



California Independent
System Operator Corporation

November 29, 2012

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

**Re: California Independent System Operator Corporation
Docket No. ER13-____-000
Tariff Amendment to Implement New Financial and Credit
Policy Enhancements**

Dear Secretary Bose:

The California Independent System Operator Corporation (“ISO”)¹ submits this filing to enhance its financial and credit policy provisions in its tariff. The proposed tariff amendments will: (1) modify the progressive discipline for late invoice payments to reflect the ISO’s move from semi-monthly to weekly invoicing; (2) clarify terminology associated with receipt and remittance of payments; (3) eliminate unsecured credit limits for market participants with speculative-grade credit ratings; (4) eliminate certain forms of financial security that encumber the ISO’s ability to call on credit support expeditiously in the event of a non-payment; and (5) add a new option for payments to and from the ISO – the Automated Clearing House (“ACH”) payment service.

With the exception of the ACH payment option, the proposed changes were developed through a stakeholder working group formed to consider potential improvements to the ISO’s credit and financial policies and include changes based on a consideration of best practices of other independent system operators and regional transmission organizations. The ISO proposes a February 1, 2013 effective date for the proposed tariff changes.

¹ The ISO submits this filing pursuant to Section 205 of the Federal Power Act, 16 U.S.C. § 824d. Capitalized terms not otherwise defined herein have the meanings set forth in Appendix A to the ISO tariff.

I. Background

On an ongoing basis, the ISO evaluates whether revisions should be made to enhance the financial and credit policy provisions set forth in its tariff.² To that end, the ISO continually monitors the best practices of other independent system operators and regional transmission organizations, as well as the electric industry in general.

In 2011, the ISO formed a Credit Working Group to provide stakeholders with a forum for discussing best credit practices and a means to propose policy enhancements before taking them to the larger stakeholder community through the ISO's stakeholder initiative process.³ With the exception of the ACH payment option, the changes proposed in this tariff amendment were first raised and vetted in the Credit Working Group during conference calls held on December 19, 2011, March 31, 2012, and June 19, 2012. The changes were then presented to, and ultimately supported by, stakeholders representing a broad range of interests in the stakeholder initiative process.

The ISO initiated the broader stakeholder process to consider these enhancements on July 12, 2012. The ISO posted papers and presentations regarding each of the proposed enhancements, and held conference calls with stakeholders on July 31, August 22, and October 31, 2012.

The ISO first proposed to implement the ACH payment option during the July 31 stakeholder conference call. The proposal was developed at the request of a number of market participants. The ISO issued a paper providing more detail regarding the ACH proposal on October 19, 2012. Stakeholders either support or do not oppose this optional payment service.

The ISO posted draft tariff revisions to implement all of the changes on November 6, 2012, held a conference call regarding the tariff revisions on November 20, 2012, and posted a revised draft of the tariff revisions on November 21, 2012. The ISO also provided opportunities for stakeholders to provide written comments on the posted documents.⁴ Most stakeholders

² See, for example, the ISO's filings to modify its tariff in Docket Nos. ER06-700, ER07-613, ER07-1077, ER08-1059, ER09-589, ER09-1681, and ER10-753, as accepted by the Commission in those proceedings.

³ The ISO established the Credit Working Group pursuant to section 2.6 of an uncontested settlement approved by the Commission in Docket No. EL09-62. See *Calpine Corp. v. California Independent System Operator Corp.*, 134 FERC ¶ 61,097 (2011).

⁴ A list of key dates in the stakeholder process for this tariff amendment is provided in Attachment D to this filing. Materials from the stakeholder process for this tariff amendment are available on the ISO website at

expressed support for the proposed amendments, and none opposed them. At its meeting held on November 1, 2012, the ISO Governing Board authorized the ISO to prepare and submit this tariff amendment.⁵

The proposed tariff amendments are just and reasonable in accordance with the Federal Power Act.⁶ It is just and reasonable for the ISO to modify its existing disciplinary program for late invoice payments to reflect the ISO's move from semi-monthly invoicing to weekly invoicing in compliance with Commission Order No. 741. The clarifications of existing terminology in the tariff are just and reasonable because they address market participant concerns that the use of the words receipt and remittance in section 11 may be ambiguous in some circumstances, which may make payment obligations unclear. The elimination of unsecured credit limits for market participants with speculative-grade credit ratings is just and reasonable because this change will provide additional protection to ISO market participants from a risk of temporary default. Further, the elimination of certain forms of financial security that do not provide the ISO with prompt access to funds in the event of a payment default will prevent delays that may affect the ISO's ability to timely clear the market. This elimination is consistent with the practice of other independent system operators and regional transmission organizations found to be just and reasonable by the Commission. Lastly, allowing market participants to have the new option to use the Automated Clearing House service for payments to and from the ISO responds, in a just and reasonable manner, to market participant requests for additional flexibility.

II. Proposed Tariff Revisions

A. Implementation of Modified Progressive Discipline for Late Invoice Payments

ISO tariff section 11.29.14 sets forth a progressive disciplinary program for late invoice payments. Pursuant to section 11.29.14, each market participant may make up to two "no-fault" late invoice payments in a rolling 12-month period without being subject to any penalties or enforcement action, but the market participant is subject to financial penalties upon the third (and each subsequent)

<http://www.caiso.com/informed/Pages/StakeholderProcesses/CreditPolicyStakeholderProcess.aspx>.

⁵ An October 25, 2012 memorandum regarding the financial and credit policy enhancements from Ryan Seghesio, Chief Financial Officer & Treasurer for the ISO to the Governing Board is provided in Attachment C to this filing and is available on the ISO website at <http://www.caiso.com/Documents/DecisionCreditFinancialTariffEnhancements-Memo-Nov2012.pdf>.

⁶ See 16 U.S.C. 824d(a).

late payment in the rolling 12-month period and to possible enforcement actions upon the fifth (and each subsequent) late payment in the rolling 12-month period.

Since the ISO implemented the progressive disciplinary program in 2010,⁷ these measures have been highly successful in reducing instances of late invoice payments. In 2011, to comply with Commission Order No. 741, the ISO moved from semi-monthly invoicing to weekly invoicing,⁸ which had the consequence of effectively doubling the potential for market participants to make late payments. Subsequently, several market participants proposed that the ISO consider increasing the number of allowed no-fault late payments under section 11.29.14 from two to four in order to match the doubled number of invoicing periods. Based on the positive changes in payment behavior the ISO has observed since section 11.29.14 went into effect and the reasons given by market participants for making late invoice payments from time to time, the ISO determined that increasing the number of allowed no-fault late payments from two to four would not reduce the effectiveness of the progressive disciplinary program in encouraging timely payments.

For these reasons, the ISO proposes to revise section 11.29.14 to increase the number of late invoice payments allowed in a rolling 12-month period before financial penalties are assessed from two to four. Consistent with this proposed revision, the ISO also proposes to adjust the other provisions in the tariff section so that each market participant is subject to financial penalties upon the fifth (and each subsequent) late payment in the rolling 12-month period and to possible enforcement actions upon the seventh (and each subsequent) late payment in the rolling 12-month period.

In addition, based on discussion in the stakeholder process, the ISO proposes to revise tariff section 11.29.4.2 to state that, in the event that a payment is received late by the ISO bank due to either a system failure affecting the ISO bank or untimely performance of an Automated Clearing House draft debit for which the ISO is responsible, the enforcement actions set forth in section 11.29.14 will not apply to such late payment. This revision will eliminate the possibility that a market participant will be subject to an enforcement action due to a payment that is received late in such circumstances.

⁷ See *California Independent System Operator Corp.*, 131 FERC ¶ 61,009 (2010).

⁸ See *California Independent System Operator Corp.*, 136 FERC ¶ 61,194, at PP 10-12 (2011).

B. Addition of Definitions of Receipt and Remittance of Payments

ISO tariff section 11 includes various requirements as to receipt and remittance of payments. Some market participants have told the ISO that they believe the use of the words receipt and remittance (and grammatical variations thereof, such as the words receiving and remitting) in section 11 may be ambiguous in some circumstances, which may make payment obligations unclear. The ISO's proposed tariff changes clarify the ISO's longstanding requirement that the ISO must *receive* payment by 10:00 AM on the payment due date. The ISO's ability to clear the market on the payment due date is premised on receipt of funds by 10:00 AM.

In order to eliminate any potential for ambiguity, the ISO proposes to revise tariff section 11.1.3 to define the words receipt and remittance, and grammatical variations thereof, as used in the context of payment obligations. The ISO also proposes to revise tariff sections 11.13.7.3, 11.17.7.5, 11.29.4.1, 11.29.9.6.1, 11.29.9.6.2.1, 11.29.9.6.4.1, 11.29.11, 11.29.12, 11.29.13.1, 11.29.13.2, 11.29.24.1, the definition of the term RMR Default Amount contained in Appendix A to the tariff, and Article 9.3(a) of Appendix G to the tariff to reflect the definitions of those words and their grammatical variations.

C. Elimination of Unsecured Credit Limits for Market Participants with Speculative-Grade Credit Ratings

ISO tariff sections 12.1.1 *et seq.*, set forth rules for calculating unsecured credit limits based on a percentage of a market participant's tangible net worth. The rules for determining the percentage are based on a market participant's Moody's KMV Equivalent Rating or lowest credit agency issuer rating, or, for a market participant that has both of those types of ratings, on the average of the two ratings. A market participant with the highest credit rating can receive an unsecured credit limit of up to 7.5 percent of its tangible net worth, capped at a maximum unsecured credit limit of \$50 million. A market participant with a lower credit rating may receive a lower unsecured credit limit. Under the current rules, a market participant with an investment-grade rating and a speculative-grade rating would have those ratings averaged and could conceivably receive a significant amount of unsecured credit.

The ISO proposes to revise the unsecured credit limit calculation set forth in section 12.1.1 to eliminate the ability of market participants with credit ratings below investment-grade (*i.e.*, speculative-grade credit ratings) to receive an unsecured credit limit. Requiring each such market participant to back its financial obligations with a secured form of financial security instead of unsecured credit will provide additional protection for the ISO market from the greater risk of default that may result from market participants with speculative-

grade credit ratings transacting in the market.⁹ Further, the ISO proposes to revise tariff section 12.1.1 to update the name of the applicable Moody's rating.

The changes to 12.1.1 will be implemented in a transparent and objectively determined manner. A market participant that has either a Moody's Analytics Equivalent Rating (the updated name of the Moody's KMV Equivalent Rating)¹⁰ or a credit agency issuer rating that falls below investment grade at any time will be deemed to have zero tangible net worth for purposes of calculating an unsecured credit limit under the rules, and thus will receive an unsecured credit limit of zero (either through adjustment of its previously positive unsecured credit limit for an existing market participant, or through notification of an unsecured credit limit of zero for a new market participant). The market participant will receive an unsecured credit limit of zero even if it has an investment-grade Moody's Analytics Equivalent Rating but a credit agency issuer rating below investment grade, or vice versa (*i.e.*, the market participant will not receive an unsecured credit limit greater than zero based on the average of the two ratings). The market participant will remain ineligible for unsecured credit until the ISO's next quarterly review of the market participant's creditworthiness or thirty calendar days after the market participant's unsecured credit limit is denied or revoked, whichever is later.

D. Elimination of Certain Forms of Financial Security

The ISO proposes to revise tariff sections 12.1.2, 12.1.2.1(b), and 12.2 to eliminate escrow accounts, surety bonds, certificates of deposit, and payment bond certificates as acceptable forms of financial security. The purpose of these revisions is to eliminate forms of financial security that do not provide the ISO with prompt access to funds in the event of a payment default. Any delay in drawing on funds backed by these types of financial security may affect the ISO's ability to timely clear the market, which could result in a temporary default.

For example, drawing on a surety bond or a payment bond certificate, which is usually underwritten by an insurance company, could lead to a long

⁹ See, e.g., *Credit Reforms in Organized Wholesale Electric Markets*, Order No. 741, FERC Stats. & Regs. ¶ 31,317, at P 50 (2010) (explaining the Commission's concern that "the assumptions upon which any credit analysis is made can change rapidly"); *Policy Statement on Electric Creditworthiness*, 109 FERC ¶ 61,186, at P 4 (2004) (explaining that "credit downgrades have raised the level of concern regarding credit-related risks," including the risk of mutualized default in the markets operated by ISOs and RTOs).

¹⁰ The ISO also proposes to revise the name of this Moody's rating in tariff sections 12.1.1.1, 12.1.1.1.1, 12.1.1.1.2, and 12.1.1.5, and in the definition of the term Moody's KMV Equivalent Rating contained in Appendix A to the tariff. Further, the ISO proposes to revise that definition to correct a typographical error and to include any alternate rating agency other than Moody's that may establish such a rating.

investigation before a determination is made whether to honor the draw request. Similarly, the funds may not be readily available to the ISO under the terms and conditions of certificates of deposit compared to cash or a letter of credit (which are forms of financial security that will still be available under the ISO tariff after this tariff amendment is implemented).

When the ISO surveyed other independent system operators and regional transmission organizations, it found that only the New York Independent System Operator (“NYISO”) and the Electric Reliability Council of Texas (“ERCOT”) accept surety bonds, and the ISO found that no ISO or RTO (including NYISO and ERCOT) accepts the other forms of financial security that the ISO proposes to eliminate in this tariff amendment. Moreover, those forms of financial security are infrequently used by the ISO’s own market participants, affecting only seven of them. The ISO has contacted the seven market participants and they are already considering alternatives. Thus, elimination of those forms of financial security will not affect most market participants and those that are affected, are making alternative arrangements.

In addition, the ISO proposes to revise tariff sections 12.1.2(b) and 12.1.2.1(a) to eliminate guarantees as a form of financial security. A guaranty is more properly a form of unsecured credit, pursuant to which a market participant relies on the financial qualifications of a corporate parent rather than the market participant’s own financial qualifications. Therefore, the ISO also proposes to revise tariff section 12.1.1.1, which concerns the unsecured credit limit calculation, to include the provisions regarding guarantees that the ISO proposes to delete from section 12.1.2.1(a).

With these tariff revisions, cash and letters of credit and prepayments will be the sole permissible forms of financial security under the ISO tariff for market participants not eligible for an unsecured credit limit or that must be provided when financial security is required notwithstanding an unsecured credit limit.

E. Implementation of Optional Automated Clearing House Payment Service

The ISO tariff currently requires market participants to use the Fedwire service for the electronic transfer of payments. In this tariff amendment, the ISO proposes to provide market participants with the option to elect to use the ACH electronic payment service in order to provide payments, receive payments, or both. Market participants will be able to elect to use the ACH payment option as an alternative to the Fedwire payment service, though they will still be required to maintain the ability to use Fedwire pursuant to the existing tariff provisions. This flexibility was requested by a number of market participants.

Making a payment using ACH costs less than making a payment using Fedwire, but ACH payments may take up to two business days to clear and settle, depending on the banking institution used for the payment transfer. Fedwire is more expensive than ACH but allows payment transfers to clear and settle on the same business day if they are initiated early enough in the day. Pursuant to this tariff amendment, market participants will be able to choose the service (Fedwire or ACH) that best serves their needs for each payment transfer. Market participants electing to use ACH to pay the ISO must initiate payment early enough that the ISO receives payment by 10:00 AM on the payment due date. Market participants electing to use ACH to receive payment will experience a delay in the receipt of funds.

