties who are entitled to transmission service rights under Existing Contracts and who choose to become Participating TOs must at the time of becoming a Participating TO exercise those rights by converting them to "Converted Rights", which are described in Section 2.4.4.3. A party who ceases to be a Participating TO at or before the end of the five year period beginning at the ISO Operations Date shall be entitled to resume service under any Existing Contract to which it is then a party, so long as that contract has not expired or been terminated. For the purposes of Sections 2.4.3 and 2.4.4, Pacific Gas & Electric Company, Southern California Edison Company and San Diego Gas & Electric Company will be deemed to have converted all rights that they may hold under Existing Contracts to Converted Rights as described in Section 2.4.4.3 with effect from the ISO Operations Date. Schedules that utilize Converted Rights shall be submitted by a Scheduling Coordinator that has been certified in accordance with Section 2.2.4.

2.4.4.2.2 As part of the conversion referred to in Section 2.4.4.2.1, modifications to an Existing Contract may be needed. Any required modifications must be agreed upon by all parties to the contract. Failure of the parties to reach agreement on the modifications required under Section 2.4.4.2.1 shall be addressed using the dispute resolution provisions of the Existing Contract, including any remedies as are provided by law consistent with the terms of the Existing Contract. The rights of the parties to challenge such changes, under the FPA or as otherwise provided by law, are preserved.

2.4.4.3 Converted Rights.

2.4.4.3.1 A recipient of transmission service under an Existing Contract that chooses to become a Participating TO and convert its rights to ISO transmission service, and the Participating TO which provides the transmission service under the Existing Contract shall change the terms and conditions of the contract to provide that:

2.4.4.3.1.1 The recipient of the transmission service received under an Existing Contract that has converted its rights to ISO transmission service shall turn over Operational Control of its transmission entitlement to the ISO for management by the ISO in accordance with the ISO's scheduling, Congestion Management, curtailment and other ISO Protocols;

2.4.4.3.1.2 The recipient of the transmission service under an Existing Contract that has converted its rights to ISO transmission service shall obtain all future transmission

services within, into, out of, or through the ISO Controlled Grid using the ISO's
scheduling and operational procedures and protocols and the ISO Tariff and

any applicable TO Tariff, provided that this provision shall not affect the rights, if any, of the contract parties to extend Existing Contracts.

2.4.4.3.1.3 [Not Used]

2.4.4.3.1.4 For the capacity represented by its rights, the recipient of firm transmission service under an Existing Contract that has converted its rights to ISO transmission service shall be entitled to receive the Usage Charge revenues for the capacity (and/or alternatives to such revenues, such as physical transmission rights or transmission congestion contracts, should they exist) and all Wheeling revenue credits throughout the term that the capacity is available under the Existing Contract. The recipient of less than firm service shall receive these revenues in proportion to the degree of firmness and the terms and conditions of their service.

2.4.4.3.1.5 The recipient of the transmission service received under an Existing Contract that has converted its rights to ISO transmission service shall continue to have the obligation to pay the provider of the service for its transmission service at the rates provided in the Existing Contract, as they may change from time to time under the terms of the Existing Contract, or as mutually agreed between the contract

parties, through the term of the contract, subject to the terms and conditions of the contract, including the rights of the parties to the contract to seek unilateral or other changes pursuant to Section 205 or Section 206 of the Federal Power Act and the FERC's Rules and Regulations or as otherwise provided by law.

2.4.4.3.2 Other aspects of such an Existing Contract may also need to be changed. If the parties to the contract are unable to negotiate such changes, they shall seek appropriate changes through the mechanisms provided within the contract, including the rights, if any, to seek unilateral or other changes pursuant to Section 205 or Section 206 of the Federal Power Act and the FERC's Rules and Regulations or as otherwise provided by law.

2.4.4.4 ISO Treatment of Non-Participating TOs Existing Rights.

2.4.4.4.1 For the purposes of Section 2.4.4, Existing Rights fall into one of three general categories: firm transmission service, non-firm transmission service, and conditional firm transmission service. The parties to an Existing Contract shall notify the ISO which Existing Rights fall into each category, through the operating instructions described in Section 2.4.4.5.1.1. The parties to an Existing Contract shall also be responsible to submit to the ISO any other necessary operating instructions based on their contract interpretations needed by the ISO to enable the ISO to perform its duties.

2.4.4.4.1.1 The ISO will have no role in interpreting Existing Contracts. The parties to an Existing Contract will, in the first instance, attempt jointly to agree on any operating instructions that will be submitted to the ISO. In the event that the parties

to the Existing Contract cannot agree upon the operating instructions submitted by the parties to the Existing Contract, the dispute resolution provisions of the Existing Contract, if applicable, shall be used to resolve the dispute; provided that, until the dispute is resolved, and unless the Existing Contract specifies otherwise, the ISO shall implement the Participating TO's operating instructions. If both parties to an Existing Contract are Participating TOs and the parties cannot agree to the operating instructions submitted by the parties, until the dispute is resolved, and unless the Existing Contract specifies otherwise, the ISO shall implement the operating instructions of the first Participating TO for which the Existing Contract is an Encumbrance.

2.4.4.4.2 The ISO's scheduling protocols will accommodate Existing Rights so that the holders of Existing Rights will receive the same priorities (in scheduling, curtailment, assignment and other aspects of transmission system usage) to which they are entitled under their Existing Contracts.

2.4.4.4.3 Scheduling deadlines and operational procedures associated with Existing Rights will be honored by the ISO.

2.4.4.4.4 All contractual provisions that have been communicated to the ISO in writing in accordance with Section 2.4.4.4.1 by the parties to the Existing Contracts, shall be honored by the ISO and the parties to the Existing Contracts and shall be implemented in accordance with the terms and conditions of the relevant Existing Contracts so notified.

