

**Tab 1 – Credit Policy Compliance Filing Alternative Language and
Interim Reliability Requirements Program Proposed Sheet Designations**

IMPORTANT NOTICE:

This tab contains language for Section 12 and Appendix A that the ISO has proposed as alternative language in the Credit Policy Compliance Filing (ER06-700) made on July 11, 2006. This language has not yet been approved by FERC.

Also included in this tab are the proposed sheet designations from the Interim Reliability Requirements Program Docket (ER06-723), if FERC approves the ISO's alternative language in the Credit Policy Compliance Filing.

12 CREDITWORTHINESS.

12.1 Credit Requirements.

The creditworthiness requirements in this section apply to the ISO's acceptance of Schedules, to all transactions in an ISO Market, to the payment of charges pursuant to the ISO Tariff (including the Grid Management Charge), and to establish credit limits for participation in any ISO auction of FTRs. Each Market Participant (including each Scheduling Coordinator, UDC, or MSS) or FTR Bidder shall secure its financial transactions with the ISO (including its participation in any auction of FTRs) by maintaining an Unsecured Credit Limit and/or by posting Financial Security, the level of which constitutes the Market Participant's or FTR Bidder's Financial Security Amount. For each Market Participant or FTR Bidder, the sum of its Unsecured Credit Limit and its Financial Security Amount shall represent its Aggregate Credit Limit. Each Market Participant or FTR Bidder shall have the responsibility to maintain an Aggregate Credit Limit that is at least equal to its Estimated Aggregate Liability.

12.1.1 Unsecured Credit Limit.

Each Market Participant or FTR Bidder requesting an Unsecured Credit Limit shall submit an application to the ISO in the form specified on the ISO Home Page. The ISO shall determine the Unsecured Credit Limit for each Market Participant or FTR Bidder in accordance with the procedures set forth in the ISO Credit Policy & Procedures Guide posted on the ISO Home Page. The maximum Unsecured Credit Limit for any Market Participant or FTR Bidder shall be \$250 million. In accordance with the procedures described in the ISO Credit Policy & Procedures Guide, each Market Participant or FTR Bidder requesting or maintaining an Unsecured Credit Limit is required to submit to the ISO or its agent financial statements and other information related to its overall financial health as directed by the ISO. Each Market Participant or FTR Bidder is responsible for the timely submission of its latest financial statements as well as other information that may be reasonably necessary for the ISO to conduct its evaluation. The ISO shall determine the Unsecured Credit Limit for each Market Participant or FTR Bidder as described in subsections (a), (b), (c), and (d) below:

- (a) For a Market Participant or FTR Bidder that is a Rated Public/Private Corporation, the Unsecured Credit Limit shall be the lesser of \$250 million or an amount equal to the Market Participant's or FTR Bidder's Tangible Net Worth (TNW) multiplied by a calculated percentage of TNW. The allowable TNW percentage is determined with reference to 50 percent (50%) of the Market Participant's or FTR Bidder's Credit Rating Default Probability and 50 percent (50%) of the MKMV Default Probability.
- (b) For a Market Participant or FTR Bidder that is an Unrated Public/Private Corporation, the Unsecured Credit Limit shall be the lesser of \$250 million or an amount equal to the Market Participant's or FTR Bidder's Tangible Net Worth (TNW) multiplied by a calculated percentage of TNW. The allowable TNW percentage is determined with reference to 100 percent of the MKMV Default Probability.
- (c) For a Market Participant or FTR Bidder that is a Rated Governmental Entity, the Unsecured Credit Limit shall be the lesser of \$250 million or an amount equal to the Market Participant's or FTR Bidder's Net Assets (NA) multiplied by a calculated percentage of NA. The allowable NA percentage is determined with reference to 100 percent of the Market Participant's or FTR Bidder's Credit Rating Default Probability.

As to each of the types of entities listed in subsections (a), (b), and (c) above, the ISO will use the following eight-step process to calculate the entity's Unsecured Credit Limit: (1) the ISO will obtain the Market Participant's or FTR Bidder's credit rating(s) from NRSROs; (2) the ISO will calculate the Market Participant's or FTR Bidder's Average Rating Default Probability from NRSRO ratings; (3) the ISO will obtain the Market Participant's or FTR Bidder's MKMV Default Probability, if available; (4) the ISO will create a composite default probability for the Market Participant or FTR Bidder based on the results of steps (2) and (3) above; (5) the ISO will calculate a maximum allowable percentage of Tangible Net Worth or Net Assets for the Market Participant or FTR Bidder based on the results of step (4) above; (6) the ISO will obtain the Market Participant's or FTR Bidder's Tangible Net Worth or Net Assets from its financial statements; (7) the ISO will determine a preliminary Unsecured Credit Limit by multiplying the results of step (5) and step (6) above; and (8) if warranted, the ISO will adjust the preliminary Unsecured

Credit Limit downward by up to 100%, based on the ISO's review of qualitative and quantitative factors that relate to an entity's overall financial health and its ability to meet its financial obligations (as described in Section 12.1.1.1).

- (d) For a Market Participant or FTR Bidder that is an Unrated Governmental Entity, the Unsecured Credit Limit shall be the lesser of \$250 million or an amount equal to a specified percentage of the Market Participant's or FTR Bidder's Net Assets if the Market Participant or FTR Bidder 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 Section A-2.3 of the ISO Credit Policy & Procedures Guide) meet or exceed minimums specified in the ISO Credit Policy & Procedures Guide.