The revisions to implement the optional ACH payment service are set forth in tariff sections 4.5.1.1.10.1(e), 4.10.1.9.1(b), 11.1.3(e), 11.13.2.2, 11.13.6.3(c), 11.13.7.2, 11.29.3(c), and 11.29.9.3, in the new defined terms “ACH” and “Automated Clearing House (ACH)” to be added to Appendix A to the tariff, in Article 4.1 of Appendix B.1 to the tariff, in Article 4.3 of Appendices B.11 and B.12 to the tariff, and in Article 9.3(a) of Appendix G to the tariff. The ISO also proposes the ministerial change of revising most of those same tariff provisions, as well as section 11.29.4.1 of the tariff and the definition of the term Fed-Wire contained in Appendix A to the tariff, to replace the outdated term Fed-Wire with Fedwire, which is the current name of that payment service

III. Effective Date

The ISO proposes to make the tariff revisions contained in this filing effective February 1, 2013. With respect to the ACH payment options, February 1, 2013 will be the first date a market participant can initiate a request to pay or be paid through the ACH. The request will be subject to the applicable processing timelines of the market participants’ banking institutions and the ACH service as well as the ISO.

IV. Communications

Communications regarding this filing should be addressed to the following individuals, whose names should be placed on the official service list established by the Secretary with respect to this submittal:

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V. Service

The ISO has served copies of this transmittal letter, and all attachments, on the California Public Utilities Commission, the California Energy Commission, and all parties with effective scheduling coordinator service agreements under the ISO tariff. In addition, the ISO is posting this transmittal letter and all attachments on the ISO website.

VI. Attachments

The following documents, in addition to this transmittal letter, support the instant filing:

Attachment A	Revised ISO tariff sections
Attachment B	ISO tariff revisions show in black-line format
Attachment C	ISO Governing Board memorandum
Attachment D	List of key dates in the stakeholder process

VII. Conclusion

For the foregoing reasons, the Commission should accept the proposed financial and credit policy enhancements contained in the instant filing effective February 1, 2013. Please contact the undersigned with any questions regarding this matter.

Respectfully submitted,

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Fifth Replacement FERC Electric Tariff

Tariff Amendment to Implement New Financial and Credit Policy Enhancements

Attachment A - Clean Tariff

November 29, 2012

4.5.1.1.10.1 Scheduling Coordinator's Administrative, Financial and Technical Requirements

The CAISO will not certify that a Scheduling Coordinator Applicant has become a Scheduling Coordinator until the Scheduling Coordinator Applicant has completed all of the following requirements:

- (a) provided the technical/operational information required to complete the Scheduling Coordinator Application Form as set forth in the applicable Business Practice Manual, and to comply with Section 10.3;
- (b) executed a network connectivity security agreement for access to the CAISO's software used in conducting business with the CAISO and compliance with the CAISO's system security requirements in a form approved by the CAISO, if applicable;
- (c) obtained and installed any required software for functional interface for Validation, Estimation and Editing meter values (VEE), if applicable;
- (d) undertaken required training and testing regarding the use of the CAISO's market, operating, and technical systems, as specified in the applicable Business Practice Manual;
- (e) provided its bank account information and arranged for Fedwire transfers, with the Scheduling Coordinator being obligated to maintain at all times an account with a bank capable of Fedwire transfer and being permitted, at its option, to arrange for ACH payment service;
- (f) provided an emergency plan specifying the procedures by which Scheduling Coordinator operations and contacts with the CAISO will be maintained during an emergency, containing information specified in the applicable Business Practice Manual; and
- (g) obtained and installed a computer link and any necessary software in order to communicate with the CAISO, as specified in the applicable Business Practice Manual.

Additional instructions for completing the foregoing requirements will be set forth in a Business Practice Manual posted on the CAISO Website.

* * *

4.10.1.9.1 Notice of Completed Registration and Qualification of Candidate CRR Holder

Once the CAISO has accepted a Candidate CRR Holder applicant's application, the CAISO will provide the Candidate CRR Holder applicant with a final written notice to certify that a Candidate CRR Holder applicant has become a Candidate CRR Holder. The CAISO shall issue such final written notice of full registration and qualification as a Candidate CRR Holder after the CAISO has determined that the Candidate CRR Holder applicant has fully satisfied all the following requirements:

- (a) fully executed a CRR Entity Agreement with the CAISO;
- (b) provided its bank account information and arranged for Fedwire transfers, with the Candidate CRR Holder being obligated to maintain at all times an account with a bank capable of Fedwire transfer and being permitted, at its option, to arrange for ACH payment service;
- (c) met the Financial Security requirements of Section 12;
- (d) certified that it has attended required CRR training; and
- (e) obtained and installed any necessary software for communication with the CAISO as necessary.

* * *

11.1.3 Financial Transaction Conventions And Currency

The following conventions have been adopted in this CAISO Tariff in defining sums of money to be received by or remitted by the CAISO:

- (a) The act of receiving a sum of money in accordance with this CAISO Tariff is defined as "receiving" such sum, and each use of the word "receive" or a grammatical variation thereof in the context of receiving such sum shall have the meaning consistent with this

definition. The act of providing a sum of money to another entity in accordance with this CAISO Tariff is defined as “providing” or “remitting” such sum, and each use of the word “provide” or “remit” or a grammatical variation thereof in the context of providing or remitting such sum shall have the meaning consistent with this definition.

- (b) Where the CAISO is to receive a sum of money in accordance with this CAISO Tariff, this is defined as a “charge” and shall be received by the CAISO on or before 10:00 a.m. on the relevant Payment Date as prescribed in the CAISO Tariff.
- (c) Where the CAISO is required to pay a sum of money in accordance with this CAISO Tariff, this is defined as a “payment” and shall be remitted by the CAISO on the relevant Payment Date as prescribed in the CAISO Tariff.
- (d) All financial transactions are denominated in United States dollars and cents.
- (e) All payments by the CAISO to Business Associates shall be made by Fedwire or, at the option of each Business Associate, by ACH. All payments to the CAISO by Business Associates shall be made by Fedwire or, at the option of each Business Associate, by ACH.

* * *

11.13.2.2 RMR Owner’s Settlement Accounts

Each RMR Owner shall establish and maintain at all times a Settlement Account at a commercial bank located in the United States and reasonably acceptable to the CAISO which can effect money transfers via Fedwire, and, at its option, may also establish and maintain a Settlement Account for transfers via ACH, where payments to and from the Facility Trust Accounts shall be made in accordance with this Section 11.13. Each RMR Owner shall notify the CAISO of its Settlement Account details upon entering into its RMR Contract with the CAISO and may notify the CAISO from time to time of any changes by giving at least fifteen (15) days notice before the new account becomes operational.

* * *

11.13.6.3 Issuance of CAISO Invoices by the CAISO

The CAISO shall provide to the Responsible Utility and the RMR Owner on the dates specified in the RMR Payments Calendar CAISO Invoices showing:

- (a) the amounts which, on the basis of the Revised Estimated RMR Invoice or the Revised Adjusted RMR Invoice, as the case may be, and pursuant to Section 11.13, are to be paid by or to the relevant Responsible Utility and RMR Owner;
- (b) the Payment Date, being the date on which such amounts are to be paid and the time for such payment;
- (c) details (including the account number, bank name and Fedwire transfer instructions or, if applicable, ACH transfer instructions) of the RMR Owner Facility Trust Account to which any amounts owed by the Responsible Utility are to be paid, or of the RMR Responsible Utility Facility Trust Account to which any amounts owed by the RMR Owner are to be paid.

* * *

11.13.7.2 Payment Method

All payments and refunds by the CAISO to RMR Owners and Responsible Utilities shall be made via Fedwire or, if chosen by the RMR Owner or Responsible Utility, via ACH. However, if the RMR Owner is also the Responsible Utility, at the discretion of the RMR Owner, payments and refunds may be made by memorandum account instead of by Fedwire transfer or ACH.

11.13.7.3 Payment by RMR Owners and Responsible Utilities.

Each RMR Owner shall ensure that the amount shown on the relevant CAISO Invoice as payable by the RMR Owner shall be received into the Responsible Utility Facility Trust Account not later than 10:00 am on the Payment Date.

Subject to Section 41.6, each Responsible Utility shall ensure that the amount shown on the relevant CAISO Invoice as payable by the Responsible Utility shall be received into the RMR Owner Facility Trust Account not later than 10:00 am on the Payment Date.

11.13.7.4 Payment by the CAISO

The CAISO shall verify the amounts available for distribution to Responsible Utilities and/or RMR Owners on the Payment Date and shall give instructions to the CAISO Bank to remit from the relevant Facility Trust Account to the relevant settlement account maintained by each Responsible Utility or RMR Owner the amounts determined by the CAISO to be available for payment to each Responsible Utility or RMR Owner.

11.13.7.5 Payment Default by RMR Owner or Responsible Utility

If by 10:00 am on a Payment Date the CAISO, in its reasonable opinion, believes the RMR Default Amount has not been received, the CAISO shall immediately notify the RMR Owner and the Responsible Utility. Where the RMR Default Amount was due from the Responsible Utility, the CAISO and RMR Owner shall proceed as set forth in Section 41.6 and the applicable provision of the RMR Contract. Where the RMR Default Amount was due from the RMR Owner, the CAISO and the Responsible Utility shall proceed as set forth in the applicable provision of the RMR Contract.

* * *

11.29.3 Prepayments

- (a) A Scheduling Coordinator or CRR Holder may choose to pay at an earlier date than the Payment Date specified in the CAISO Payments Calendar by way of prepayment, provided it notifies the CAISO by electronic means before submitting its prepayment.
- (b) Prepayment notifications must specify the dollar amount prepaid.
- (c) Prepayments must be made by Scheduling Coordinators or CRR Holders via Fedwire or ACH into their CAISO prepayment accounts designated by the CAISO. The relevant Scheduling Coordinator or CRR Holder shall grant the CAISO a security interest on all funds in its CAISO prepayment account.
- (d) On any Payment Date the CAISO shall be entitled to cause funds from the relevant Scheduling Coordinator's or CRR Holder's CAISO prepayment account to be transferred

to the CAISO Clearing Account in such amounts as may be necessary to discharge in full that Scheduling Coordinator's or CRR Holder's payment obligation arising in relation to that Payment Date by way of set-off or recoupment.

- (e) Any funds held in the relevant Scheduling Coordinator's or CRR Holder's CAISO prepayment account shall be treated as part of that Scheduling Coordinator's or CRR Holder's Financial Security.
- (f) Interest (or other income) accruing on the relevant Scheduling Coordinator's or CRR Holder's CAISO prepayment account shall inure to the benefit of that Scheduling Coordinator or CRR Holder and shall be added to the balance of its CAISO prepayment account on a monthly basis.
- (g) Funds held in a CAISO prepayment account by a Scheduling Coordinator or CRR Holder may be recouped, offset or applied by the CAISO to any outstanding financial obligations of that Scheduling Coordinator or CRR Holder to the CAISO.

11.29.4 System Failure

11.29.4.1 At CAISO Debtor's Bank

If any CAISO Debtor becomes aware that a payment will not, or is unlikely to be, received by the CAISO Bank by 10:00 am on the relevant Payment Date for any reason (including failure of the Fedwire or any computer system), it shall immediately notify the CAISO, giving full details of the payment delay (including the reasons for the payment delay). The CAISO Debtor shall make all reasonable efforts to remit payment as soon as possible, by an alternative method if necessary, to ensure that funds are received for value no later than 10:00 am on the Payment Date, or as soon as possible thereafter.

11.29.4.2 At the CAISO's Bank

In the event of failure of any electronic transfer system affecting the CAISO Bank, the CAISO shall use reasonable efforts to establish alternative methods of remitting funds to the CAISO Creditors' Settlement Accounts by close of banking business on that Payment Date, or as soon as possible thereafter. The CAISO shall notify the CAISO Debtors and the CAISO Creditors of occurrence of the system failure and the alternative methods and anticipated time of payment. In the event that a payment is received late by the CAISO Bank due to either a system failure affecting the CAISO Bank or untimely performance of an

ACH draft debit for which the CAISO is responsible, the enforcement actions set forth in Section 11.29.14 shall not apply to such late payment.

* * *

11.29.9.3 Accounts of the Scheduling Coordinators, CRR Holders, Black Start Generators, and Participating TOs

Each Scheduling Coordinator, CRR Holder, Black Start Generator, and Participating TO shall establish and maintain at all times a Settlement Account at a commercial bank located in the United States and reasonably acceptable to the CAISO which can effect money transfers via Fedwire and, at its option, may also maintain an account capable of ACH transfers where payments to and from the CAISO Clearing Account shall be made in accordance with this CAISO Tariff. Scheduling Coordinators, CRR Holders, and Black Start Generators may, but will not be required to, maintain separate accounts for receipts and payments. Each Scheduling Coordinator, CRR Holder, and Black Start Generator shall notify the CAISO of its account details and of any changes to those details in accordance with the provisions of its Scheduling Coordinator Agreement, CRR Entity Agreement, or Interim Black Start Agreement. Participating TOs will notify the CAISO of their Settlement Account details in accordance with Section 2.2.1 of their Transmission Control Agreement and may notify the CAISO from time to time of any changes by giving at least seven (7) days written notice before the new account becomes operational.

* * *

11.29.9.6.1 Clearing Account

- (a) Subject to Section 11.29.3, and unless the CAISO instructs otherwise pursuant to Section 11.29.11, each CAISO Debtor shall ensure that the amount shown on the Invoice as payable by that CAISO Debtor shall be received into the CAISO Clearing Account for value not later than 10:00 a.m. on the Payment Date.
- (b) On the Payment Date, the CAISO shall be entitled to cause the transfer of such amounts held in a Scheduling Coordinator's or CRR Holder's CAISO prepayment account to the CAISO Clearing Account as provided in Section 11.29.3.

The CAISO shall calculate the amounts available for distribution to CAISO Creditors on the Payment Date and shall give irrevocable instructions to the CAISO Bank to remit from the CAISO Clearing Account to the relevant Settlement Accounts maintained by the CAISO Creditors, the aggregate amounts determined by the CAISO to be available for payment to CAISO Creditors for value by close of business on the Payment Date if no CAISO Debtors are in default. If a CAISO Debtor is in default and until all defaulting amounts have been collected, the CAISO shall remit payments as soon as practical within five (5) Business Days of the collection date posted in the CAISO Payments Calendar. If required, the CAISO shall instruct the CAISO Bank to transfer amounts from the CAISO Reserve Account to enable the CAISO Clearing Account to clear.

The CAISO is authorized to instruct the CAISO Bank to debit the CAISO Clearing Account and transfer to the relevant CAISO Account sufficient funds to pay in full the Grid Management Charge and FERC Annual Charges falling due on any Payment Date with priority over any other payments to be remitted on that or on subsequent days out of the CAISO Clearing Account.

* * *

11.29.9.6.2.1 Replenishing the CAISO Reserve Account Following Payment Default

If the CAISO has debited the CAISO Reserve Account then:

- (a) If, after the CAISO has debited the CAISO Reserve Account on a Payment Date, the CAISO Bank receives a payment from a CAISO Debtor which has not been (but should have been, if it had been received on a timely basis) credited to the CAISO Clearing Account by 10:00 am on the Payment Date and which required the debiting of the CAISO Reserve Account, such payment shall be credited to the CAISO Reserve Account.
- (b) The proceeds of any enforcement of Financial Security and/or amounts recovered under proceedings shall be credited to the CAISO Reserve Account.

