

2.2.3.2 Each Scheduling Coordinator, UDC or MSS shall either maintain an Approved Credit Rating (which may differ for different types of transactions with the ISO) 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;:-
- (c) an irrevocable and unconditional surety bond posted by an insurance company reasonably acceptable to the ISO; or
- (d) a payment bond certificate in the name of the ISO from a 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.

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2.2.7.3 Limitation on Trading. A Scheduling Coordinator, UDC or MSS that does not maintain an Approved Credit Rating, as defined with respect to either payment of the Grid Management Charge, or payment of other charges, 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 either (i) Grid Management Charge; and/or (ii) 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 (separated into amounts securing payment of the Grid Management Charge and amounts securing payment of other charges) 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 (i) Grid Management Charge, and/or Imbalance Energy, Ancillary Services, ~~Grid Management Charge~~, Grid Operations Charge, Wheeling Access 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 liabilities ~~iesy~~ exceeds 90% of the relevant portion 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 (i) the Grid Management Charge rate per kWh, (ii) 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, and each calculated with regard to the relevant portion of the ISO Security Amount. 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.

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Approved Credit Rating

With respect to whether security must be posted for payment of the Grid Management Charge:

(a) A short-term taxable commercial paper debt rating of not less than any one of the following: (i) A1 by Standard and Poor's Corporation; (ii) D1 by Duff & Phelps Credit Rating Agency; (iii) F1 by Fitch IBCA Incorporated; or (iv) P1 by Moody's Investors Service. This rating shall be an issuer, or counterparty rating, without the benefit of credit enhancement.

(b) A short-term tax exempt commercial paper debt rating of not less than any one of the following: (i) A1 by Standard and Poor's Corporation; (ii) V1 by Fitch IBCA Incorporated; or (iii) VMIG1 by Moody's Investors Service. This rating shall be an issuer, or counterparty rating, without the benefit of credit enhancement:

With respect to whether security must be posted for payment of all charges other than the Grid Management Charge:

(c) A short-term tax exempt commercial paper debt rating of not less than any one of the following: (i) A2 by Standard and Poor's Corporation; (ii) D2 by Duff & Phelps Credit Rating Agency; (iii) F2 by Fitch IBCA Incorporated; or (iv) P2 by Moody's Investors Service. This rating shall be an issuer, or counterparty rating, without the benefit of credit enhancement.

(d) A short-term tax exempt commercial paper debt rating of not less than any one of the following: (i) A2 by Standard and Poor's Corporation; (ii) V2 by Fitch IBCA Incorporated; or (iii) VMIG2 by Moody's Investors Service. This rating shall be an issuer, or counterparty rating, without the benefit of credit enhancement.

(e) A long-term debt rating of not less than any one of the following: (i) A- by Standard and Poor's Corporation; (ii) A- by Duff & Phelps Credit Rating Agency; (iii) A- by Fitch IBCA Incorporated; or (iv) A3 by Moody's Investors Service. This rating shall be an issuer, or counterparty rating, without the benefit of credit enhancement:
With respect to whether security must be posted for payment of all charges:

(fe) A federal agency shall be deemed to have an Approved Credit Rating if its financial obligations under the ISO Tariff are backed by the full faith and credit of the United States.

(gd) A California state agency shall be deemed to have an Approved Credit Rating if its financial obligations under the

ISO Tariff are backed by the full faith and credit of the State of California.

(he) Another credit rating approved by the ISO Board of Governors.

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ISO Security Amount

The level of security provided in accordance with Section 2.2.3.2 of the ISO Tariff by an SC Applicant who does not have an Approved Credit Rating. The ISO Security Amount may be separated into two components: (i) the level of security required to secure payment of the Grid Management Charge; and (ii) the level of security required to secure payment of all charges other than the Grid Management Charge.