As a result of the ISO's credit evaluation, a Market Participant or FTR Bidder may be given an Unsecured Credit Limit by the ISO or denied an Unsecured Credit Limit with the ISO. Following the initial application and the establishment of an Unsecured Credit limit, the ISO will review each Market Participant's or FTR Bidder'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 ISO may review the Unsecured Credit Limit for any Market Participant or FTR Bidder whenever the ISO becomes aware of information that could indicate a Material Change in Financial Condition. In the event the ISO determines that the Unsecured Credit Limit of a Market Participant or FTR Bidder must be reduced as a result of a subsequent review, the ISO shall notify the Market Participant or FTR Bidder of the reduction, and shall, upon request, also provide the Market Participant or FTR Bidder with a written explanation of why the reduction was made.

12.1.1.1 Qualitative and Quantitative Credit Strength Indicators.

In determining a Market Participant's or FTR Bidder's Unsecured Credit Limit, the ISO may rely on information gathered from financial reporting agencies, the general/financial/energy press, and provided by the Market Participant or FTR Bidder to assess its overall financial health and its ability to meet its financial obligations. Information considered by the ISO in this process may include the following qualitative factors:

- a) Applicant's history;
- b) Nature of organization and operating environment;
- c) Management;
- d) Contractual obligations;
- e) Governance policies;
- f) Financial and accounting policies;
- g) Risk management and credit policies;
- h) Market risk including price exposures, credit exposures and operational exposures;
- i) Event risk; and
- j) The state or local regulatory environment.

Material negative information in these areas may result in a reduction of up to 100% in the Unsecured Credit Limit that would otherwise be granted based on the eight-step process described in Section 12.1.1. A Market Participant or FTR Bidder, upon request, will be provided a written analysis as to how the provisions in Section 12.1.1 and this section were applied in setting its Unsecured Credit Limit.

12.1.1.2 Financial Statements.

Market Participants and FTR Bidders requesting unsecured credit are required to provide financial statements so that a credit review can be completed. Based on availability, the Market Participant or FTR Bidder must submit a financial statement for the most recent financial quarter, as well as audited financial statements for the most recent three fiscal years, or the period of existence of the Market Participant or FTR Bidder, if shorter, to the ISO or the ISO's designee. If audited financial statements are not available, financial statements, as described below, should be submitted, signed and attested to by an officer of the Market Participant or FTR Bidder as a fair representation of the financial condition of the Market Participant or FTR Bidder in accordance with generally accepted accounting principles. The information should include, but is not limited to, the following:

- a. If publicly traded:
 - i. Annual and quarterly reports on Form 10-K and Form 10-Q, respectively
 - ii. Form 8-K reports, if any

- b. If privately held or governmentally owned:
- i. Management's Discussion & Analysis (if available)
 - ii. Report of Independent Accountants (if available)
 - iii. Financial Statements, including:
 - Balance Sheet
 - Income Statement
 - Statement of Cash Flows
 - Statement of Stockholder's Equity
 - iv. Notes to Financial Statements

If the above information is available electronically on the Internet, the Market Participant or FTR Bidder may indicate in written or electronic communication where such statements are located for retrieval by the ISO or the ISO's designee.

12.1.1.3 Determination of Unsecured Credit Limits for Affiliates.

If any Market Participant or FTR Bidder requesting or maintaining an Unsecured Credit Limit is affiliated with one or more other entities subject to the credit requirements of this Section 12, the ISO may consider the overall creditworthiness and financial condition of such Affiliates when determining the applicable Unsecured Credit Limit. The ISO may determine that the maximum Unsecured Credit Limit specified in Section 12.1.1 applies to the combined activity of such Affiliates. In the event the ISO determines that the maximum Unsecured Credit Limit applies to the combined activity of the Affiliates and the Market Participant, the ISO shall inform the Market Participant in writing.

12.1.1.4 Notification of Material Change in Financial Condition.

Each Market Participant or FTR Bidder shall notify the ISO 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 or FTR Bidder. The provision to the ISO of a copy of a Form 10-K, 10-Q, or Form 8-K filed with the U.S. Securities and Exchange Commission shall satisfy

the requirement of notifying the ISO of such Material Change in Financial Condition. Alternatively, the Market Participant may direct the ISO 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 or FTR Bidder 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 ISO 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 or FTR Bidder may be any combination of the following types of Financial Security provided in favor of the ISO and notified to the ISO 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 ISO;
- (b) an irrevocable and unconditional surety bond issued by an insurance company that is reasonably acceptable to the ISO;
- (c) an unconditional and irrevocable guaranty issued by a company that is reasonably acceptable to the ISO;
- (d) a cash deposit standing to the credit of the ISO in an interest-bearing escrow account maintained at a bank or financial institution that is reasonably acceptable to the ISO;
- (e) a certificate of deposit in the name of the ISO issued by a bank or financial institution that is reasonably acceptable to the ISO;
- (f) a payment bond certificate in the name of the ISO issued by a bank or financial institution that is reasonably acceptable to the ISO; or
- (g) a prepayment to the ISO.

Financial Security instruments as listed above shall be in such form as the ISO may reasonably require from time to time by notice to Market Participants or FTR Bidders, or in such other form as has been evaluated and approved as reasonably acceptable by the ISO. The ISO shall publish and maintain standardized forms related to the types of Financial Security listed above on the ISO Home Page. The ISO 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 or FTR Bidder 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 or FTR Bidder.

- (b) Cash deposits standing to the credit of the ISO in interest-bearing escrow accounts:
Interest on a cash deposit standing to the credit of the ISO in an interest-bearing escrow account will accrue to the Market Participant's or FTR Bidder's benefit and will be added to the Market Participant's or FTR Bidder's prepayment account on a monthly basis. Should a Market Participant or FTR Bidder become delinquent in payments, the Market Participant's or FTR Bidder's outstanding account balance will be satisfied using deposited funds. The Market Participant or FTR Bidder 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 ISO: Prepayments to the ISO will be held in an interest-bearing account or another investment acceptable to the Market Participant and the ISO, 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.