- (c) If, after taking reasonable action, the CAISO determines that the default amount (or any part) and/or Interest cannot be recovered on the next practicable Invoices, the CAISO shall notify Market Participants of the identity of the defaulting Business Associate together with the unrecoverable amounts and such amounts shall be allocated in accordance with Section 11.29.17 of the CAISO Tariff with corresponding credits to the CAISO Reserve Account.

* * *

11.29.9.6.4.1 Replenishment Following Payment Default

If the CAISO has debited the CAISO Penalty Reserve Account, then:

- (a) If, after the CAISO has debited the CAISO Penalty Reserve Account on a Payment Date, the CAISO Bank receives a payment from a CAISO Debtor which has not been (but should have been, if it had been received on a timely basis) credited to the CAISO Clearing Account by 10:00 am on the Payment Date and which required the debiting of the CAISO Penalty Reserve Account, such payment shall be credited to the CAISO Penalty Reserve Account, less any amounts due to Market Participants.
- (b) The proceeds of any enforcement of Financial Security and/or amounts recovered under proceedings shall be credited to the CAISO Penalty Reserve Account.
- (c) If, after taking reasonable action, the CAISO determines that the default amount (or any part) and/or Interest cannot be recovered, the CAISO shall notify Market Participants of the identity of the defaulting Business Associate together with the unrecoverable amounts and such amounts shall be allocated in accordance with Section 11.29.17 of the CAISO Tariff with corresponding credits to the CAISO Penalty Reserve Account.

* * *

11.29.11 Instructions For Payment

Unless the CAISO instructs otherwise, each Scheduling Coordinator or CRR Holder shall ensure that the amount shown on the Invoice as payable by that Scheduling Coordinator or CRR Holder is received into the CAISO Clearing Account for value not later than 10:00 a.m. on the Payment Date. In the event of a verifiable error that would be reversed on a future Invoice or Payment Advice, the CAISO may instruct a Scheduling Coordinator or CRR Holder to reduce its payment in the amount of a specific charge reflected on an Invoice. Any such occurrence will not constitute a payment default under the CAISO Tariff. If the CAISO directs such a reduction in payment, it shall make offsetting adjustments on future Invoices or Payment Advices of Scheduling Coordinators, CRR Holders, Black Start Generators or Participating TOs that received settlement credits corresponding to the verifiably erroneous charge. The CAISO will inform those entities of the adjustments to their Invoices or Payment Advices.

11.29.12 CAISO'S Responsibilities

On the due date for payment of amounts shown in an Invoice, the CAISO shall ascertain whether all amounts required to be received into the CAISO Clearing Account have been credited to it. If any such amount has not been so credited, it shall ascertain which Scheduling Coordinators or CRR Holders have failed to pay the amount owed by them and it may, subject to any notice or cure provisions in this Section 11.29, exercise any rights available under the CAISO Tariff or under applicable law to recover any overdue amount.

* * *

11.29.13.1 Notification and Interest

If a Scheduling Coordinator or CRR Holder becomes aware that a payment for which it is responsible will not be received into the CAISO Clearing Account on time, it shall immediately notify the CAISO of the fact and the reason for the non-payment. If the Scheduling Coordinator or CRR Holder fails to pay any sum to the CAISO when due and after and the CAISO draws upon any and all available Financial Security provided by the defaulting Scheduling Coordinator or CRR Holder, the Scheduling Coordinator or CRR Holder shall pay Interest on the overdue amount for the period from the Payment Date to the date on which the payment is received into the CAISO Clearing Account, together with any related transaction

costs incurred by the CAISO. The CAISO shall apply all such Interest payments on the default amount either on a pro rata basis to CAISO Creditors in relation to amounts past due in the order of the creation of such debts, or, if the default amount was allocated pursuant to Section 11.29.17.2, to Default-Invoiced SCIDs in proportion to their allocated shares of the default amount as calculated pursuant to Section 11.29.17.2.1 or to SCIDs in proportion to their allocated shares of the default amount as calculated pursuant to Section 11.29.17.2.2, as applicable, in relation to amounts past due in the order of the creation of such debts.

11.29.13.2 Payment Default

Subject to Section 11.29.13.6, if by 10:00 am on a Payment Date the CAISO, in its reasonable opinion, believes that all or any part of any amount due to be received into the CAISO Clearing Account from any Scheduling Coordinator or CRR Holder has not been received and there are insufficient funds in the relevant Scheduling Coordinator's or CRR Holder's CAISO prepayment account (the amount of insufficiency being referred to as the "default amount"), the CAISO shall take the following actions to enable the CAISO Clearing Account to clear not later than the close of banking business on the relevant Payment Date.

* * *

11.29.14 Enforcement Actions for Late Payments

Each Market Participant that is late in paying the amount set forth in an Invoice from the CAISO is subject to the following enforcement actions:

- (a) After each of the first four (4) times during a rolling twelve (12) month period that a Market Participant is late in paying the amount set forth in an Invoice from the CAISO, the CAISO will send the delinquent Market Participant a warning notice.
- (b) After the fifth time during a rolling twelve (12) month period that a Market Participant is late in paying the amount set forth in an Invoice, the CAISO may revoke the Market Participant's Unsecured Credit Limit and require the Market Participant to post cash or another form of Financial Security reasonably acceptable to the CAISO in lieu of

unsecured credit or any other form of Financial Security to secure the Market Participant's financial obligations. The CAISO will require such a cash posting or other form of Financial Security for no fewer than twelve (12) months following the month in which the Market Participant's third delinquency occurs, and the CAISO may then return to the Market Participant all or a portion of the posted cash or other form of Financial Security, reinstate the Market Participant's ability to use an Unsecured Credit Limit, and reinstate the Market Participant's ability to use unsecured credit or other form of Financial Security to secure the Market Participant's financial obligations if, during the intervening time, the Market Participant has timely paid all of the amounts set forth in its Invoices from the CAISO, and timely met any requests for Financial Security pursuant to Section 12.4.

- (c) After the fifth time and each subsequent time during a rolling twelve (12) month period that a Market Participant is late in paying the amount set forth in an Invoice, the CAISO will assess a penalty to the Market Participant equal to the greater of \$1,000 or two percent (2%) of the amount set forth in the Invoice that the Market Participant has been late in paying, up to a maximum amount of \$20,000 per each late payment for which the CAISO assesses a penalty pursuant to this Section 11.29.14(c). This penalty will be included in the next Invoice to the Market Participant. Penalty amounts collected by the CAISO pursuant to this Section 11.29.14(c) will be treated as set forth in Section 11.29.9.6.4.
- (d) After the sixth and any subsequent times during a rolling twelve (12) month period that a Market Participant is late in paying the amount set forth in an Invoice, the CAISO may extend the time period that it imposes the measures described in Section 11.29.14 (b) for the Market Participant's fifth delinquency during a rolling twelve (12) month period.
- (e) After the seventh time during a rolling twelve-month period that a Market Participant is late in paying the amount set forth in an Invoice, the CAISO may, notwithstanding any other provision of the CAISO Tariff, (i) suspend any and all rights of the Market

Participant under the CAISO Tariff, effective immediately after the CAISO sends written notice of the suspension to the Market Participant, and (ii) terminate any agreement entered into between the CAISO and the Market Participant that allows the Market Participant to participate in the CAISO Markets, effective upon the date the CAISO sends written notice of the termination to the Market Participant or upon the date established in accordance with FERC rules if FERC rules require the CAISO to file the notice of termination with FERC. If the CAISO sends a notice of suspension or termination to a Market Participant pursuant to this Section 11.29.14(e), the Market Participant will not have the right to prevent such suspension or termination by curing its late payment of an amount set forth in an Invoice. The CAISO will, following termination of an agreement pursuant to this Section 11.29.14(e) and within thirty (30) days of being satisfied that no sums remain owing by the Market Participant under the CAISO Tariff, return or release to the Market Participant, as appropriate, any money or credit support provided by such Market Participant to the CAISO under Section 12.

- (f) Any time that a Market Participant is late in paying the amount set forth in an Invoice, the CAISO will assess Interest to the Market Participant and will apply Interest payments as set forth in Section 11.29.13.1. Any time that a Market Participant is late in paying the amount set forth in an Invoice, the CAISO may also take other applicable enforcement actions in the CAISO Tariff and in the applicable Business Practice Manual, if deemed necessary by the CAISO to protect the financial integrity of the CAISO Markets.

* * *

11.29.24.1 Preparation

In September of each year, the CAISO will prepare a draft CAISO Payments Calendar for the following calendar year showing for each Trading Day:

- (a) The date by which Scheduling Coordinators are required to provide Actual Settlement Quality Meter Data or Scheduling Coordinator Estimated Settlement Quality Meter Data for all their Scheduling Coordinator Metered Entities for each Settlement Period in the Trading Day;
- (b) The date on which the CAISO will issue Initial Settlement Statements T+3B and Invoices and Payment Advices to Scheduling Coordinators or CRR Holders, Black Start Generators and Participating TOs for that Trading Day;
- (c) The date on which the CAISO will issue the Recalculation Settlement Statements T+12B, T+55B, T+9M, T+18M, T+35M, and T+36M, and Invoices and Payment Advices to Scheduling Coordinators, CRR Holders, Black Start Generators and Participating TOs for that Trading Day;
- (d) The dates by which Scheduling Coordinators, CRR Holders, Black Start Generators and Participating TOs are required to notify the CAISO of any disputes in relation to their Recalculation Settlement Statements T+12B, T+55B, T+9M, T+18M and T+35M.
- (e) The date and time by which CAISO Debtors are required to have made payments into the CAISO Clearing Account in payment of Invoices for that Trading Day;
- (f) The dates and times on which the CAISO Clearing Account will remit payments to the CAISO Creditors of amounts owing to them for that Trading Day; and
- (g) In relation to Reliability Must-Run Charges and RMR Payments, the details set out in paragraph 3 of Appendix N, Part J.

The CAISO will make a draft of the CAISO Payments Calendar available on the CAISO Website to Scheduling Coordinators, CRR Holders, Black Start Generators, Participating TOs and RMR Owners any of which may submit comments and objections to the CAISO within two weeks of the date of posting of the draft on the CAISO Website. No later than October 31st in each year, the CAISO will publish the final CAISO Payments Calendar for the following calendar year, after considering the comments and

objections received from Scheduling Coordinators, CRR Holders, Black Start Generators, Participating TOs and RMR Owners. The final CAISO Payments Calendar will be posted on the CAISO Website, and will show for the period from 1 January to 31 December in the next succeeding year (both dates inclusive), the dates on which Settlement Statements shall be published by the CAISO and the Payment Dates on which the CAISO will pay the Participating TOs the Wheeling revenues allocated to them pursuant to Section 26.1.4.3.

* * *

12.1.1 Unsecured Credit Limit

Each Market Participant requesting an Unsecured Credit Limit shall submit an application to the CAISO in the form specified on the CAISO Website. The CAISO shall determine the Unsecured Credit Limit for each Market Participant in accordance with the procedures set forth in the applicable Business Practice Manual. The maximum Unsecured Credit Limit for any Market Participant, and group of Market Participant Affiliates, shall be \$50 million. In accordance with the procedures described in the applicable Business Practice Manual, each Market Participant requesting or maintaining an Unsecured Credit Limit is required to submit to the CAISO or its agent financial statements and other information related to its overall financial health as directed by the CAISO. Each Market Participant is responsible for the timely submission of its latest financial statements as well as other information, including, but not limited to, information concerning all entities that are Affiliates or become Affiliates, that may be reasonably necessary for the CAISO to conduct its evaluation. The CAISO shall determine the Unsecured Credit Limit for each Market Participant as described in Sections 12.1.1.1, 12.1.1.1.1, and 12.1.1.1.2.

As a result of the CAISO's credit evaluation, a Market Participant may be given an Unsecured Credit Limit by the CAISO or denied an Unsecured Credit Limit with the CAISO. Following the initial application and the establishment of an Unsecured Credit limit, the CAISO will review each Market Participant's Unsecured Credit Limit on a quarterly basis, unless that entity does not prepare quarterly statements, in which case the review will occur on an annual basis, and no entity shall be required to submit a new application. In addition, the CAISO may review the Unsecured Credit Limit for any Market Participant whenever the CAISO becomes aware of information that could indicate a Material Change in Financial

Condition. In the event the CAISO determines that the Unsecured Credit Limit of a Market Participant must be reduced as a result of a subsequent review due to a reason other than a Material Change in Financial Condition, the CAISO shall notify the Market Participant of the reduction, and shall, upon request, also provide the Market Participant with a written explanation of why the reduction was made. In the event the CAISO determines that the Unsecured Credit Limit of a Market Participant must be reduced as a result of a subsequent review due to a Material Change in Financial Condition, the CAISO shall notify the Market Participant of the reduction in writing and shall provide the Market Participant with a written explanation of the reasons for the reduction, either in advance of the reduction if reasonably practicable or after the reduction was made if providing the written notification and explanation in advance is not reasonably practicable, as set forth in the applicable Business Practice Manual.

In the event that any credit agency issuer rating or the Moody's Analytics Equivalent Rating of the Market Participant falls below investment grade at any time, the Market Participant will be denied an Unsecured Credit Limit or have its existing Unsecured Credit Limit revoked until (i) the CAISO's next quarterly review of the Market Participant's creditworthiness or (ii) thirty (30) calendar days after the Market Participant's Unsecured Credit Limit is denied or revoked, whichever is later.

12.1.1.1 Unsecured Credit Limit Calculation

An Unsecured Credit Limit (UCL) for each Market Participant that is a Rated or Unrated Public/Private Corporation, a Rated or Unrated Governmental Entity, or a Local Publicly Owned Electric Utility and that requests an Unsecured Credit Limit is calculated as follows:

1. For each Rated Public/Private Corporation, the Unsecured Credit Limit is the lesser of \$50 million or an amount equal to the Market Participant's Tangible Net Worth multiplied by a calculated percentage of Tangible Net Worth. The Tangible Net Worth percentage is comprised of fifty percent (50%) of the Market Participant's lowest credit agency issuer rating and fifty percent (50%) of the Moody's Analytics Equivalent Rating, if reasonably applicable. If a Moody's Analytics Equivalent Rating is not reasonably applicable, the

Tangible Net Worth percentage is comprised of one hundred percent (100%) of the Market Participant's lowest credit agency issuer rating.

2. For each Unrated Public/Private Corporation, the Unsecured Credit Limit is the lesser of \$50 million or an amount equal to the Market Participant's Tangible Net Worth multiplied by a calculated percentage of Tangible Net Worth. The Tangible Net Worth percentage is comprised of one hundred percent (100%) of the Moody's Analytics Equivalent Rating.
3. For each Rated Governmental Entity, the Unsecured Credit Limit is the lesser of \$50 million or an amount equal to the Market Participant's Net Assets multiplied by a calculated percentage of Net Assets. The Net Assets percentage is comprised of one hundred percent (100%) of the Market Participant's lowest credit agency issuer rating.
4. (a) For each Unrated Governmental Entity other than one that receives appropriations from the federal government or a state government, the Unsecured Credit Limit is the lesser of \$50 million or an amount equal to a specified percentage of the Market Participant's Net Assets if the Market Participant has a minimum of \$25 million in Net Assets and its Times Interest Earned, Debt Service Coverage and Equity to Assets ratios (as those ratios are defined in the applicable Business Practice Manual) meet or exceed minimums specified in the applicable Business Practice Manual.