2.4.4.4.1 The holders of Existing Rights will not be responsible for paying Usage Charges related to those rights, nor will they be entitled to receive Usage Charge revenues related to those rights.

2.4.4.4.2 Other than any existing rights to such revenues under the Existing Contracts, the holders of Existing Rights will not be

entitled to an allocation of revenues from Wheeling Out or Wheeling Through services on the ISO Controlled Grid, related to those rights.

2.4.4.4.3 The holders of Existing Rights shall continue to pay the providers of the Existing Rights at the rates provided in the associated Existing Contracts, as they may change from time to time under the terms of the Existing Contracts.

2.4.4.4.4 [Not Used]

2.4.4.4.5 Parties with Existing Rights shall continue to pay for Transmission Losses or Ancillary Services requirements in accordance with such Existing Contracts as they may be modified or changed in accordance with the terms of the Existing Contract. Likewise the Participating TOs shall continue to provide Transmission Losses and any other Ancillary Services to the holder of the rights under an Existing Contract as may be required by the Existing Contracts. To the extent that Transmission Losses or Ancillary Service requirements associated with Existing Rights are not the same as those under the ISO's rules and protocols, the ISO will not charge or credit the Participating TO for any cost differences between the two, but will provide the parties to the Existing Contracts with details of its Transmission Losses and Ancillary Services calculations

to enable them to determine whether the ISO's calculations result in any associated shortfall or surplus and to enable the parties to the Existing Contracts to settle the differences bilaterally or through the relevant TO Tariff.

2.4.4.5 ISO Protocols Shall Accommodate Existing Rights.

The ISO will implement the provisions of Section 2.4.4.4 in its Scheduling Protocol.

The objective will be to ensure that under the ISO rules and protocols, Existing Rights will enjoy the same relative priorities vis-à-vis new, ISO-provided transmission uses, as they would under the Existing Contracts and the FERC Order 888 tariffs.

Under the ISO Scheduling Protocol:

2.4.4.5.1.1 Existing scheduling rules, curtailment priorities and any other relevant terms and conditions associated with the scheduling and day-to-day implementation of transmission rights will be documented in sets of operating instructions provided to the ISO by the parties to the Existing Contracts. The documentation of these operating instructions, and disputes related to these operating instructions, will be handled in accordance with the terms of Section 2.4.4.4.1.1.

2.4.4.5.1.2 To the extent that the operating instructions can be exercised independently of the ISO by the parties to the Existing Contract and the results forwarded to the ISO, the operating instructions shall be exercised by the Participating TOs, and the outcomes shall be forwarded to the ISO. The determination of whether the operating instructions can be "exercised independently of the ISO by the parties to the Existing Contract" shall be made using the same procedures described in Section 2.4.4.4.1.1.

2.4.4.5.1.3 To the extent that the operating instructions can not be exercised independently of the ISO and the results forwarded to the ISO (because, for example, they require iteration with the ISO's scheduling process, would unduly interfere with the ISO's real-time management of curtailments or would unduly interfere with the ability of the holder of rights to exercise its rights), the operating instructions will be provided to the ISO for day-to-day implementation. In this case, the ISO shall act as the scheduling agent for the Participating TOs with regard to Existing Rights.

2.4.4.5.1.4 The ISO shall determine, based on the information provided by the Participating TOs and contract rights holders under Sections 2.4.4.5.1.2 and 2.4.4.5.1.3, the transmission capacities that (i) must be reserved for firm Existing Rights, (ii) may be allocated for use as ISO transmission service (i.e., new firm uses), (iii) must be reserved by the ISO for conditional firm Existing Rights, and (iv) remain for any non-firm Existing Rights for which a Participating TO has no discretion over whether or not to provide such non-firm service.

2.4.4.5.1.5 The ISO shall coordinate the scheduling of Existing Rights with the scheduling of ISO transmission service, using the ISO's Day-Ahead scheduling rules and protocols. In doing so, the ISO shall subtract, from the capacity that is available for the ISO to schedule in the ISO's Day-Ahead scheduling process, an appropriate amount of transmission capacity reflecting the amount and nature of the Existing Rights.

2.4.4.5.1.6 For those Existing Rights the use of which has not been scheduled by the rights-holders by the start of the ISO's Hour-Ahead scheduling process, the ISO shall coordinate the scheduling of Existing Rights with the scheduling of ISO transmission service, using the ISO's Hour-Ahead scheduling protocols. In doing so, the ISO may, at its own discretion, consider as available for the ISO to schedule in its Hour-Ahead scheduling process, any or all of the transmission capacity associated with Existing Rights the use of which has not been scheduled by the rights-holders in the ISO's Hour-Ahead scheduling process.

2.4.4.5.2 The ISO shall recognize that the obligations, terms or conditions of Existing Contracts may not be changed without the voluntary consent of all parties to the contract (unless such contract may be changed pursuant to any applicable dispute resolution provisions in the contract or pursuant to Section 205 or Section 206 of the FPA and the FERC's Rules and Regulations or as otherwise provided by law).

2.4.4.5.3 The parties to Existing Contracts shall remain liable for their performance under the Existing Contracts. The ISO shall be liable in accordance with the provisions of this ISO Tariff for any damage or injury caused by its non-compliance with the operating instructions submitted to it pursuant to this Section 2.4.4.

2.4.4.5.4 Unless specified otherwise, in the event that the dispute resolution mechanisms prescribed in an Existing Contract, including all recourses legally available under the contract, can not, in the first instance, result in a resolution of such a dispute, the ISO's ADR Procedure will be used to resolve any disputes