12.1.2.2 Process for Evaluating Requests to Use Non-Standardized Forms of Financial Security.

A Market Participant or FTR Bidder that seeks permission to use a form for Financial Security other than one or more of the standardized forms posted on the ISO Home Page shall seek such permission in a written request to the ISO that explains the basis for the use of such non-standardized form. The ISO shall have ten (10) Business Days from receipt of such request to evaluate it and determine whether it will be approved as reasonably acceptable. If the ISO does not respond to such request within the ten (10) Business Day period, the request shall be deemed to have been denied. Until and unless the ISO approves the use of a non-standardized form for Financial Security, the Market Participant or FTR Bidder that submitted such request shall be required to use one of the standardized forms for Financial Security described in this Section 12.1.2.

12.1.2.3 Expiration of Financial Security.

Each Market Participant or FTR Bidder shall ensure that the financial instruments it uses for the purpose of providing Financial Security will not expire and thereby cause the Market Participant's or FTR Bidder's Aggregate Credit Limit to fall below the Market Participant's or FTR Bidder's Estimated Aggregate Liability. The ISO will treat a financial instrument that does not have an automatic renewal provision and that is not renewed or replaced within seven (7) days of its date of expiration as being out of compliance with the standards for Financial Security contained in this Section 12 and will deem the value of such financial instrument to be zero, and will draw upon such Financial Security prior to its stated expiration if deemed necessary by the ISO.

12.1.2.4 Risk of Loss of Financial Security Amounts Held and Invested by the ISO.

In accordance with the ISO's investment policy, the ISO will invest each Financial Security Amount of a Market Participant or FTR Bidder only in bank accounts, high-quality money market accounts, and/or U.S. Treasury/Agency securities unless a specific written request is received from the Market Participant or FTR Bidder for a different type of investment and the ISO provides its written consent to such alternative investment. A Market Participant or FTR Bidder that provides a Financial Security Amount that is held and invested by the ISO on behalf of the Market Participant or FTR Bidder will bear all risks that such Financial Security Amount will incur a loss of principal and/or interest as a result of the ISO's investment of such Financial Security Amount.

12.1.3 Self-Supply of UDC Demand.

Notwithstanding anything to the contrary in the ISO Tariff, a Scheduling Coordinator or UDC that is an Original Participating Transmission Owner or is a Scheduling Coordinator for an Original Participating Transmission Owner shall not be precluded by Section 12.3 from scheduling transactions that serve a UDC's Demand from –

- (1) a resource that the UDC owns; and
- (2) a resource that the UDC has under contract to serve its Demand.

12.1.4 Allocation of Aggregate Credit Limit for FTR Auction Participation.

An FTR Bidder may elect to allocate a portion of its Aggregate Credit Limit toward satisfying the credit requirements for participating in auctions of FTRs, as set forth in Section 36.2.6.

12.1.5 Estimated Aggregate Liability.

The ISO will periodically calculate the Estimated Aggregate Liability of each Market Participant and FTR Bidder, based on all charges and settlement amounts for which such Market Participant or FTR Bidder is liable or reasonably anticipated by the ISO to be liable for pursuant to the ISO Tariff. The Estimated Aggregate Liability for each Market Participant or FTR Bidder shall be determined and applied by the ISO consistent with the procedures set forth in the ISO Credit Policy & Procedures Guide posted on the ISO Home Page. The ISO shall upon request provide each Market Participant or FTR Bidder with information concerning the basis for the ISO's determination of its Estimated Aggregate Liability, and the ISO's determination may be disputed in accordance with the procedures set forth in the ISO Credit Policy & Procedures Guide. The ISO shall compare each Market Participant's or FTR Bidder's Estimated Aggregate Liability against its Aggregate Credit Limit on a periodic basis.

12.2 Review of Creditworthiness.

The ISO may review the creditworthiness of any Market Participant or FTR Bidder which delays or defaults in making payments due under the ISO Tariff and, as a consequence of that review, may require such Market Participant or FTR Bidder, whether or not it 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 ISO;
- (b) a cash deposit standing to the credit of an interest-bearing escrow account maintained at a bank or financial institution designated by the ISO;
- (c) an irrevocable and unconditional surety bond posted by an insurance company reasonably acceptable to the ISO;
- (d) a payment bond certificate in the name of the ISO from a financial institution designated by the ISO; or
- (e) a prepayment to the ISO.

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

12.4 Calculation of Ongoing Financial Security Requirements.

Following the date on which a Market Participant commences trading, if the Market Participant's Estimated Aggregate Liability, as calculated by the ISO, at any time exceeds its Aggregate Credit Limit, the ISO shall direct the Market Participant to post an additional Financial Security Amount within five (5) Business Days that is sufficient to ensure that the Market Participant's Aggregate Credit Limit is at least equal to its Estimated Aggregate Liability. The ISO shall also notify a Market Participant if at any time its Estimated Aggregate Liability exceeds 90% of its Aggregate Credit Limit. For the purposes of calculating the Market Participant's Estimated Aggregate Liability, the ISO shall include (1) outstanding charges for Trading Days for which Settlement data is available, and (2) an estimate of charges for Trading Days for which Settlement data is not yet available. To estimate charges for Trading Days for which Settlement data is not yet available, the ISO will consider available historical Settlement data, and other available operational and market data as described in the ISO Credit Policy & Procedures Guide posted on the ISO Home Page.

12.4.1 Review of an ISO Request for an Additional Financial Security Amount.

A Market Participant has five (5) Business Days to review an ISO request for additional Financial Security and submit proposed changes that must be agreed to by the ISO. Within the five (5) Business Days, the Market Participant must either demonstrate to the ISO's satisfaction that the ISO's Financial Security request is entirely or partially unnecessary, or post the required Financial Security Amount calculated by the ISO. If the ISO and the Market Participant are unable to agree on the appropriate level of Financial Security during the five (5) Business Day review period, the Market Participant must post the additional Financial Security and may continue with the dispute process described in Section 12.4.2. Any excess Financial Security amounts will be returned to the Market Participant if the dispute process finds in favor of the Market Participant.