(b) For each Unrated Governmental Entity that receives appropriations from the federal government or a state government, the Unsecured Credit Limit is the lesser of \$50 million or the amount appropriated by the federal or relevant state government for the purpose of procuring Energy and Energy-related products and services for the applicable fiscal year. The Unrated Governmental Entity seeking to establish an Unsecured Credit Limit pursuant to this section shall provide documentation establishing its annual appropriations.
5. A Local Publicly Owned Electric Utility with a governing body having ratemaking authority that has submitted an application for an Unsecured Credit Limit shall be entitled to an

Unsecured Credit Limit of \$1 million without regard to its Net Assets. Such Local Publicly Owned Electric Utility shall be entitled to request an Unsecured Credit Limit based on Net Assets as provided in Section 12.1.1.1(3) or 12.1.1.1(4) in order to establish an Unsecured Credit Limit as the greater of \$1 million or the amount determined as provided in this Section 12.1.1.1(5). A public entity that is not a Local Publicly Owned Electric Utility is not entitled to an Unsecured Credit Limit of \$1 million under this Section 12.1.1.1(5) but may seek to establish an Unsecured Credit Limit as provided in any other provision of the CAISO Tariff that may apply.

Public entities, including Local Publicly Owned Electric Utilities, that operate through a Joint Powers Agreement, or a similar agreement acceptable to the CAISO with the same legal force and effect, shall be entitled to aggregate or assign their Unsecured Credit Limits subject to the following limitations and requirements. A public entity that is a party to a Joint Powers Agreement or similar agreement and that is also participating independently in the CAISO Markets with an established Unsecured Credit Limit shall not be entitled to assign or aggregate any portion of its Unsecured Credit Limit that the public entity is using to support financial liabilities associated with its individual participation in the CAISO Markets. A Local Publicly Owned Electric Utility that operates through a Joint Powers Authority or similar agreement that desires to aggregate a portion of its Unsecured Credit Limit that is equal to or less than \$1 million with one or more other Local Publicly Owned Electric Utilities that operate through that Joint Powers Agreement or similar agreement or to assign a portion of its Unsecured Credit Limit that is equal to or less than \$1 million to the Joint Powers Authority shall be entitled to do so. A Local Publicly Owned Electric Utility that operates through a Joint Powers Agreement or similar agreement that desires to aggregate its Unsecured Credit Limit with one or more other Local Publicly Owned Electric Utilities that operate through that Joint Powers Agreement or similar agreement or to assign a portion of its Unsecured Credit Limit to the Joint Powers Authority that exceeds \$1 million, and any public entity that is not a Local Publicly Owned Electric Utility that operates through a Joint Powers Agreement or similar

agreement that desires to aggregate its Unsecured Credit Limit with one or more other Local Publicly Owned Electric Utilities that operate through that Joint Powers Agreement or similar agreement or to assign any portion of its Unsecured Credit Limit to the Joint Powers Authority, shall provide documentation that is acceptable to the CAISO and that demonstrates the Local Publicly Owned Electric Utility or public entity will assume responsibility for the financial liabilities of the Joint Powers Authority associated with the assigned or aggregated portion of the Unsecured Credit Limit. Such documentation may include a guaranty or similar instrument acceptable to the CAISO.

In those cases where a Market Participant is a subsidiary or Affiliate of another entity and would like to utilize the consolidated financial statements and other relevant information of that entity for obtaining an Unsecured Credit Limit, a signed corporate guaranty is required. A guarantor would be considered reasonably acceptable and a corresponding Unsecured Credit Limit would be set based on the guarantor's credit evaluation according to the procedures that apply to the credit evaluation of a Market Participant pursuant to Section 12.1.1. Unsecured Credit Limits established pursuant to this Section 12.1.1.1 shall be subject to the CAISO's consideration of the same qualitative factors that apply to all Market Participants as set forth in Section 12.1.1.2 and, accordingly, the CAISO may adjust their Unsecured Credit Limits pursuant to Section 12.1.1.

12.1.1.1.1 Maximum Percentage of Tangible Net Worth and Net Assets

For Rated and Unrated Public/Private Corporations or Rated Governmental Entities, the maximum percentage of Tangible Net Worth or Net Assets is 7.5 percent (7.5%) for the highest quality firms; that is, those Market Participants who maintain the highest Moody's Analytics Equivalent Rating and/or highest credit agency issuer rating. The percentage of Tangible Net Worth or Net Assets that a Market Participant qualifies for will be reduced as its credit risk increases as determined by having a lower Moody's Analytics Equivalent Rating and/or lower credit agency issuer rating.

For Unrated Governmental Entities, the CAISO may provide an Unsecured Credit Limit of up to five percent (5%) of Net Assets.

With respect to either of these potential maximum percentages, a lesser amount of unsecured credit may be granted if the CAISO becomes aware of information related to a Material Change in Financial Condition or other significant information that presents a significant risk to the creditworthiness of the entity.

12.1.1.1.2 Unsecured Credit Limit Calculation Steps

A six-step process is used to determine Unsecured Credit Limits for Market Participants that are Rated Public/Private Corporations, Unrated Public/Private Corporations, and Rated Governmental Entities.

Step 1 – If the Market Participant has a credit rating(s) from one or more of the Nationally Recognized Statistical Rating Organizations, verify the rating(s) with the appropriate organization. Regardless of the number of ratings available, the lowest rating will be used for purposes of determining the percentage of Tangible Net Worth or Net Assets.

Step 2 – Obtain the Market Participant's Moody's Analytics Equivalent Rating.

Step 3 – Calculate the percentage of Tangible Net Worth or Net Assets based on the entity type as described in Section 12.1.1.1.

Step 4 – Calculate the Market Participant's Tangible Net Worth or Net Assets.

(a) Tangible Net Worth for Rated or Unrated Public/Private Corporations equals total assets minus assets (net of any matching liabilities, assuming the result is a positive value) the CAISO reasonably believes to be restricted or potentially unavailable to settle a claim in the event of a default (examples include restricted assets and Affiliate assets) minus intangible assets (i.e., those assets not having a physical existence such as patents, trademarks, franchises, intellectual property, and goodwill) minus derivative assets (net of any matching liabilities, assuming the result is a positive value) minus total liabilities.

- (b) Net Assets for Rated Governmental Entities equals total assets minus assets (net of any matching liabilities, assuming the result is a positive value) the CAISO reasonably believes to be restricted or potentially unavailable to settle a claim in the event of a default (examples include restricted assets) minus total liabilities.

Step 5 – Calculate the Market Participant’s intermediate Unsecured Credit Limit.

- (a) intermediate Unsecured Credit Limit = Tangible Net Worth * percentage of Tangible Net Worth for Rated or Unrated Public/Private Corporations
- (b) intermediate Unsecured Credit Limit = Net Assets * percentage of Net Assets for Rated Governmental Entities

Step 6 – Adjust the intermediate Unsecured Credit Limit downward, if warranted based on the CAISO’s review of qualitative and quantitative credit strength indicators in Section 12.1.1.2.

- (a) Final Unsecured Credit Limit = intermediate Unsecured Credit Limit from Step 5 * (0 - 100%)

* * *

12.1.1.5 Notification of Material Change in Financial Condition

Each Market Participant shall notify the CAISO in writing of a Material Change in Financial Condition, within five (5) Business Days of when the Material Change in Financial Condition is known or reasonably should be known by the Market Participant. Examples of a Material Change of Financial Condition may include, but are not limited to:

- a) A credit agency or Moody’s Analytics equivalent rating downgrade to below investment grade;
- b) Being placed on a negative credit watch list by a major rating agency;

- c) A bankruptcy filing;
- d) Insolvency;
- e) The filing of a material lawsuit that could significantly and adversely affect past, current, or future financial results;
- f) Restatement of one or more financial statements for a prior year in a way that reduces the amount of unsecured credit that was previously provided;
- g) A default in another organized market for which any cure period has expired; or
- h) Any change in the financial condition of the Market Participant that exceeds a five (5) percent reduction in the Market Participant's Tangible Net Worth or Net Assets for the Market Participant's preceding fiscal year, calculated in accordance with generally accepted accounting practices.

The provision to the CAISO of a copy of a Form 10-K, Form 10-Q, or Form 8-K filed with the U.S. Securities and Exchange Commission shall satisfy the requirement of notifying the CAISO of such Material Change in Financial Condition if such Material Change in Financial Condition is identified in the Form 10-K, Form 10-Q, or Form 8-K. Alternatively, the Market Participant may direct the CAISO to the location of the information on their company website or the website of the U.S. Securities & Exchange Commission.

* * *

12.1.2 Financial Security And Financial Security Amount

A Market Participant that does not have an Unsecured Credit Limit, or that has an Unsecured Credit Limit that is less than its Estimated Aggregate Liability, shall post Financial Security that is acceptable to the CAISO and that is sufficient to ensure that its Aggregate Credit Limit (i.e., the sum of its Unsecured Credit Limit and Financial Security Amount) is equal to or greater than its Estimated Aggregate Liability. The Financial Security posted by a Market Participant may be any combination of the following types of Financial Security provided in favor of the CAISO and notified to the CAISO under Section 12.3:

- (a) an irrevocable and unconditional letter of credit issued by a bank or financial institution that is reasonably acceptable to the CAISO; or
- (b) a prepayment to the CAISO.

Financial Security instruments as listed above shall be in such form as the CAISO may reasonably require from time to time by notice to Market Participants, or in such other form as has been evaluated and approved as reasonably acceptable by the CAISO. The CAISO shall publish and maintain standardized forms related to the types of Financial Security listed above on the CAISO Website. The CAISO shall require the use of standardized forms of Financial Security to the greatest extent possible.

12.1.2.1 Additional Procedures Regarding Certain Types of Financial Security

Prepayments to the CAISO will be held in an interest-bearing account or another investment acceptable to the Market Participant and the CAISO, and interest on the investment will accrue at the rate as provided for in the investment. Interest will accrue to the Market Participant's benefit and will be added to the Market Participant's prepayment account on a monthly basis. Due to the additional administrative effort involved in tracking and posting interest on such prepayments, the use of this option is not encouraged.

* * *

12.2 Review of Creditworthiness

The CAISO may review the creditworthiness of any Market Participant that delays or defaults in making payments due under the CAISO Tariff and, as a consequence of that review, may require such Market Participant, whether or not it has an Unsecured Credit Limit, to provide credit support in the form of any of the following types of Financial Security:

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

The CAISO may require the Market Participant to maintain such Financial Security for at least one (1) year from the date of such delay or default.

* * *

Appendix A

Master Definition Supplement

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- ACH

Automated Clearing House

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- Automated Clearing House (ACH)

An electronic network for financial transactions in the United States.

* * *

- Fedwire

The Federal Reserve Transfer System for electronic funds transfer.

* * *

- Moody's Analytics Equivalent Rating

The rating derived by Moody's Analytics from the Moody's Analytics Estimated Default Frequency that effectively translates the Moody's Estimated Default Frequency into a comparable credit agency rating.

The Moody's Analytics Equivalent Rating may correspond to the Moody's Analytics Spot Credit Rating (CreditEdge Plus), Bond Default Rate Mapping or Dynamic Rating (RiskCalc), or other rating established by Moody's Analytics or an alternative rating agency for this purpose.

* * *

- RMR Default Amount

Any amount due to be received into the relevant Facility Trust Account from the RMR Owner or the Responsible Utility in accordance with an RMR Contract.

* * *

Appendix B.1

Scheduling Coordinator Agreement

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- 4.1 The Scheduling Coordinator shall maintain at all times an account with a bank capable of Fedwire transfer and, at its option, may also maintain an account capable of ACH transfers, to which credits or debits shall be made in accordance with the billing and Settlement provisions of Section 11 of the CAISO Tariff. Such account shall be the account as notified by the Scheduling Coordinator to the CAISO from time to time by giving at least 20 days written notice before the new account becomes operational, together with all information necessary for the CAISO's processing of a change in that account.

* * *

Appendix B.11

Pro Forma CRR Entity Agreement

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- 4.3 **Settlement Account.** The CRR Entity shall maintain at all times an account with a bank capable of Fedwire transfer and, at its option, may also maintain an account capable of ACH transfers, to which credits or debits shall be made in accordance with the billing and Settlement provisions of Section 11 of the CAISO Tariff. Such account shall be the account referred to in Schedule 2 hereof or as notified by the CRR Entity to the CAISO from time to time by giving at least seven (7) days written notice before the new account becomes operational. Such changes to Schedule 2 shall not constitute an amendment to this Agreement.

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Appendix B.12

MSS Aggregator CRR Entity Agent Agreement

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- 4.3 **Settlement Account.** The CRR Entity Agent on behalf of its aggregated MSS Operators shall maintain at all times an account with a bank capable of Fedwire transfer and, at its option, may also maintain an account capable of ACH transfers, to which credits or debits shall be made in accordance with the billing and Settlement provisions of Section 11 of the CAISO Tariff. Such account shall be the account referred to in Schedule 2 hereof or as notified by the CRR Entity Agent to the CAISO from time to time by giving at least seven (7) days written notice before the new account becomes operational. Such changes to Schedule 2 shall not constitute an amendment to this Agreement.

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Appendix G

Pro Forma Reliability Must-Run Contract

* * *

9.3 Payment

- (a) CAISO shall pay Owner all invoiced amounts due on Revised Estimated RMR Invoices, Revised Adjusted RMR Invoices, and Final Invoices whether or not disputed by CAISO or the Responsible Utility except to the extent that CAISO (i) is entitled to a refund on a Revised Estimated or Revised Adjusted RMR Invoice or Final Invoice against such payment under this Agreement or (ii) is entitled to deduct an amount under Section 9.6. All payments shall be remitted from the RMR Owner Facility Trust Account on or before the Due Date by Fedwire transfer or optionally via ACH in accordance with instructions from Owner. If Owner is also the Responsible Utility, at the discretion of Owner payments to it may be made by memorandum account instead of Fedwire transfer or ACH. Owner shall at all times establish and maintain a settlement account at a commercial bank located in the United States and reasonably acceptable to CAISO which can effect money transfers via Fedwire and, at its option, may also maintain an account capable of ACH transfers, where payments to and from the Facility Trust Accounts shall be made in accordance with Section 9.2 and Section 11.13 of the CAISO Tariff. Owner shall notify CAISO of its settlement account details prior to the Effective Date. Owner may from time to time change its settlement account details, provided that, Owner shall give CAISO 15 days notice before making changes. In the event there is a refund amount due to CAISO, Owner shall refund the amount due CAISO in accordance with Section 9.2 and Section 11.13 of the CAISO Tariff.
- (b) If a Revised Adjusted RMR Invoice is less than the amount paid by CAISO on the Revised Estimated RMR Invoice, the difference shall be paid by Owner to CAISO with interest at the Interest Rate from the Due Date of the Revised Estimated RMR Invoice to the Due Date of the Revised Adjusted RMR Invoice, or, if the Agreement is terminated, shall be paid to CAISO on submission of the Final Invoice. If a Revised Adjusted RMR Invoice is greater than the amount paid by CAISO under the Revised Estimated RMR Invoice, CAISO shall pay Owner the difference with interest at the Interest Rate from the Due Date of the Revised Estimated RMR Invoice to the Due Date of the Revised Adjusted RMR Invoice by CAISO.