12.4.2 Dispute Process Regarding an ISO Request for an Additional Security Amount.

Market Participants may dispute the Estimated Aggregate Liability calculated by the ISO and, as a result, the ISO may reduce or cancel a requested Financial Security adjustment. The following steps are

required for a Market Participant to dispute a Financial Security request resulting from the ISO's calculation of Estimated Aggregate Liability:

- (1) Request by the Market Participant to review the ISO calculation.
- (2) A reasonable and compelling situation presented, as determined by the Market Participant's ISO client representative.
- (3) Documentation of facts and circumstances that evidence that the ISO's calculation of Estimated Aggregate Liability results in an excessive and unwarranted Financial Security posting requirement.
- (4) Approval by the ISO Manager and/or Director of Customer Services and Industry Affairs and approval by the ISO Treasurer.
- (5) The ISO may decline to adjust the initial Estimated Aggregate Liability, as calculated by the ISO, if the Market Participant has had Financial Security shortfalls in the past 12 months (*i.e.*, it has been shown that the Market Participant's Aggregate Credit Limit at times during the preceding 12 months has been insufficient to cover the Market Participant's Estimated Aggregate Liability).

In no such case shall an ISO request for increased Financial Security remain outstanding for more than five (5) Business Days. Either the above process is to be completed within five (5) Business Days from the date of the ISO request for additional Financial Security, or the Market Participant is to post additional Financial Security within the five (5) Business Days and continue this process, which may result in a return of posted Financial Security back to the Market Participant if the results of the dispute process are found to favor the Market Participant.

Factors for consideration in the event this dispute process is utilized include: weighing the risk of using the lower figure to the potential detriment of market creditors if the Market Participant is under-secured and defaults, against the desire not to impose additional potentially unwarranted costs on a Market Participant; equity and consistency of treatment of Market Participants in the dispute process; and the evidentiary value of the information provided by the Market Participant in the dispute process.

12.5 ISO Enforcement Actions Regarding Under-Secured Market Participants.

Following the date on which a Market Participant commences trading, if a Market Participant's Estimated Aggregate Liability, as calculated by the ISO, at any time exceeds its Aggregate Credit Limit, the ISO may take any or all of the following actions:

- (a) The ISO may withhold a pending payment distribution.
- (b) The ISO may limit trading, which may include rejection of Schedules and/or limiting other ISO market activity. In such case, the ISO shall notify the Market Participant of its action and the Market Participant shall not be entitled to submit further Schedules to the ISO until the Market Participant posts an additional Financial Security Amount that is sufficient to ensure that the Market Participant's Aggregate Credit Limit is at least equal to its Estimated Aggregate Liability.
- (c) The ISO may require the Market Participant to post an additional Financial Security Amount in lieu of an Unsecured Credit Limit for a period of time.
- (d) The ISO may restrict, suspend, or terminate a Market Participant's Service Agreement.

In addition, the ISO may restrict or suspend a Market Participant's right to schedule or require the Market Participant to increase its Financial Security Amount if at any time such Market Participant's potential additional liability for Imbalance Energy and other ISO charges is determined by the ISO to be excessive by comparison with the likely cost of the amount of Energy scheduled by the Market Participant.

Approved Load Profile

Local Regulatory Authority approved Load profiles applied to cumulative End-Use Meter Data in order to allocate consumption of Energy to Settlement Periods.

Approved Maintenance Outage

A Maintenance Outage which has been approved by the ISO through the ISO Outage Coordination Office.

“Area Control Error (ACE)”

The sum of the instantaneous difference between the actual net interchange and the scheduled net interchange between the ISO Control Area and all adjacent Control Areas and the ISO Control Area’s frequency correction and time error correction obligations.

Authorized Users

A person or an entity identified as an authorized user in a meter service agreement between the ISO and an ISO Metered Entity or a meter service agreement between the ISO and a SC.

Automatic Mitigation Procedure (AMP)

The market power mitigation procedure described in Attachment A to Appendix P.

Available Transfer Capacity

For a given transmission path, the capacity rating in MW of the path established consistent with ISO and WECC transmission capacity

Average Rating Default Probability (ARDP)

The sum of Credit Rating Default Probabilities divided by the total number of Credit Rating Default Probabilities used.

<u>Control Area Operator</u>	The person responsible for managing the real-time operations of a Control Area.
<u>Converted Rights</u>	Those transmission service rights as defined in Section 16.21A.1 of the ISO Tariff.
<u>Core Reliability Services - Demand Charge</u>	A component of the Grid Management Charge that provides for the recovery of the ISO's costs of providing a basic, non-scalable level of reliable operation for the ISO Control Area and meeting regional and national reliability requirements. The formula for determining the Core Reliability Services – Demand Charge is set forth in Appendix F, Schedule 1, Part A of this Tariff.
<u>Core Reliability Services – Energy Export Charge</u>	A component of the Grid Management Charge that provides for the recovery of the ISO's costs of providing a basic, non-scalable level of reliable operation for the ISO Control Area and meeting regional and national reliability requirements. The formula for determining the Core Reliability Services – Energy Exports Charge is set forth in Appendix F, Schedule 1, Part A of this Tariff.
<u>CPUC</u>	The California Public Utilities Commission, or its successor.
<u>Credit Rating Default Probability</u>	The 5 Year Median Default Probability based on a rating agency's credit rating as listed in the Credit Rating Default Probabilities table in Section A-2.2 of the ISO Credit Policy & Procedures Guide.
<u>Critical Protective System</u>	Facilities and sites with protective relay systems and Remedial Action Schemes that the ISO determines may have a direct impact on the ability of the ISO to maintain system security and over which the ISO exercises Operational Control.
<u>CTC (Competition Transition Charge)</u>	A non-bypassable charge that is the mechanism that the California Legislature and the CPUC mandated to permit recovery of costs stranded as a result of the shift to the new market structure.
<u>Curtable Demand</u>	Demand from a Participating Load that can be curtailed at the direction of the ISO in the real-time Dispatch of the ISO Controlled Grid. Scheduling Coordinators with Curtable Demand may offer it to the ISO to meet Non-Spinning Reserve or Replacement Reserve requirements.
<u>Day 0</u>	The Trading Day to which the Settlement Statement or Settlement

Market Usage Charge

The component of the Grid Management Charge that provides for the recovery of the ISO's costs, including, but not limited to the costs for processing Supplemental Energy and Ancillary Service bids, maintaining the Open Access Same-Time Information System, monitoring market performance, ensuring generator compliance with market protocols, and determining Market Clearing Prices. The formula for determining the Market Usage Charge is set forth in Appendix F, Schedule 1, Part A of this Tariff.

Master File

A file containing information regarding Generating Units, Loads and other resources.

Material Change in Financial Condition

A change in or potential threat to the financial condition of a Market Participant or FTR Bidder that increases the risk that the Market Participant or FTR Bidder will be unlikely to meet some or all of its financial obligations. The types of Material Change in Financial Condition include but are not limited to the following:

- (a) a credit agency downgrade;
- (b) being placed on a 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; or
- (f) any change in the financial condition of the Market Participant or FTR Bidder which exceeds a five percent (5%) reduction in the Market Participant's or FTR Bidder's tangible net worth or net assets for the Market Participant or FTR Bidder's preceding fiscal year, calculated in accordance with generally accepted accounting practices.

Material Modification

Those modifications that have a material impact on the cost or timing of any Interconnection Request or any other valid interconnection request with a later queue priority date.

MDAS

The ISO's revenue meter data acquisition and processing system.

under terms approved by a Local Regulatory Authority or FERC, as applicable, or the customer's Load can be curtailed concurrently with an outage of the Generating Unit.

Meter Data Exchange Format

The format for submitting Meter Data to the ISO which will be published by the ISO on the ISO Home Page or available on request to the Meter and Data Acquisition Manager, ISO Client Service Department.

Meter Data Request Format

The format for requesting Settlement Quality Meter Data from the ISO which will be published by the ISO on the ISO Home Page or available on request to the Meter and Data Acquisition Manager, ISO Client Service Department.

Metered Quantities

For each Direct Access End-User, the actual metered amount of MWh and MW; for each Participating Generator the actual metered amounts of MWh, MW, MVAR and MVARh.

Metering Facilities

Revenue quality meters, instrument transformers, secondary circuitry, secondary devices, meter data servers, related communication facilities and other related local equipment.

Minimum Load Costs

The costs a Generating Unit incurs operating at minimum load.

MKMV Default Probability

A calculated result of Moody's KMV CreditEdge or RiskCalc software products.

Monthly Peak Load

The maximum hourly Demand on a Participating TO's transmission system for a calendar month, multiplied by the Operating Reserve Multiplier.

MSS (Metered Subsystem)

A geographically contiguous system located within a single Zone which has been operating as an electric utility for a number of years prior to the ISO Operations Date as a municipal utility, water district, irrigation district, State agency or Federal power administration subsumed within the ISO Control Area and encompassed by ISO certified revenue quality meters at each interface point with the ISO Controlled Grid and ISO certified revenue quality meters on all Generating Units or, if aggregated, each individual resource and Participating Load internal to the system, which is operated in accordance with a MSS Agreement described in Section 4.9.1.

MSS Operator

An entity that owns an MSS and has executed a MSS Agreement.

**Municipal Tax Exempt
Debt**

An obligation the interest on which is excluded from gross
income for federal tax purposes pursuant to Section 103(a) of

the Internal Revenue Code of 1986 or the corresponding provisions of prior law without regard to the identity of the holder thereof. Municipal Tax Exempt Debt does not include Local Furnishing Bonds.

Must-Offer Generator

All entities defined in Section 40.1.1 of the ISO Tariff.

**Nationally Recognized
Statistical Rating
Organizations (NRSRO)**
Native Load

National credit rating agencies as designated by the U.S. Securities & Exchange Commission.

Load required to be served by a utility within its Service Area pursuant to applicable law, franchise, or statute.

NERC

The North American Electric Reliability Council or its successor.

Net Assets (NA)

For governmental and not-for-profit entities, defined as total assets minus total liabilities.

Net FTR Revenue

The sum of: 1) the revenue received by the New Participating TO from the sale, auction, or other transfer of the FTRs provided to it pursuant to Section 36.4.3 FTR, or any substantively identical successor provision of the ISO Tariff; and 2) for each hour: a) the Usage Charge revenue received by the New Participating To associated with its Section 36.4.3 FTRs; minus b) Usage Charges that are: i) incurred by the Scheduling Coordinator for the New Participating TO under ISO Tariff Section 27.1.2.1.4 ii) associated with the New Participating TO's Section 36.4.3 FTRs, and iii) incurred by the New Participating TO for its energy transactions but not incurred as a result of the use of the transmission by a third-party and minus c) the charges paid by the New Participating TO pursuant to Section 27.1.2.1.7, to the extent such charges are incurred by the Scheduling Coordinator of the New Participating TO on Congested Inter-Zonal Interfaces that are associated with the Section 36.4.3 FTRs provided to the New Participating TO. The component of New FTR Revenue represented by item 2) immediately above shall not be less than zero for any hour.