* * *

California Independent System Operator Corporation

Fifth Replacement FERC Electric Tariff

Tariff Amendment to Implement New Financial and Credit Policy Enhancements

Attachment B - Marked Tariff

November 29, 2012

4.5.1.1.10.1 Scheduling Coordinator's Administrative, Financial and Technical Requirements

The CAISO will not certify that a Scheduling Coordinator Applicant has become a Scheduling Coordinator until the Scheduling Coordinator Applicant has completed all of the following requirements:

- (a) provided the technical/operational information required to complete the Scheduling Coordinator Application Form as set forth in the applicable Business Practice Manual, and to comply with Section 10.3;
- (b) executed a network connectivity security agreement for access to the CAISO's software used in conducting business with the CAISO and compliance with the CAISO's system security requirements in a form approved by the CAISO, if applicable;
- (c) obtained and installed any required software for functional interface for Validation, Estimation and Editing meter values (VEE), if applicable;
- (d) undertaken required training and testing regarding the use of the CAISO's market, operating, and technical systems, as specified in the applicable Business Practice Manual;
- (e) provided its bank account information and arranged for Fed~~wire-Wire~~ transfers, with the Scheduling Coordinator being obligated to maintain at all times an account with a bank capable of Fedwire transfer and being permitted, at its option, to arrange for ACH payment service;
- (f) provided an emergency plan specifying the procedures by which Scheduling Coordinator operations and contacts with the CAISO will be maintained during an emergency, containing information specified in the applicable Business Practice Manual; and
- (g) obtained and installed a computer link and any necessary software in order to communicate with the CAISO, as specified in the applicable Business Practice Manual.

Additional instructions for completing the foregoing requirements will be set forth in a Business Practice Manual posted on the CAISO Website.

* * *

4.10.1.9.1 Notice of Completed Registration and Qualification of Candidate CRR Holder

Once the CAISO has accepted a Candidate CRR Holder applicant's application, the CAISO will provide the Candidate CRR Holder applicant with a final written notice to certify that a Candidate CRR Holder applicant has become a Candidate CRR Holder. The CAISO shall issue such final written notice of full registration and qualification as a Candidate CRR Holder after the CAISO has determined that the Candidate CRR Holder applicant has fully satisfied all the following requirements:

- (a) fully executed a CRR Entity Agreement with the CAISO;
- (b) provided its bank account information and arranged for Fed~~wire~~-Wire transfers, with the Candidate CRR Holder being obligated to maintain at all times an account with a bank capable of Fedwire transfer and being permitted, at its option, to arrange for ACH payment service;
- (c) met the Financial Security requirements of Section 12;
- (d) certified that it has attended required CRR training; and
- (e) obtained and installed any necessary software for communication with the CAISO as necessary.

* * *

11.1.3 Financial Transaction Conventions And Currency

The following conventions have been adopted in this CAISO Tariff in defining sums of money to be received by or remitted by-to-or-received by the CAISO:

- (a) The act of receiving a sum of money in accordance with this CAISO Tariff is defined as "receiving" such sum, and each use of the word "receive" or a grammatical variation thereof in the context of receiving such sum shall have the meaning consistent with this

definition. The act of providing a sum of money to another entity in accordance with this CAISO Tariff is defined as “providing” or “remitting” such sum, and each use of the word “provide” or “remit” or a grammatical variation thereof in the context of providing or remitting such sum shall have the meaning consistent with this definition.

- (ba) Where the CAISO is to receive a sum of money in accordance with this CAISO Tariff, this is defined as a “charge.” and shall be received by the CAISO on or before 10:00 a.m. on the relevant Payment Date as prescribed in the CAISO Tariff.
- (cb) Where the CAISO is required to pay a sum of money in accordance with this CAISO Tariff, this is defined as a “payment.” and shall be remitted by the CAISO on the relevant Payment Date as prescribed in the CAISO Tariff.
- (de) All financial transactions are denominated in United States dollars and cents.
- (ed) All payments by the CAISO to Business Associates shall be made by Fed~~wire-Wire~~ or, at the option of each Business Associate, by ACH. All payments to the CAISO by Business Associates shall be made by Fed~~wire-Wire~~ or, at the option of each Business Associate, by ACH.

* * *

11.13.2.2 RMR Owner’s Settlement Accounts

Each RMR Owner shall establish and maintain at all times a Settlement Account at a commercial bank located in the United States and reasonably acceptable to the CAISO which can effect money transfers via Fed~~wire-Wire~~ and, at its option, may also establish and maintain a Settlement Account for transfers via ACH. where payments to and from the Facility Trust Accounts shall be made in accordance with this Section 11.13. Each RMR Owner shall notify the CAISO of its Settlement Account details upon entering into its RMR Contract with the CAISO and may notify the CAISO from time to time of any changes by giving at least fifteen (15) days notice before the new account becomes operational.

* * *

11.13.6.3 Issuance of CAISO Invoices by the CAISO

The CAISO shall provide to the Responsible Utility and the RMR Owner on the dates specified in the RMR Payments Calendar CAISO Invoices showing:

- (a) the amounts which, on the basis of the Revised Estimated RMR Invoice or the Revised Adjusted RMR Invoice, as the case may be, and pursuant to Section 11.13, are to be paid by or to the relevant Responsible Utility and RMR Owner;
- (b) the Payment Date, being the date on which such amounts are to be paid and the time for such payment;
- (c) details (including the account number, bank name and Fed~~wire~~Wire transfer instructions or, if applicable, ACH transfer instructions) of the RMR Owner Facility Trust Account to which any amounts owed by the Responsible Utility are to be paid, or of the RMR Responsible Utility Facility Trust Account to which any amounts owed by the RMR Owner are to be paid.

* * *

11.13.7.2 Payment Method

All payments and refunds by the CAISO to RMR Owners and Responsible Utilities shall be made via Fed~~wire~~Wire or, if chosen by the RMR Owner or Responsible Utility, via ACH. However, if the RMR Owner is also the Responsible Utility, at the discretion of the RMR Owner, payments and refunds may be made by memorandum account instead of by Fedwire transfer or ACH.

11.13.7.3 Payment by RMR Owners and Responsible Utilities.

Each RMR Owner shall ~~remit to the Responsible Utility Facility Trust Account~~ensure that the amount shown on the relevant CAISO Invoice as payable by ~~that the~~ RMR Owner shall be received into the Responsible Utility Facility Trust Account not later than 10:00 am on the Payment Date.

Subject to Section 41.6, each Responsible Utility shall ~~remit ensure that to the RMR Owner Facility Trust Account~~ the amount shown on the relevant CAISO Invoice as payable by the Responsible Utility shall be received into the RMR Owner Facility Trust Account not later than 10:00 am on the Payment Date.

11.13.7.4 Payment by the CAISO

The CAISO shall verify the amounts available for distribution to Responsible Utilities and/or RMR Owners on the Payment Date and shall give instructions to the CAISO Bank to remit from the relevant Facility Trust Account to the relevant settlement account maintained by each Responsible Utility or RMR Owner the amounts determined by the CAISO to be available for payment to each Responsible Utility or RMR Owner.

11.13.7.5 Payment Default by RMR Owner or Responsible Utility

If by 10:00 am on a Payment Date the CAISO, in its reasonable opinion, believes the RMR Default Amount ~~will not be or~~ has not been ~~remitted~~received, the CAISO shall immediately notify the RMR Owner and the Responsible Utility. Where the RMR Default Amount was due from the Responsible Utility, the CAISO and RMR Owner shall proceed as set forth in Section 41.6 and the applicable provision of the RMR Contract. Where the RMR Default Amount was due from the RMR Owner, the CAISO and the Responsible Utility shall proceed as set forth in the applicable provision of the RMR Contract.

* * *

11.29.3 Prepayments

- (a) A Scheduling Coordinator or CRR Holder may choose to pay at an earlier date than the Payment Date specified in the CAISO Payments Calendar by way of prepayment, provided it notifies the CAISO by electronic means before submitting its prepayment.
- (b) Prepayment notifications must specify the dollar amount prepaid.
- (c) Prepayments must be made by Scheduling Coordinators or CRR Holders via Fedwire-Wire or ACH into their CAISO prepayment accounts designated by the CAISO. The relevant Scheduling Coordinator or CRR Holder shall grant the CAISO a security interest on all funds in its CAISO prepayment account.
- (d) On any Payment Date the CAISO shall be entitled to cause funds from the relevant Scheduling Coordinator's or CRR Holder's CAISO prepayment account to be transferred

to the CAISO Clearing Account in such amounts as may be necessary to discharge in full that Scheduling Coordinator's or CRR Holder's payment obligation arising in relation to that Payment Date by way of set-off or recoupment.

- (e) Any funds held in the relevant Scheduling Coordinator's or CRR Holder's CAISO prepayment account shall be treated as part of that Scheduling Coordinator's or CRR Holder's Financial Security.
- (f) Interest (or other income) accruing on the relevant Scheduling Coordinator's or CRR Holder's CAISO prepayment account shall inure to the benefit of that Scheduling Coordinator or CRR Holder and shall be added to the balance of its CAISO prepayment account on a monthly basis.
- (g) Funds held in a CAISO prepayment account by a Scheduling Coordinator or CRR Holder may be recouped, offset or applied by the CAISO to any outstanding financial obligations of that Scheduling Coordinator or CRR Holder to the CAISO.

11.29.4 System Failure

11.29.4.1 At CAISO Debtor's Bank

If any CAISO Debtor becomes aware that a payment will not, or is unlikely to be, ~~remitted to~~received by the CAISO Bank by 10:00 am on the relevant Payment Date for any reason (including failure of the Fed~~wire~~Wire or any computer system), it shall immediately notify the CAISO, giving full details of the payment delay (including the reasons for the payment delay). The CAISO Debtor shall make all reasonable efforts to remit payment as soon as possible, by an alternative method if necessary, to ensure that funds are received for value no later than 10:00 am on the Payment Date, or as soon as possible thereafter.

11.29.4.2 At the CAISO's Bank

In the event of failure of any electronic transfer system affecting the CAISO Bank, the CAISO shall use reasonable efforts to establish alternative methods of remitting funds to the CAISO Creditors' Settlement Accounts by close of banking business on that Payment Date, or as soon as possible thereafter. The CAISO shall notify the CAISO Debtors and the CAISO Creditors of occurrence of the system failure and the alternative methods and anticipated time of payment. In the event that a payment is received late by

the CAISO Bank due to either a system failure affecting the CAISO Bank or untimely performance of an ACH draft debit for which the CAISO is responsible, the enforcement actions set forth in Section 11.29.14 shall not apply to such late payment.

* * *

11.29.9.3 Accounts of the Scheduling Coordinators, CRR Holders, Black Start Generators, and Participating TOs

Each Scheduling Coordinator, CRR Holder, Black Start Generator, and Participating TO shall establish and maintain at all times a Settlement Account at a commercial bank located in the United States and reasonably acceptable to the CAISO which can effect money transfers via Fedwire-Wire and, at its option, may also maintain an account capable of ACH transfers where payments to and from the CAISO Clearing Account shall be made in accordance with this CAISO Tariff. Scheduling Coordinators, CRR Holders, and Black Start Generators may, but will not be required to, maintain separate accounts for receipts and payments. Each Scheduling Coordinator, CRR Holder, and Black Start Generator shall notify the CAISO of its account details and of any changes to those details in accordance with the provisions of its Scheduling Coordinator Agreement, CRR Entity Agreement, or Interim Black Start Agreement. Participating TOs will notify the CAISO of their Settlement Account details in accordance with Section 2.2.1 of their Transmission Control Agreement and may notify the CAISO from time to time of any changes by giving at least seven (7) days written notice before the new account becomes operational.

* * *

11.29.9.6.1 Clearing Account

- (a) Subject to Section 11.29.3, and unless the CAISO instructs otherwise pursuant to Section 11.29.11, each CAISO Debtor shall ~~remit to the CAISO Clearing Account~~ ensure that the amount shown on the Invoice as payable by that CAISO Debtor shall be received into the CAISO Clearing Account for value not later than 10:00 a.m. on the Payment Date.
- (b) On the Payment Date, the CAISO shall be entitled to cause the transfer of such amounts held in a Scheduling Coordinator's or CRR Holder's CAISO prepayment account to the CAISO Clearing Account as provided in Section 11.29.3.

The CAISO shall calculate the amounts available for distribution to CAISO Creditors on the Payment Date and shall give irrevocable instructions to the CAISO Bank to remit from the CAISO Clearing Account to the relevant Settlement Accounts maintained by the CAISO Creditors, the aggregate amounts determined by the CAISO to be available for payment to CAISO Creditors for value by close of business on the Payment Date if no CAISO Debtors are in default. If a CAISO Debtor is in default and until all defaulting amounts have been collected, the CAISO shall make-remit payments as soon as practical within five (5) Business Days of the collection date posted in the CAISO Payments Calendar. If required, the CAISO shall instruct the CAISO Bank to transfer amounts from the CAISO Reserve Account to enable the CAISO Clearing Account to clear.

The CAISO is authorized to instruct the CAISO Bank to debit the CAISO Clearing Account and transfer to the relevant CAISO Account sufficient funds to pay in full the Grid Management Charge and FERC Annual Charges falling due on any Payment Date with priority over any other payments to be made remitted on that or on subsequent days out of the CAISO Clearing Account.

* * *

11.29.9.6.2.1 Replenishing the CAISO Reserve Account Following Payment Default

If the CAISO has debited the CAISO Reserve Account then:

- (a) If, after the CAISO has debited the CAISO Reserve Account on a Payment Date, the CAISO Bank receives a paymentremittance from a CAISO Debtor which has not been (but should have been, if it had been received on a timely basis) credited to the CAISO Clearing Account by 10:00 am on the Payment Date and which required the debiting of the CAISO Reserve Account, such paymentremittance shall be credited to the CAISO Reserve Account.
- (b) The proceeds of any enforcement of Financial Security and/or amounts recovered under proceedings shall be credited to the CAISO Reserve Account.

- (c) If, after taking reasonable action, the CAISO determines that the default amount (or any part) and/or Interest cannot be recovered on the next practicable Invoices, the CAISO shall notify Market Participants of the identity of the defaulting Business Associate together with the unrecoverable amounts and such amounts shall be allocated in accordance with Section 11.29.17 of the CAISO Tariff with corresponding credits to the CAISO Reserve Account.

* * *

11.29.9.6.4.1 Replenishment Following Payment Default

If the CAISO has debited the CAISO Penalty Reserve Account, then:

- (a) If, after the CAISO has debited the CAISO Penalty Reserve Account on a Payment Date, the CAISO Bank receives a ~~remittance payment~~ from a CAISO Debtor which has not been (but should have been, if it had been received on a timely basis) credited to the CAISO Clearing Account by 10:00 am on the Payment Date and which required the debiting of the CAISO Penalty Reserve Account, such ~~remittance payment~~ shall be credited to the CAISO Penalty Reserve Account, less any amounts due to Market Participants.
- (b) The proceeds of any enforcement of Financial Security and/or amounts recovered under proceedings shall be credited to the CAISO Penalty Reserve Account.
- (c) If, after taking reasonable action, the CAISO determines that the default amount (or any part) and/or Interest cannot be recovered, the CAISO shall notify Market Participants of the identity of the defaulting Business Associate together with the unrecoverable amounts and such amounts shall be allocated in accordance with Section 11.29.17 of the CAISO Tariff with corresponding credits to the CAISO Penalty Reserve Account.

* * *

11.29.11 Instructions For Payment

Unless the CAISO instructs otherwise, each Scheduling Coordinator or CRR Holder shall ~~remit-ensure~~ that to the CAISO Clearing Account the amount shown on the Invoice as payable by that Scheduling Coordinator or CRR Holder is received into the CAISO Clearing Account for value not later than 10:00 a.m. on the Payment Date. In the event of a verifiable error that would be reversed on a future Invoice or Payment Advice, the CAISO may instruct a Scheduling Coordinator or CRR Holder to reduce its payment in the amount of a specific charge reflected on an Invoice. Any such occurrence will not constitute a payment default under the CAISO Tariff. If the CAISO directs such a reduction in payment, it shall make offsetting adjustments on future Invoices or Payment Advices of Scheduling Coordinators, CRR Holders, Black Start Generators or Participating TOs that received settlement credits corresponding to the verifiably erroneous charge. The CAISO will inform those entities of the adjustments to their Invoices or Payment Advices.

11.29.12 CAISO'S Responsibilities

On the due date for payment of amounts shown in an Invoice, the CAISO shall ascertain whether all amounts required to be ~~remitted to~~ received into the CAISO Clearing Account have been credited to it. If any such amount has not been so credited, it shall ascertain which Scheduling Coordinators or CRR Holders have failed to pay the amount owed by them and it may, subject to any notice or cure provisions in this Section 11.29, exercise any rights available under the CAISO Tariff or under applicable law to recover any overdue amount.

* * *

11.29.13.1 Notification and Interest

If a Scheduling Coordinator or CRR Holder becomes aware that a payment for which it is responsible will not be ~~received~~ remitted in to the CAISO Clearing Account on time, it shall immediately notify the CAISO of the fact and the reason for the non-payment. If the Scheduling Coordinator or CRR Holder fails to pay any sum to the CAISO when due and after and the CAISO draws upon any and all available Financial Security provided by the defaulting Scheduling Coordinator or CRR Holder, the Scheduling Coordinator or CRR Holder shall pay Interest on the overdue amount for the period from the Payment Date to the date

on which the payment is ~~received~~~~remitted in~~to the CAISO Clearing Account, together with any related transaction costs incurred by the CAISO. The CAISO shall apply all such Interest payments on the default amount either on a pro rata basis to CAISO Creditors in relation to amounts past due in the order of the creation of such debts, or, if the default amount was allocated pursuant to Section 11.29.17.2, to Default-Invoiced SCIDs in proportion to their allocated shares of the default amount as calculated pursuant to Section 11.29.17.2.1 or to SCIDs in proportion to their allocated shares of the default amount as calculated pursuant to Section 11.29.17.2.2, as applicable, in relation to amounts past due in the order of the creation of such debts.

11.29.13.2 Payment Default

Subject to Section 11.29.13.6, if by 10:00 am on a Payment Date the CAISO, in its reasonable opinion, believes that all or any part of any amount due to be ~~remitted~~ received into the CAISO Clearing Account ~~from~~~~by~~ any Scheduling Coordinator or CRR Holder ~~will not or~~ has not been ~~remitted~~~~received~~ and there are insufficient funds in the relevant Scheduling Coordinator's or CRR Holder's CAISO prepayment account (the amount of insufficiency being referred to as the "default amount"), the CAISO shall take the following actions to enable the CAISO Clearing Account to clear not later than the close of banking business on the relevant Payment Date.

* * *

11.29.14 Enforcement Actions for Late Payments

Each Market Participant that is late in paying the amount set forth in an Invoice from the CAISO is subject to the following enforcement actions:

- (a) After each of the first ~~two~~~~four~~ (24) times during a rolling twelve (12) month period that a Market Participant is late in paying the amount set forth in an Invoice from the CAISO, the CAISO will send the delinquent Market Participant a warning notice.
- (b) After the ~~third~~~~fifth~~ time during a rolling twelve (12) month period that a Market Participant is late in paying the amount set forth in an Invoice, the CAISO may revoke the Market Participant's Unsecured Credit Limit and require the Market Participant to post cash or

another form of Financial Security reasonably acceptable to the CAISO in lieu of unsecured credit or any other form of Financial Security to secure the Market Participant's financial obligations. The CAISO will require such a cash posting or other form of Financial Security for no fewer than twelve (12) months following the month in which the Market Participant's third delinquency occurs, and the CAISO may then return to the Market Participant all or a portion of the posted cash or other form of Financial Security, reinstate the Market Participant's ability to use an Unsecured Credit Limit, and reinstate the Market Participant's ability to use unsecured credit or other form of Financial Security to secure the Market Participant's financial obligations if, during the intervening time, the Market Participant has timely paid all of the amounts set forth in its Invoices from the CAISO, and timely met any requests for Financial Security pursuant to Section 12.4.

- (c) After the ~~third-fifth~~ time and each subsequent time during a rolling twelve (12) month period ~~beginning no earlier than April 7, 2010~~ that a Market Participant is late in paying the amount set forth in an Invoice, the CAISO will assess a penalty to the Market Participant equal to the greater of \$1,000 or two percent (2%) of the amount set forth in the Invoice that the Market Participant has been late in paying, up to a maximum amount of \$20,000 per each late payment for which the CAISO assesses a penalty pursuant to this Section 11.29.14(c). This penalty will be included in the next Invoice to the Market Participant. Penalty amounts collected by the CAISO pursuant to this Section 11.29.14(c) will be treated as set forth in Section 11.29.9.6.4.
- (d) After the ~~fourth-sixth~~ and any subsequent times during a rolling twelve (12) month period that a Market Participant is late in paying the amount set forth in an Invoice, the CAISO may extend the time period that it imposes the measures described in Section 11.29.14 (b) for the Market Participant's ~~fifth-third~~ delinquency during a rolling twelve (12) month period.

- (e) After the ~~fifth-seventh~~ time during a rolling twelve-month period ~~beginning no earlier than April 7, 2010~~ that a Market Participant is late in paying the amount set forth in an Invoice, the CAISO may, notwithstanding any other provision of the CAISO Tariff, (i) suspend any and all rights of the Market Participant under the CAISO Tariff, effective immediately after the CAISO sends written notice of the suspension to the Market Participant, and (ii) terminate any agreement entered into between the CAISO and the Market Participant that allows the Market Participant to participate in the CAISO Markets, effective upon the date the CAISO sends written notice of the termination to the Market Participant or upon the date established in accordance with FERC rules if FERC rules require the CAISO to file the notice of termination with FERC. If the CAISO sends a notice of suspension or termination to a Market Participant pursuant to this Section 11.29.14(e), the Market Participant will not have the right to prevent such suspension or termination by curing its late payment of an amount set forth in an Invoice. The CAISO will, following termination of an agreement pursuant to this Section 11.29.14(e) and within thirty (30) days of being satisfied that no sums remain owing by the Market Participant under the CAISO Tariff, return or release to the Market Participant, as appropriate, any money or credit support provided by such Market Participant to the CAISO under Section 12.
- (f) Any time that a Market Participant is late in paying the amount set forth in an Invoice, the CAISO will assess Interest to the Market Participant and will apply Interest payments as set forth in Section 11.29.13.1. Any time that a Market Participant is late in paying the amount set forth in an Invoice, the CAISO may also take other applicable enforcement actions in the CAISO Tariff and in the applicable Business Practice Manual, if deemed necessary by the CAISO to protect the financial integrity of the CAISO Markets.

* * *

11.29.24.1 Preparation

In September of each year, the CAISO will prepare a draft CAISO Payments Calendar for the following calendar year showing for each Trading Day:

- (a) The date by which Scheduling Coordinators are required to provide Actual Settlement Quality Meter Data or Scheduling Coordinator Estimated Settlement Quality Meter Data for all their Scheduling Coordinator Metered Entities for each Settlement Period in the Trading Day;
- (b) The date on which the CAISO will issue Initial Settlement Statements T+3B and Invoices and Payment Advices to Scheduling Coordinators or CRR Holders, Black Start Generators and Participating TOs for that Trading Day;
- (c) The date on which the CAISO will issue the Recalculation Settlement Statements T+12B, T+55B, T+9M, T+18M, T+35M, and T+36M, and Invoices and Payment Advices to Scheduling Coordinators, CRR Holders, Black Start Generators and Participating TOs for that Trading Day;
- (d) The dates by which Scheduling Coordinators, CRR Holders, Black Start Generators and Participating TOs are required to notify the CAISO of any disputes in relation to their Recalculation Settlement Statements T+12B, T+55B, T+9M, T+18M and T+35M.
- (e) The date and time by which CAISO Debtors are required to have made payments into the CAISO Clearing Account in payment of Invoices for that Trading Day;
- (f) The dates and times on which the CAISO Clearing Account will remit payments to the CAISO Creditors ~~will receive payments from the CAISO Clearing Account~~ of amounts owing to them for that Trading Day; and
- (g) In relation to Reliability Must-Run Charges and RMR Payments, the details set out in paragraph 3 of Appendix N, Part J.

The CAISO will make a draft of the CAISO Payments Calendar available on the CAISO Website to Scheduling Coordinators, CRR Holders, Black Start Generators, Participating TOs and RMR Owners any of which may submit comments and objections to the CAISO within two weeks of the date of posting of the draft on the CAISO Website. No later than October 31st in each year, the CAISO will publish the final

CAISO Payments Calendar for the following calendar year, after considering the comments and objections received from Scheduling Coordinators, CRR Holders, Black Start Generators, Participating TOs and RMR Owners. The final CAISO Payments Calendar will be posted on the CAISO Website, and will show for the period from 1 January to 31 December in the next succeeding year (both dates inclusive), the dates on which Settlement Statements shall be published by the CAISO and the Payment Dates on which the CAISO will pay the Participating TOs the Wheeling revenues allocated to them pursuant to Section 26.1.4.3.

* * *

12.1.1 Unsecured Credit Limit

Each Market Participant requesting an Unsecured Credit Limit shall submit an application to the CAISO in the form specified on the CAISO Website. The CAISO shall determine the Unsecured Credit Limit for each Market Participant in accordance with the procedures set forth in the applicable Business Practice Manual. The maximum Unsecured Credit Limit for any Market Participant, and group of Market Participant Affiliates, shall be \$50 million. In accordance with the procedures described in the applicable Business Practice Manual, each Market Participant requesting or maintaining an Unsecured Credit Limit is required to submit to the CAISO or its agent financial statements and other information related to its overall financial health as directed by the CAISO. Each Market Participant is responsible for the timely submission of its latest financial statements as well as other information, including, but not limited to, information concerning all entities that are Affiliates or become Affiliates, that may be reasonably necessary for the CAISO to conduct its evaluation. The CAISO shall determine the Unsecured Credit Limit for each Market Participant as described in Sections 12.1.1.1, 12.1.1.1.1, and 12.1.1.1.2.

As a result of the CAISO's credit evaluation, a Market Participant may be given an Unsecured Credit Limit by the CAISO or denied an Unsecured Credit Limit with the CAISO. Following the initial application and the establishment of an Unsecured Credit limit, the CAISO will review each Market Participant's Unsecured Credit Limit on a quarterly basis, unless that entity does not prepare quarterly statements, in which case the review will occur on an annual basis, and no entity shall be required to submit a new application. In addition, the CAISO may review the Unsecured Credit Limit for any Market Participant

whenever the CAISO becomes aware of information that could indicate a Material Change in Financial Condition. In the event the CAISO determines that the Unsecured Credit Limit of a Market Participant must be reduced as a result of a subsequent review due to a reason other than a Material Change in Financial Condition, the CAISO shall notify the Market Participant of the reduction, and shall, upon request, also provide the Market Participant with a written explanation of why the reduction was made. In the event the CAISO determines that the Unsecured Credit Limit of a Market Participant must be reduced as a result of a subsequent review due to a Material Change in Financial Condition, the CAISO shall notify the Market Participant of the reduction in writing and shall provide the Market Participant with a written explanation of the reasons for the reduction, either in advance of the reduction if reasonably practicable or after the reduction was made if providing the written notification and explanation in advance is not reasonably practicable, as set forth in the applicable Business Practice Manual.

In the event that any credit agency issuer rating or the Moody's Analytics Equivalent Rating of the Market Participant falls below investment grade at any time, the Market Participant will be denied an Unsecured Credit Limit or have its existing Unsecured Credit Limit revoked until (i) the CAISO's next quarterly review of the Market Participant's creditworthiness or (ii) thirty (30) calendar days after the Market Participant's Unsecured Credit Limit is denied or revoked, whichever is later.

12.1.1.1 Unsecured Credit Limit Calculation

An Unsecured Credit Limit (UCL) for each Market Participant that is a Rated or Unrated Public/Private Corporation, a Rated or Unrated Governmental Entity, or a Local Publicly Owned Electric Utility and that requests an Unsecured Credit Limit is calculated as follows:

1. For each Rated Public/Private Corporation, the Unsecured Credit Limit is the lesser of \$50 million or an amount equal to the Market Participant's Tangible Net Worth multiplied by a calculated percentage of Tangible Net Worth. The Tangible Net Worth percentage is comprised of fifty percent (50%) of the Market Participant's lowest credit agency issuer rating and fifty percent (50%) of the Moody's Analytics ~~Moody's KMV~~ Equivalent Rating, if reasonably applicable. If a Moody's Analytics ~~Moody's KMV~~ Equivalent Rating is not

reasonably applicable, the Tangible Net Worth percentage is comprised of one hundred percent (100%) of the Market Participant's lowest credit agency issuer rating.

2. For each Unrated Public/Private Corporation, the Unsecured Credit Limit is the lesser of \$50 million or an amount equal to the Market Participant's Tangible Net Worth multiplied by a calculated percentage of Tangible Net Worth. The Tangible Net Worth percentage is comprised of one hundred percent (100%) of the ~~Moody's Analytics~~ Moody's KMV Equivalent Rating.
3. For each Rated Governmental Entity, the Unsecured Credit Limit is the lesser of \$50 million or an amount equal to the Market Participant's Net Assets multiplied by a calculated percentage of Net Assets. The Net Assets percentage is comprised of one hundred percent (100%) of the Market Participant's lowest credit agency issuer rating.
4. (a) For each Unrated Governmental Entity other than one that receives appropriations from the federal government or a state government, the Unsecured Credit Limit is the lesser of \$50 million or an amount equal to a specified percentage of the Market Participant's Net Assets if the Market Participant has a minimum of \$25 million in Net Assets and its Times Interest Earned, Debt Service Coverage and Equity to Assets ratios (as those ratios are defined in the applicable Business Practice Manual) meet or exceed minimums specified in the applicable Business Practice Manual.

(b) For each Unrated Governmental Entity that receives appropriations from the federal government or a state government, the Unsecured Credit Limit is the lesser of \$50 million or the amount appropriated by the federal or relevant state government for the purpose of procuring Energy and Energy-related products and services for the applicable fiscal year. The Unrated Governmental Entity seeking to establish an Unsecured Credit Limit pursuant to this section shall provide documentation establishing its annual appropriations.