Net Negative Uninstructed Deviation

The real-time change in Generation or Demand associated with underscheduled Load (i.e., Load that appears unscheduled in real time) and overscheduled Generation (i.e., Generation that is scheduled in forward markets and does not appear in real time). Deviations are netted for each Settlement Interval, apply to a Scheduling Coordinator's entire portfolio, and include Load, Generation, imports and exports.

Net Output

The gross Energy output from a Generating Unit less the Station Power requirements for such Generating Unit during the Netting Period, or the Energy available to provide Remote Self-Supply from a generating facility in another Control Area during the Netting Period.

Netting Period

A calendar month, representing the interval over which the Net Output of one or more generating resources in a Station Power Portfolio is available to be attributed to the self-supply of Station Power in that Station Power Portfolio.

Network Upgrades

The additions, modifications, and upgrades to the ISO

Service Territory may be comprised of the Service Areas of more than one Local Public Owned Electric Utility, if they are operating under an agreement with the ISO for aggregation of their MSS and their MSS Operator is designated as the Participating TO.

Queue Position

The order of a valid Interconnection Request, relative to all other pending valid Interconnection Requests, that is established based upon the date and time of receipt of the valid Interconnection Request by the ISO.

Qualifying Facility

A qualifying co-generation or small power production facility recognized by FERC.

Ramping

Changing the loading level of a Generating Unit in a constant manner over a fixed time (e.g., ramping up or ramping down). Such changes may be directed by a computer or manual control.

RAS (Remedial Action Schemes)

Protective systems that typically utilize a combination of conventional protective relays, computer-based processors, and telecommunications to accomplish rapid, automated response to unplanned power system events. Also, details of RAS logic and any special requirements for arming of RAS schemes, or changes in RAS programming, that may be required.

Rated Governmental Entity

A municipal utility or state or federal agency that holds an issuer, counterparty, or underlying credit rating by a Nationally Recognized Statistical Rating Organization.

Rated Public/Private Corporation

An investor-owned or privately held entity that holds an issuer, counterparty, or underlying credit rating by a Nationally Recognized Statistical Rating Organization.

Reactive Power Control

Generation or other equipment needed to maintain acceptable voltage levels on the ISO Controlled Grid and to meet reactive capacity requirements at points of interconnection on the ISO Controlled Grid.

Real Time Market

The competitive generation market controlled and coordinated by the ISO for arranging real-time Imbalance Energy.

Redispatch

The readjustment of scheduled Generation or Demand side management measures, to relieve Congestion or manage Energy imbalances.

Registered Data

Those items of technical data and operating characteristics relating to Generation, transmission or distribution facilities which are identified to the owners of such facilities as being information, supplied in accordance with the ISO Tariff, to assist the ISO to maintain reliability of the ISO Controlled Grid and to carry out its functions.

	an hour before the commencement of the Settlement Period.
<u>Supply</u>	The rate at which Energy is delivered to the ISO Controlled Grid measured in units of watts or standard multiples thereof, e.g., 1,000W=1 KW; 1,000 KW = 1MW, etc.
<u>System Emergency</u>	Conditions beyond the normal control of the ISO that affect the ability of the ISO Control Area to function normally including any abnormal system condition which requires immediate manual or automatic action to prevent loss of Load, equipment damage, or tripping of system elements which might result in cascading Outages or to restore system operation to meet the minimum operating reliability criteria.
<u>System Planning Studies</u>	Reports summarizing studies performed to assess the adequacy of the ISO Controlled Grid as regards conformance to Reliability Criteria.
<u>System Reliability</u>	A measure of an electric system's ability to deliver uninterrupted service at the proper voltage and frequency.
<u>System Resource</u>	A group of resources, single resource, or a portion of a resource located outside of the ISO Control Area, or an allocated portion of a Control Area's portfolio of generating resources that are directly responsive to that Control Area's Automatic Generation Control (AGC) capable of providing Energy and/or Ancillary Services to the ISO Controlled Grid.
<u>System Unit</u>	One or more individual Generating Units and/or Loads within a Metered Subsystem controlled so as to simulate a single resource with specified performance characteristics, as mutually determined and agreed to by the MSS Operator and the ISO. The Generating Units and/or Loads making up a System Unit must be in close physical proximity to each other such that the operation of the resources comprising the System Unit does not result in significant differences in flows on the ISO Controlled Grid.
<u>TAC Area</u>	A portion of the ISO Controlled Grid with respect to which Participating TOs' High Voltage Transmission Revenue Requirements are recovered through a High Voltage Access Charge. TAC Areas are listed in Schedule 3 of Appendix F.
<u>Take-Out Point</u>	The metering points at which a Scheduling Coordinator Metered Entity or ISO Metered Entity takes delivery of Energy.
<u>Tangible Net Worth (TNW)</u>	Total assets minus intangibles (e.g., good will) minus total liabilities.
<u>Tax Exempt Debt</u>	Municipal Tax Exempt Debt or Local Furnishing Bonds.

<u>Energy</u>	instructed by the ISO or which the ISO Tariff provides will be paid at the price for Uninstructed Imbalance Energy.
<u>Unit Commitment</u>	The process of determining which Generating Units will be committed (started) to meet Demand and provide Ancillary Services in the near future (e.g., the next Trading Day).
<u>Unrated Governmental Entity</u>	A municipal utility or state or federal agency that does not hold an issuer, counterparty, or underlying credit rating by a Nationally Recognized Statistical Rating Organization.
<u>Unrated Public/Private Corporation</u>	An investor-owned or privately held entity that does not hold an issuer, counterparty, or underlying credit rating by a Nationally Recognized Statistical Rating Organization.
<u>Unsecured Credit Limit</u>	The level of credit established for a Market Participant or FTR Bidder that is not secured by any form of Financial Security, as provided for in Section 12 of the ISO Tariff.
<u>Usage Charge</u>	The amount of money, per 1 kW of scheduled flow, that the ISO charges a Scheduling Coordinator for use of a specific Congested Inter-Zonal Interface during a given hour.
<u>Validation, Estimation and Editing (VEE)</u>	Applies to Meter Data directly acquired by the ISO. Validation is the process of checking the data to ensure that it is contiguous, within pre-defined limits and has not been flagged by the meter. Estimation and Editing is the process of replacing or making complete Meter Data by using data from redundant meters, schedules, PMS or, if necessary, statistical estimation.
<u>Value Added Network (VAN)</u>	A data communications service provider that provides, stores and forwards electronic data delivery services within its network and to subscribers on other VANs. The data is mostly EDI type messages.
<u>Voltage Limits</u>	For all substation busses, the normal and post-contingency Voltage Limits (kV). The bandwidth for normal Voltage Limits must fall within the bandwidth of the post-contingency Voltage Limits. Special voltage limitations for abnormal operating conditions such as heavy or light Demand may be specified.
<u>Voltage Support</u>	Services provided by Generating Units or other equipment such as shunt capacitors, static var compensators, or synchronous condensers that are required to maintain established grid voltage criteria. This service is required under normal or System Emergency conditions.
<u>Waiver Denial Period</u>	The period determined in accordance with Section 40.1.6.

Interim Reliability Requirements Program Proposed Sheet Designations

the Internal Revenue Code of 1986 or the corresponding provisions of prior law without regard to the identity of the holder thereof. Municipal Tax Exempt Debt does not include Local Furnishing Bonds.

Nationally Recognized

National credit rating agencies as designated by the U.S.

Statistical Rating

Securities & Exchange Commission.

Organizations (NRSRO)**Native Load**

Load required to be served by a utility within its Service Area pursuant to applicable law, franchise, or statute.

NERC

The North American Electric Reliability Council or its successor.

Net Assets (NA)

For governmental and not-for-profit entities, defined as total assets minus total liabilities.

Net FTR Revenue

The sum of: 1) the revenue received by the New Participating TO from the sale, auction, or other transfer of the FTRs provided to it pursuant to Section 36.4.3 FTR, or any substantively identical successor provision of the ISO Tariff; and 2) for each hour: a) the Usage Charge revenue received by the New Participating To associated with its Section 36.4.3 FTRs; minus b) Usage Charges that are: i) incurred by the Scheduling Coordinator for the New Participating TO under ISO Tariff Section 27.1.2.1.4 ii) associated with the New Participating TO's Section 36.4.3 FTRs, and iii) incurred by the New Participating TO for its energy transactions but not incurred as a result of the use of the transmission by a third-party and minus c) the charges paid by the New Participating TO pursuant to Section 27.1.2.1.7, to the extent such charges are incurred by the Scheduling Coordinator of the New Participating TO on Congested Inter-Zonal Interfaces that are associated with the Section 36.4.3 FTRs provided to the New Participating TO. The component of New FTR Revenue represented by item 2) immediately above shall not be less than zero for any hour.

Net Negative Uninstructed Deviation The real-time change in Generation or Demand associated with underscheduled Load (i.e., Load that appears unscheduled in real time) and overscheduled Generation (i.e., Generation that is scheduled in forward markets and does not appear in real time). Deviations are netted for each Settlement Interval, apply to a Scheduling Coordinator's entire portfolio, and include Load, Generation, imports and exports.

Net Output The gross Energy output from a Generating Unit less the Station Power requirements for such Generating Unit during the Netting Period, or the Energy available to provide Remote Self-Supply from a generating facility in another Control Area during the Netting Period.

Netting Period A calendar month, representing the interval over which the Net Output of one or more generating resources in a Station Power Portfolio is available to be attributed to the self-supply of Station Power in that Station Power Portfolio.

Net Qualifying Capacity Qualifying capacity reduced, as applicable, based on: (1) testing and verification; and (2) deliverability restrictions. The Net Qualifying Capacity determination shall be made by the ISO pursuant to the provisions of this ISO Tariff and any applicable manual or procedure.

Network Upgrades The additions, modifications, and upgrades to the ISO

Service Territory may be comprised of the Service Areas of more than one Local Public Owned Electric Utility, if they are operating under an agreement with the ISO for aggregation of their MSS and their MSS Operator is designated as the Participating TO.

Queue Position

The order of a valid Interconnection Request, relative to all other pending valid Interconnection Requests, that is established based upon the date and time of receipt of the valid Interconnection Request by the ISO.

Qualifying Capacity

The maximum capacity of a Resource Adequacy Resource. The criteria for calculating Qualifying Capacity from Resource Adequacy Resources may be established by the CPUC or other applicable Local Regulatory Authority and provided to the ISO, or default provisions in Section 40.13 of this ISO Tariff.

Qualifying Facility

A qualifying co-generation or small power production facility recognized by FERC.

Ramping

Changing the loading level of a Generating Unit in a constant manner over a fixed time (e.g., ramping up or ramping down). Such changes may be directed by a computer or manual control.

RAS (Remedial Action Schemes)

Protective systems that typically utilize a combination of conventional protective relays, computer-based processors, and telecommunications to accomplish rapid, automated response to unplanned power system events. Also, details of RAS logic and any special requirements for arming of RAS schemes, or changes in RAS programming, that may be required.

Rated Governmental Entity

A municipal utility or state or federal agency that holds an issuer, counterparty, or underlying credit rating by a Nationally Recognized Statistical Rating Organization.

Rated Public/Private Corporation

An investor-owned or privately held entity that holds an issuer, counterparty, or underlying credit rating by a Nationally Recognized Statistical Rating Organization.

Reactive Power Control

Generation or other equipment needed to maintain acceptable voltage levels on the ISO Controlled Grid and to meet reactive capacity requirements at points of interconnection on the ISO Controlled Grid.