5. A Local Publicly Owned Electric Utility with a governing body having ratemaking authority that has submitted an application for an Unsecured Credit Limit shall be entitled to an Unsecured Credit Limit of \$1 million without regard to its Net Assets. Such Local Publicly Owned Electric Utility shall be entitled to request an Unsecured Credit Limit based on Net Assets as provided in Section 12.1.1.1(3) or 12.1.1.1(4) in order to establish an Unsecured Credit Limit as the greater of \$1 million or the amount determined as provided in this Section 12.1.1.1(5). A public entity that is not a Local Publicly Owned Electric Utility is not entitled to an Unsecured Credit Limit of \$1 million under this Section 12.1.1.1(5) but may seek to establish an Unsecured Credit Limit as provided in any other provision of the CAISO Tariff that may apply.

Public entities, including Local Publicly Owned Electric Utilities, that operate through a Joint Powers Agreement, or a similar agreement acceptable to the CAISO with the same legal force and effect, shall be entitled to aggregate or assign their Unsecured Credit Limits subject to the following limitations and requirements. A public entity that is a party to a Joint Powers Agreement or similar agreement and that is also participating independently in the CAISO Markets with an established Unsecured Credit Limit shall not be entitled to assign or aggregate any portion of its Unsecured Credit Limit that the public entity is using to support financial liabilities associated with its individual participation in the CAISO Markets. A Local Publicly Owned Electric Utility that operates through a Joint Powers Authority or similar agreement that desires to aggregate a portion of its Unsecured Credit Limit that is equal to or less than \$1 million with one or more other Local Publicly Owned Electric Utilities that operate through that Joint Powers Agreement or similar agreement or to assign a portion of its Unsecured Credit Limit that is equal to or less than \$1 million to the Joint Powers Authority shall be entitled to do so. A Local Publicly Owned Electric Utility that operates through a Joint Powers Agreement or similar agreement that desires to aggregate its Unsecured Credit Limit with one or more other Local Publicly Owned Electric Utilities that operate through that Joint Powers Agreement or similar agreement or to assign a portion of its Unsecured Credit Limit to the Joint

Powers Authority that exceeds \$1 million, and any public entity that is not a Local Publicly Owned Electric Utility that operates through a Joint Powers Agreement or similar agreement that desires to aggregate its Unsecured Credit Limit with one or more other Local Publicly Owned Electric Utilities that operate through that Joint Powers Agreement or similar agreement or to assign any portion of its Unsecured Credit Limit to the Joint Powers Authority, shall provide documentation that is acceptable to the CAISO and that demonstrates the Local Publicly Owned Electric Utility or public entity will assume responsibility for the financial liabilities of the Joint Powers Authority associated with the assigned or aggregated portion of the Unsecured Credit Limit. Such documentation may include a guaranty or similar instrument acceptable to the CAISO.

In those cases where a Market Participant is a subsidiary or Affiliate of another entity and would like to utilize the consolidated financial statements and other relevant information of that entity for obtaining an Unsecured Credit Limit, a signed corporate guaranty is required. A guarantor would be considered reasonably acceptable and a corresponding Unsecured Credit Limit would be set based on the guarantor's credit evaluation according to the procedures that apply to the credit evaluation of a Market Participant pursuant to Section 12.1.1. Unsecured Credit Limits established pursuant to this Section

12.1.1.1 shall be subject to the CAISO's consideration of the same qualitative factors that apply to all Market Participants as set forth in Section 12.1.1.2 and, accordingly, the CAISO may adjust their Unsecured Credit Limits pursuant to Section 12.1.1.

12.1.1.1.1 Maximum Percentage of Tangible Net Worth and Net Assets

For Rated and Unrated Public/Private Corporations or Rated Governmental Entities, the maximum percentage of Tangible Net Worth or Net Assets is 7.5 percent (7.5%) for the highest quality firms; that is, those Market Participants who maintain the highest Moody's ~~KMV-Analytcs~~ Equivalent Rating and/or highest credit agency issuer rating. The percentage of Tangible Net Worth or Net Assets that a Market Participant qualifies for will be reduced as its credit risk increases as determined by having a lower Moody's ~~KMV-Analytcs~~ Equivalent Rating and/or lower credit agency issuer rating.

For Unrated Governmental Entities, the CAISO may provide an Unsecured Credit Limit of up to five percent (5%) of Net Assets.

With respect to either of these potential maximum percentages, a lesser amount of unsecured credit may be granted if the CAISO becomes aware of information related to a Material Change in Financial Condition or other significant information that presents a significant risk to the creditworthiness of the entity.

12.1.1.1.2 Unsecured Credit Limit Calculation Steps

A six-step process is used to determine Unsecured Credit Limits for Market Participants that are Rated Public/Private Corporations, Unrated Public/Private Corporations, and Rated Governmental Entities.

Step 1 – If the Market Participant has a credit rating(s) from one or more of the Nationally Recognized Statistical Rating Organizations, verify the rating(s) with the appropriate organization. Regardless of the number of ratings available, the lowest rating will be used for purposes of determining the percentage of Tangible Net Worth or Net Assets.

Step 2 – Obtain the Market Participant's Moody's ~~KMV~~ [Analytics](#) Equivalent Rating.

Step 3 – Calculate the percentage of Tangible Net Worth or Net Assets based on the entity type as described in Section 12.1.1.1.

Step 4 – Calculate the Market Participant's Tangible Net Worth or Net Assets.

- (a) Tangible Net Worth for Rated or Unrated Public/Private Corporations equals total assets minus assets (net of any matching liabilities, assuming the result is a positive value) the CAISO reasonably believes to be restricted or potentially unavailable to settle a claim in the event of a default (examples include restricted assets and Affiliate assets) minus intangible assets (i.e., those assets not having a physical existence such as patents, trademarks, franchises, intellectual property, and goodwill) minus derivative assets (net of

any matching liabilities, assuming the result is a positive value) minus total liabilities.

- (b) Net Assets for Rated Governmental Entities equals total assets minus assets (net of any matching liabilities, assuming the result is a positive value) the CAISO reasonably believes to be restricted or potentially unavailable to settle a claim in the event of a default (examples include restricted assets) minus total liabilities.

Step 5 – Calculate the Market Participant’s intermediate Unsecured Credit Limit.

- (a) $\text{intermediate Unsecured Credit Limit} = \text{Tangible Net Worth} * \text{percentage of Tangible Net Worth for Rated or Unrated Public/Private Corporations}$
- (b) $\text{intermediate Unsecured Credit Limit} = \text{Net Assets} * \text{percentage of Net Assets for Rated Governmental Entities}$

Step 6 – Adjust the intermediate Unsecured Credit Limit downward, if warranted based on the CAISO’s review of qualitative and quantitative credit strength indicators in Section 12.1.1.2.

- (a) $\text{Final Unsecured Credit Limit} = \text{intermediate Unsecured Credit Limit from Step 5} * (0 - 100\%)$

* * *

12.1.1.5 Notification of Material Change in Financial Condition

Each Market Participant shall notify the CAISO in writing of a Material Change in Financial Condition, within five (5) Business Days of when the Material Change in Financial Condition is known or reasonably should be known by the Market Participant. Examples of a Material Change of Financial Condition may include, but are not limited to:

- a) A credit agency or Moody's [KMVA](#) Analytics equivalent rating downgrade to below investment grade;
- b) Being placed on a negative credit watch list by a major rating agency;
- c) A bankruptcy filing;
- d) Insolvency;
- e) The filing of a material lawsuit that could significantly and adversely affect past, current, or future financial results;
- f) Restatement of one or more financial statements for a prior year in a way that reduces the amount of unsecured credit that was previously provided;
- g) A default in another organized market for which any cure period has expired; or
- h) Any change in the financial condition of the Market Participant that exceeds a five (5) percent reduction in the Market Participant's Tangible Net Worth or Net Assets for the Market Participant's preceding fiscal year, calculated in accordance with generally accepted accounting practices.

The provision to the CAISO of a copy of a Form 10-K, Form 10-Q, or Form 8-K filed with the U.S. Securities and Exchange Commission shall satisfy the requirement of notifying the CAISO of such Material Change in Financial Condition if such Material Change in Financial Condition is identified in the Form 10-K, Form 10-Q, or Form 8-K. Alternatively, the Market Participant may direct the CAISO to the location of the information on their company website or the website of the U.S. Securities & Exchange Commission.

* * *

12.1.2 Financial Security And Financial Security Amount

A Market Participant that does not have an Unsecured Credit Limit, or that has an Unsecured Credit Limit that is less than its Estimated Aggregate Liability, shall post Financial Security that is acceptable to the

CAISO and that is sufficient to ensure that its Aggregate Credit Limit (i.e., the sum of its Unsecured Credit Limit and Financial Security Amount) is equal to or greater than its Estimated Aggregate Liability. The Financial Security posted by a Market Participant may be any combination of the following types of Financial Security provided in favor of the CAISO and notified to the CAISO under Section 12.3:

(a) an irrevocable and unconditional letter of credit issued by a bank or financial institution that is reasonably acceptable to the CAISO; or

~~(b) an irrevocable and unconditional surety bond issued by an insurance company that is reasonably acceptable to the CAISO;~~

~~(c) an unconditional and irrevocable guaranty issued by a company that is reasonably acceptable to the CAISO;~~

~~(d) a cash deposit standing to the credit of the CAISO in an interest-bearing escrow account maintained at a bank or financial institution that is reasonably acceptable to the CAISO;~~

~~(e) a certificate of deposit in the name of the CAISO issued by a bank or financial institution that is reasonably acceptable to the CAISO;~~

~~(f) a payment bond certificate in the name of the CAISO issued by a bank or financial institution that is reasonably acceptable to the CAISO; or~~

~~(g)~~ a prepayment to the CAISO.

Financial Security instruments as listed above shall be in such form as the CAISO may reasonably require from time to time by notice to Market Participants, or in such other form as has been evaluated and approved as reasonably acceptable by the CAISO. The CAISO shall publish and maintain standardized forms related to the types of Financial Security listed above on the CAISO Website. The CAISO shall require the use of standardized forms of Financial Security to the greatest extent possible.

12.1.2.1

Additional Procedures Regarding Certain Types of Financial Security

- ~~(a) — Unconditional and irrevocable guaranties: In those cases where a Market Participant is a subsidiary or Affiliate of another entity and would like to utilize the consolidated financial statements and other relevant information of that entity for obtaining credit, a signed corporate guaranty is required. A guarantor would be considered reasonably acceptable and a corresponding Financial Security Amount would be set based on the guarantor's credit evaluation according to the same procedures that apply to the credit evaluation of a Market Participant pursuant to Section 12.1.1.~~
- ~~(b) — Cash deposits standing to the credit of the CAISO in interest-bearing escrow accounts: Interest on a cash deposit standing to the credit of the CAISO in an interest-bearing escrow account will accrue to the Market Participant's benefit and will be added to the Market Participant's prepayment account on a monthly basis. Should a Market Participant become delinquent in payments, the Market Participant's outstanding account balance will be satisfied using deposited funds. The Market Participant must take care to replenish used funds to ensure that its Aggregate Credit Limit continues to exceed its Estimated Aggregate Liability.~~
- (c) — ~~Prepayments to the CAISO:~~ Prepayments to the CAISO will be held in an interest-bearing account or another investment acceptable to the Market Participant and the CAISO, and interest on the investment will accrue at the rate as provided for in the investment. Interest will accrue to the Market Participant's benefit and will be added to the Market Participant's prepayment account on a monthly basis. Due to the additional administrative effort involved in tracking and posting interest on such prepayments, the use of this option is not encouraged.

12.2 Review of Creditworthiness

The CAISO may review the creditworthiness of any Market Participant that delays or defaults in making payments due under the CAISO Tariff and, as a consequence of that review, may require such Market Participant, whether or not it has an Unsecured Credit Limit, to provide credit support in the form of any of the following types of Financial Security:

- (a) an irrevocable and unconditional letter of credit by a bank or financial institution reasonably acceptable to the CAISO; or
- ~~(b) a cash deposit standing to the credit of an interest-bearing escrow account maintained at a bank or financial institution reasonably acceptable to the CAISO;~~
- ~~(c) an irrevocable and unconditional surety bond posted by an insurance company reasonably acceptable to the CAISO;~~
- ~~(d) a payment bond certificate in the name of the CAISO from a financial institution reasonably acceptable to the CAISO; or~~
- (be) a prepayment to the CAISO.

The CAISO may require the Market Participant to maintain such Financial Security for at least one (1) year from the date of such delay or default.

* * *

Appendix A

Master Definition Supplement

* * *

- ACH

Automated Clearing House

* * *

- Automated Clearing House (ACH)

An electronic network for financial transactions in the United States.

* * *

- Fedwire-Wire

The Federal Reserve Transfer System for electronic funds transfer.

* * *

- Moody's KMV-Analytics Equivalent Rating

The rating derived by Moody's KMV-Analytics from the Moody's KMV-Analytics Estimated Default Frequency that effectively translates the Moody's Estimated Default Frequency-Frequency into a comparable credit agency rating. The Moody's KMV-Analytics Equivalent Rating may correspond to the Moody's KMV-Analytics Spot Credit Rating (CreditEdge Plus), Bond Default Rate Mapping or Dynamic Rating (RiskCalc), or other rating established by Moody's KMV-Analytics or an alternative rating agency for this purpose.

* * *

- RMR Default Amount

Any amount due to be remitted to received into the relevant Facility Trust Account by from the RMR Owner or the Responsible Utility in accordance with an RMR Contract.

* * *

Appendix B.1

Scheduling Coordinator Agreement

* * *

4.1 The Scheduling Coordinator shall maintain at all times an account with a bank capable of Fedwire-Wire transfer and, at its option, may also maintain an account capable of ACH transfers. to which credits or debits shall be made in accordance with the billing and Settlement provisions of Section 11 of the CAISO Tariff. Such account shall be the account as notified by the Scheduling Coordinator to the CAISO from time to time by giving at least 20 days written notice before the new account becomes operational, together with all information necessary for the CAISO's processing of a change in that account.

* * *

Appendix B.11

Pro Forma CRR Entity Agreement

* * *

- 4.3 **Settlement Account.** The CRR Entity shall maintain at all times an account with a bank capable of Fed~~wire-Wire~~ transfer and, at its option, may also maintain an account capable of ACH transfers, to which credits or debits shall be made in accordance with the billing and Settlement provisions of Section 11 of the CAISO Tariff. Such account shall be the account referred to in Schedule 2 hereof or as notified by the CRR Entity to the CAISO from time to time by giving at least seven (7) days written notice before the new account becomes operational. Such changes to Schedule 2 shall not constitute an amendment to this Agreement.

* * *

Appendix B.12

MSS Aggregator CRR Entity Agent Agreement

* * *

- 4.3 **Settlement Account.** The CRR Entity Agent on behalf of its aggregated MSS Operators shall maintain at all times an account with a bank capable of Fed~~wire-Wire~~ transfer and, at its option, may also maintain an account capable of ACH transfers, to which credits or debits shall be made in accordance with the billing and Settlement provisions of Section 11 of the CAISO Tariff. Such account shall be the account referred to in Schedule 2 hereof or as notified by the CRR Entity Agent to the CAISO from time to time by giving at least seven (7) days written notice before the new account becomes operational. Such changes to Schedule 2 shall not constitute an amendment to this Agreement.