Real Time Market

The competitive generation market controlled and coordinated by the ISO for arranging real-time Imbalance Energy.

Redispatch

The readjustment of scheduled Generation or Demand side management measures, to relieve Congestion or manage Energy imbalances.

Registered Data

Those items of technical data and operating characteristics relating to Generation, transmission or distribution facilities which are identified to the owners of such facilities as being information, supplied in accordance with the ISO Tariff, to assist the ISO to maintain reliability of the ISO Controlled Grid and to

an hour before the commencement of the Settlement Period.

Supply

The rate at which Energy is delivered to the ISO Controlled Grid measured in units of watts or standard multiples thereof, e.g., 1,000W=1 KW; 1,000 KW = 1MW, etc.

Supply Plan

A submission by a Scheduling Coordinator for a Resource Adequacy Resource in order to satisfy the requirements of Section 40 of this ISO Tariff.

System Emergency

Conditions beyond the normal control of the ISO that affect the ability of the ISO Control Area to function normally including any abnormal system condition which requires immediate manual or automatic action to prevent loss of Load, equipment damage, or tripping of system elements which might result in cascading Outages or to restore system operation to meet the minimum operating reliability criteria.

System Planning Studies

Reports summarizing studies performed to assess the adequacy of the ISO Controlled Grid as regards conformance to Reliability Criteria.

System Reliability

A measure of an electric system's ability to deliver uninterrupted service at the proper voltage and frequency.

System Resource

A group of resources, single resource, or a portion of a resource located outside of the ISO Control Area, or an allocated portion of a Control Area's portfolio of generating resources that are directly responsive to that Control Area's Automatic Generation Control (AGC) capable of providing Energy and/or Ancillary Services to the ISO Controlled Grid.

System Unit

One or more individual Generating Units and/or Loads within a Metered Subsystem controlled so as to simulate a single resource with specified performance characteristics, as mutually determined and agreed to by the MSS Operator and the ISO. The Generating Units and/or Loads making up a System Unit must be in close physical proximity to each other such that the operation of the resources comprising the System Unit does not result in significant differences in flows on the ISO Controlled Grid.

TAC Area

A portion of the ISO Controlled Grid with respect to which Participating TOs' High Voltage Transmission Revenue Requirements are recovered through a High Voltage Access Charge. TAC Areas are listed in Schedule 3 of Appendix F.

Take-Out Point

The metering points at which a Scheduling Coordinator Metered Entity or ISO Metered Entity takes delivery of Energy.

Tangible Net Worth (TNW)

Total assets minus intangibles (e.g., good will) minus total liabilities.

Tax Exempt Debt

Municipal Tax Exempt Debt or Local Furnishing Bonds.

<u>Energy</u>	instructed by the ISO or which the ISO Tariff provides will be paid at the price for Uninstructed Imbalance Energy.
<u>Unit Commitment</u>	The process of determining which Generating Units will be committed (started) to meet Demand and provide Ancillary Services in the near future (<u>e.g.</u> , the next Trading Day).
<u>Un-Recovered Minimum Load Cost</u>	The Un-Recovered Minimum Load Cost for each hour of Waiver Denial Period shall be calculated as the difference between: (1) a resource's Minimum Load Costs as calculated in this Section for the same Settlement Interval and (2) the Imbalance Energy payment for a resource's minimum load energy in the Settlement Interval.
<u>Unrated Governmental Entity</u>	A municipal utility or state or federal agency that does not hold an issuer, counterparty, or underlying credit rating by a Nationally Recognized Statistical Rating Organization.
<u>Unrated Public/Private Corporation</u>	An investor-owned or privately held entity that does not hold an issuer, counterparty, or underlying credit rating by a Nationally Recognized Statistical Rating Organization.
<u>Unsecured Credit Limit</u>	The level of credit established for a Market Participant or FTR Bidder that is not secured by any form of Financial Security, as provided for in Section 12 of the ISO Tariff.
<u>Usage Charge</u>	The amount of money, per 1 kW of scheduled flow, that the ISO charges a Scheduling Coordinator for use of a specific Congested Inter-Zonal Interface during a given hour.
<u>Validation, Estimation and Editing (VEE)</u>	Applies to Meter Data directly acquired by the ISO. Validation is the process of checking the data to ensure that it is contiguous, within pre-defined limits and has not been flagged by the meter. Estimation and Editing is the process of replacing or making complete Meter Data by using data from redundant meters, schedules, PMS or, if necessary, statistical estimation.
<u>Value Added Network (VAN)</u>	A data communications service provider that provides, stores and forwards electronic data delivery services within its network and to subscribers on other VANs. The data is mostly EDI type messages.
<u>Voltage Limits</u>	For all substation busses, the normal and post-contingency Voltage Limits (kV). The bandwidth for normal Voltage Limits must fall within the bandwidth of the post-contingency Voltage Limits. Special voltage limitations for abnormal operating conditions such as heavy or light Demand may be specified.

Voltage Support

Services provided by Generating Units or other equipment such as shunt capacitors, static var compensators, or synchronous condensers that are required to maintain established grid voltage criteria. This service is required under normal or System Emergency conditions.

Waiver Denial Period

The period determined in accordance with Section 40.7.6.

Warning Notice

A Notice issued by the ISO when the operating requirements for the ISO Controlled Grid are not met in the Hour-Ahead Market, or the quantity of Regulation, Spinning Reserve, Non-Spinning Reserve, Replacement Reserve and Supplemental Energy available to the ISO does not satisfy the Applicable Reliability Criteria.

Weekly Peak Demand

Forecast

Demand Forecast of the highest Hourly Demand in any hour in a period beginning at the start of the hour ending 0100 on Sunday and ending at the end of the hour ending 2400 the following Saturday, in MW.