* * *

Appendix G

Pro Forma Reliability Must-Run Contract

* * *

9.3 Payment

- (a) CAISO shall pay Owner all invoiced amounts due on Revised Estimated RMR Invoices, Revised Adjusted RMR Invoices, and Final Invoices whether or not disputed by CAISO or the Responsible Utility except to the extent that CAISO (i) is entitled to a refund on a Revised Estimated or Revised Adjusted RMR Invoice or Final Invoice against such payment under this Agreement or (ii) is entitled to deduct an amount under Section 9.6. All payments shall be ~~made-remitted~~ from the RMR Owner Facility Trust Account on or before the Due Date by Fedwire transfer or optionally via ACH in accordance with instructions from Owner. If Owner is also the Responsible Utility, at the discretion of Owner payments to it may be made by memorandum account instead of Fedwire transfer or ACH. Owner shall at all times establish and maintain a settlement account at a commercial bank located in the United States and reasonably acceptable to CAISO

which can effect money transfers via Fed~~wire~~ Wire and, at its option, may also maintain an account capable of ACH transfers, where payments to and from the Facility Trust Accounts shall be made in accordance with Section 9.2 and Section 11.13 of the CAISO Tariff. Owner shall notify CAISO of its settlement account details prior to the Effective Date. Owner may from time to time change its settlement account details, provided that, Owner shall give CAISO 15 days notice before making changes. In the event there is a refund amount due to CAISO, Owner shall refund the amount due CAISO in accordance with Section 9.2 and Section 11.13 of the CAISO Tariff.

- (b) If a Revised Adjusted RMR Invoice is less than the amount paid by CAISO on the Revised Estimated RMR Invoice, the difference shall be paid by Owner to CAISO with interest at the Interest Rate from the Due Date of the Revised Estimated RMR Invoice to the Due Date of the Revised Adjusted RMR Invoice, or, if the Agreement is terminated, shall be paid to CAISO on submission of the Final Invoice. If a Revised Adjusted RMR Invoice is greater than the amount paid by CAISO under the Revised Estimated RMR Invoice, CAISO shall pay Owner the difference with interest at the Interest Rate from the Due Date of the Revised Estimated RMR Invoice to the Due Date of the Revised Adjusted RMR Invoice by CAISO.

* * *

Attachment C – Memorandum to ISO Board of Governors
Tariff Amendment to Implement New Financial and Credit Policy Enhancements
California Independent System Operator
Fifth Replacement FERC Electric Tariff
November 29, 2012

Memorandum

To: ISO Board of Governors
From: Ryan Seghesio, Chief Financial Officer & Treasurer
Date: October 25, 2012
Re: **Decision on Credit and Financial Tariff Enhancements**

This memorandum requires Board action.

EXECUTIVE SUMMARY

Management proposes implementing the following credit and financial related tariff enhancements:

- Implementing less stringent provisions for late invoice payments, including increasing from two to four the number of times within a rolling 12-month period that a market participant can be late without incurring a financial penalty. Consistent with this proposed modification, the other provisions in the tariff section will be modified so that each market participant is subject to financial penalties upon the fifth (and each subsequent) late payment in the rolling 12-month period and to possible enforcement actions upon the seventh (and each subsequent) late payment in the rolling 12-month period. This change is warranted to reflect the ISO's move from semi-monthly invoicing to weekly invoicing.
- Eliminating surety bonds, escrow accounts, certificates of deposit, and payment bond certificates as acceptable forms of financial security, to enhance the ISO's ability to call on credit support expeditiously in the event of non-payment.
- Modifying the ISO's unsecured credit calculation to eliminate the ability of a market participant with a speculative-grade Moody's KMV Equivalent Rating or credit agency issuer rating to receive unsecured credit. This change will enhance protection for the ISO market from the greater risk of default that may result from market participants with speculative-grade credit ratings transacting in the market.
- Adding the automated clearing house service as an alternative option to the current Fedwire option for making payments. The automated clearing house service provides a less expensive alternative to the Fedwire service.

Management recommends that the Board approve the following motion:

Moved, that the ISO Board of Governors approves the credit and financial tariff enhancements described in the memorandum dated October 25, 2012; and

Moved, that the ISO Board of Governors authorizes Management to make all the necessary and appropriate filings with the Federal Energy Regulatory Commission to implement the proposed tariff change.

DISCUSSION

The ISO continually monitors the best practices of other ISOs and RTOs as well as the electric industry to consider enhancements to the ISO's own credit and financial policies to protect the market against the risk of default. To that end, in 2011, the ISO formed a working group to provide stakeholders a forum to discuss credit best practices and a means to propose tariff enhancements before taking them to the larger stakeholder community through the ISO's stakeholder initiative process. The proposed enhancements discussed in this memorandum were first raised and vetted in the credit working group and then presented to, and ultimately supported by stakeholders representing a broad range of interests in the stakeholder initiative process. Management also proposes to provide market participants with the automated clearing house payment option as an alternative to the Fedwire payment service. Management plans to propose a February 1, 2013 effective date for these enhancements.

Less stringent progressive discipline for late invoice payments

On April 7, 2010, the ISO implemented the progressive disciplinary program for late invoice payments set forth in tariff section 11.29.14. Pursuant to that program, the ISO permits each market participant to make up to two "no-fault" late invoice payments in a rolling 12-month period without any penalties or enforcement action. Pursuant to section 11.29.14, the market participant is subject to financial penalties upon the third (and each subsequent) late payment in the rolling 12-month period and to possible enforcement actions upon the fifth (and each subsequent) late payment in the rolling 12-month period. These measures have been highly successful in reducing instances of late payments.

On October 1, 2011, to comply with FERC Order No. 741, the ISO moved from semi-monthly invoicing to weekly invoicing, effectively doubling the potential for market participants to make late payments. Subsequently, several market participants proposed that the ISO consider increasing the number of allowed "no-fault" late payments from two to four in order to match the doubled number of invoicing periods. Based on the positive changes in payment behavior the ISO has observed since section 11.29.14 went into effect and the reasons given by market participants for making late payments from time to time, Management determined that increasing the number of

allowed “no-fault” late payments from two to four would not reduce the effectiveness of the late payment progressive discipline program in encouraging timely payments.

For these reasons, Management proposes to modify section 11.29.14 to increase from two to four the number of late payments allowed in a rolling 12-month period before financial penalties are assessed. Consistent with this proposed modification, Management also proposes to adjust the other provisions in the tariff section so that each market participant is subject to financial penalties upon the fifth (and each subsequent) late payment in the rolling 12-month period and to possible enforcement actions upon the seventh (and each subsequent) late payment in the rolling 12-month period.

Eliminating certain forms of financial security

Management proposes to modify tariff sections 12.1.2 and 12.2 and make any other necessary tariff changes to eliminate escrow accounts, surety bonds, certificates of deposit, and payment bond certificates as acceptable forms of financial security. The purpose of these modifications is to eliminate forms of security that do not provide the ISO with prompt access to funds in the event of a payment default. Any delay in drawing on funds backed by these types of financial security instruments may affect the ISO’s ability to timely clear the market, which could result in a socialized default.

For example, an escrow account is a three-party agreement between the market participant, the market participant’s bank, and the ISO. The market participant deposits cash with the bank that the ISO can draw on in the event of non-payment. However, these cash deposits are considered assets of the bank and, therefore, could be put at risk in the event the bank becomes insolvent, potentially “locking up” these funds when the ISO must draw on them.

Drawing on a surety bond or a payment bond certificate, which is usually underwritten by an insurance company, could lead to a long investigation before a determination is made whether to honor the draw request. Similarly, the funds may not be readily available to the ISO under the terms and conditions of certificates of deposit compared to cash or a letter of credit.

Likewise, certificates of deposit have strict terms and conditions, dictated by the issuing bank that may not favor the ISO and, ultimately, may delay payment to the ISO in the event of a default.

When Management surveyed other ISOs and RTOs, it found that only the New York ISO and the Electric Reliability Council of Texas accept surety bonds and that no ISO or RTO (including NYISO and ERCOT) accepts the other forms of financial security that Management proposes to eliminate. Moreover, only seven of the ISOs market participants use these forms of financial security. The ISO has contacted these market participants and they are already considering alternative forms of financial security.

Eliminating eligibility for unsecured credit for market participants with speculative-grade credit ratings

Management proposes to modify the unsecured credit limit calculation set forth in the tariff to eliminate the ability of market participants with credit ratings below investment grade (*i.e.*, speculative-grade credit ratings) to receive unsecured credit. Requiring these market participants to back their financial obligations with a secured form of financial security instead of unsecured credit will enhance protection for the ISO market from the greater risk of default that may result from market participants with speculative-grade credit ratings transacting in the market. Management proposes to implement this modification in a way that is transparent and objectively determined.

The tariff and the Business Practice Manual for Credit Management set forth rules for calculating unsecured credit limits based on a percentage of a market participant's tangible net worth. The rules for determining the percentage are based on a market participant's Moody's KMV Equivalent Rating or lowest credit agency issuer rating, or, for a market participant that has both of those types of ratings, the average of the two ratings. A market participant with the highest credit rating can receive a credit limit of up to seven percent of their tangible net worth – capped at the maximum unsecured credit limit of \$50 million. Percentages under the rules are stepped down from that highest credit limit to as low as one percent of tangible net worth for the lowest-rated investment-grade entity. Under current rules, a market participant with an investment grade rating and a speculative grade rating would have those ratings averaged and could conceivably receive a significant amount of unsecured credit.

Pursuant to Management's proposal, a market participant that has either a Moody's KMV Equivalent Rating or a credit agency issuer rating that is currently below or that falls below investment grade will be deemed to have an allowable percentage of tangible net worth of zero for purposes of calculating its credit limit under the rules, and thus will receive no unsecured credit (either through adjustment of its previously positive unsecured credit limit for an existing market participant or through notification of a zero unsecured credit limit if it is a new market participant). The market participant will receive an unsecured credit limit of zero even if it has an investment-grade Moody's KMV Equivalent Rating but a credit agency issuer rating below investment grade, or vice versa (*i.e.*, the market participant will not receive an unsecured credit limit greater than zero based on the average of the two ratings). The market participant will remain ineligible for unsecured credit until the ISO's next quarterly review of the market participant's financial condition or thirty calendar days, whichever is later.

Optional Automated Clearing House Payment Services

The tariff currently requires use of the Fedwire payment service. Management proposes to provide market participants with the alternative option to elect automated clearing house payment services to pay the ISO, receive payments from the ISO, or both.

Automated clearing house payment services are less expensive but do not provide “same-day” settlement. The Fedwire payment service is more expensive but allows fund transfers to be processed within the same day if initiated early enough. The ISO presented this option to stakeholders during the credit policy stakeholder meeting held on July 31, 2012. No participant indicated any objection. The ISO has published additional information outlining the benefits of the automated clearing house payment services option and how it compares with the Fedwire payment service. If a market participant does not elect to use the automated clearing house payment services then, consistent with existing tariff requirements, the Fedwire payment service will be utilized.

POSITIONS OF PARTIES

With the exception of the automated clearing house payment option, each of the proposed enhancements discussed in this memorandum was first raised and vetted in the credit working group and then presented to, and ultimately supported by stakeholders representing a broad range of interests in the stakeholder initiative process. During the stakeholder process, stakeholders generally supported each proposal or chose not to comment. A stakeholder matrix summarizing stakeholder positions on each of the enhancements is attached for your reference.

MANAGEMENT RECOMMENDATION

The credit and financial tariff enhancements discussed in this memorandum are designed to mitigate credit risk of participation in the ISO market and to provide additional flexibility concerning payment options and late payment penalties. Because of this and the general stakeholder support, Management recommends that the Board approve the proposed tariff enhancements.

Stakeholder Process: Credit Policy Enhancements

Summary of Submitted Comments

Stakeholders submitted three rounds of written comments to the ISO on the following dates:

- Round One, 7/23/2012 – five sets of comments received
- Round Two, 8/7/2012 – two sets of comments received
- Round Three, 8/21/2012 – three sets of comments received

Stakeholder comments are posted at: <http://www.aiso.com/Documents/Credit%20policy%20enhancements%202012%20-%20stakeholder%20comments%7CComments%20on%20straw%20proposal>

Other stakeholder efforts include:

- Credit Working Group call 12/19/2011
- Credit Working Group call 3/21/2012
- Credit Working Group call 6/19/2012
- Stakeholder call re: straw proposal 7/31/2012
- Stakeholder call re: draft final proposal 8/22/2012

Management Proposal	Support	No Comment	Conditional	Oppose	ISO Response
Implementing less stringent provisions for late invoice payments, including increasing from two to four the number of times within a rolling 12-month period that a market participant can be late without incurring a financial penalty.	Six Cities* Pacific Gas & Electric Southern California Edison Western Power Trading Forum	San Diego Gas & Electric Western Area Power Administration	Powerex Assuming the change will not result in a significant increase in late payments	None	Implementing less stringent late payment penalties is not expected to change payment behavior or have an adverse effect on the market. Management will monitor payment behavior after implementing this change to ensure the change doesn't cause a reversion to old payment habits.
Eliminating surety bonds, escrow accounts, certificates of deposit, payment bond certificates, and guarantees as acceptable forms of financial security.	Powerex Pacific Gas & Electric Southern California Edison Western Power Trading Forum	San Diego Gas & Electric Six Cities* Western Area Power Administration	None	None	This policy enhancement is consistent with other ISOs and RTOs and will substantially improve the ability to timely draw on funds in the event of a payment default.
Modifying the ISO's unsecured credit calculation to prevent unsecured credit from being granted to a market participant with a speculative Moody's KMV Equivalent Rating or credit agency issuer rating.	Pacific Gas & Electric Powerex Six Cities* Southern California Edison	San Diego Gas & Electric Western Area Power Administration Western Power Trading Forum	None	None	Preventing companies with speculative grade credit ratings from receiving unsecured credit will substantially reduce the risk of a market default.

* Cities of Anaheim, Azusa, Banning, Colton, Pasadena and Riverside, CA

Attachment D – Listing of Key Dates in Stakeholder Process
Tariff Amendment to Implement New Financial and Credit Policy Enhancements
California Independent System Operator Corporation
November 29, 2012

Date	Event/Due Date
July 12, 2012	ISO issues paper entitled "Credit Policy Enhancements Straw Proposal"
July 23, 2012	Due date for written stakeholder comments on paper issued on July 12
July 31, 2012	ISO hosts stakeholder conference call that includes presentation entitled "Credit Policy Enhancements Straw Proposal" and discussion on paper issued on July 12
August 14, 2012	ISO issues paper entitled "Credit Policy Enhancements Draft Final Proposal"
August 21, 2012	Due date for written stakeholder comments on paper issued on August 14
August 22, 2012	ISO hosts stakeholder conference call that includes presentation entitled "Credit Policy Enhancements Draft Final Proposal" and discussion on paper issued on August 14
October 19, 2012	ISO issues paper entitled "Proposal to Offer 'Optional' ACH Alternative Payments"
October 26, 2012	Due date for written stakeholder comments on paper issued on October 19
October 31, 2012	ISO hosts stakeholder conference call that includes presentation entitled "Proposal to Offer 'Optional' ACH Alternative Payments" and discussion on paper issued on October 19
November 1, 2012	ISO Governing Board approves proposal to implement new financial and credit policy enhancements
November 6, 2012	ISO issues draft tariff language to implement new financial and credit policy enhancements
November 16, 2012	Due date for written stakeholder comments on draft tariff language issued on November 6
November 20, 2012	ISO hosts stakeholder conference call that includes discussion on draft tariff language issued on November 6
November 21, 2012	ISO issues revised draft tariff language to implement new financial and credit policy enhancements