

# ISO Rules

## Part 100 General

### Division 103 Administration

#### Section 103.3 Financial Security Requirements



#### Applicability

1 Section 103.3 applies to:

- (a) a **market participant** with any **financial obligation** to the **ISO**, except where the **market participant** is the **legal owner** of a **transmission facility** where the person who is eligible to apply for the construction and operation of the **transmission facility** was determined by a competitive process developed by the **ISO** in accordance with the **Act**; and
- (b) the **ISO**.

#### Requirements

##### Provision of Financial Security

**2(1)** A **market participant** must provide to the **ISO**, or cause its guarantor to provide to the **ISO**, **financial security** equal to or greater than the total dollar amount of all **financial obligations** of the **market participant**, minus any unsecured credit limit granted to the **market participant** as determined in accordance with either subsections 5 or 6.

**(2)** ~~All financial security a market participant must ensure all financial security provided~~ provides or ~~caused~~causes to be provided to the **ISO** in accordance with this section 103.3, ~~remains~~must remain in force and in effect for so long as the **market participant** has any outstanding **financial obligations** to the **ISO**.

##### Determination of Financial Obligations Total Amounts

**3(1)** The **ISO** must calculate the total dollar amount of all **financial obligations** of a **market participant** to the **ISO**, including:

- (a) subject to subsection 3(2) if the **market participant** is a **pool participant**, a dollar amount based upon a determination by the **ISO** of:
  - the energy the **pool participant** consumes for any ~~two~~(2) consecutive **settlement periods**, adjusted for any updated information and estimates;
  - minus
  - the energy the **pool participant** purchases from another **pool participant** through any **net settlement instructions** during any ~~two~~(2) consecutive **settlement periods**;
  - minus
  - the energy the **pool participant** produces during any ~~two~~(2) consecutive **settlement periods**;
  - plus
  - the energy the **pool participant** sells to another **pool participant** through any **net settlement instructions** during any ~~two~~(2) consecutive **settlement periods**;
  - multiplied by
  - a **pool price** the **ISO** estimates;
- (b) if the **market participant** is receiving **system access service**, or if the **market participant** has applied for but not yet received **system access service** under any rate in the **ISO tariff**, a dollar amount equal to the estimate of the **ISO** of the charges for ~~two~~(2) **settlement periods**;
- (c) if the **market participant** is required to provide **financial security** as counterparty to a *Construction Commitment Agreement* for a connection project under the **ISO tariff**, a dollar

# ISO Rules

## Part 100 General

### Division 103 Administration

#### Section 103.3 Financial Security Requirements



amount equal to the **financial security** as required under any such *Construction Commitment Agreement*;

- (d) if a **market participant** is required to provide security as a counterparty to one or more agreements for **ancillary services** with the **ISO**, a dollar amount equal to the **financial security** as required under any such **ancillary services** agreements; and
- (e) any other dollar amounts the **ISO** reasonably determines in respect of the requirement for **financial security** for any other services the **ISO** provides to the **market participant**.

(2) A market participant must provide to the ISO an estimate of the net energy that it will consume for 2 consecutive settlement periods using the months with the highest level of energy consumption, as a part of its application, if (2) If the market participant referred to in subsection 3(1)(a) is registering as a pool participant under Section 201.1 of the ISO rules, Pool Participant Registration, then the market participant must provide to the ISO, as a part of its application, an estimate of the net energy that will be consumed for two (2) consecutive settlement periods.

(3) The ISO may deny an application or terminate any service the ISO provides to a market participant, if the market participant materially misrepresents the estimate of net energy to be consumed in subsection 3(2).

(4) The ISO may, for the purposes of calculating the financial obligations of a market participant to the ISO under subsection 3(1), establish a minimum amount that will be deemed to apply if the financial obligations calculated under subsection 3(1) otherwise fall below such minimum amount.

#### Unsecured Credit

**4** A **market participant** may request that the **ISO** grant to the **market participant** an unsecured credit limit in accordance with either subsections 5 or 6.

#### Unsecured Credit Limit for Rated Entities

**5(1)** The **ISO** may grant the unsecured credit limit referred to in subsection 4 ~~may be granted~~ based on:

- (a) the long-term unsecured credit rating of the **market participant** or its guarantor from an acceptable credit rating agency, as determined by the ISO; or in accordance with subsection 5(2).

~~the long-term unsecured proxy (2) The credit rating of agencies acceptable to the ISO are the Dominion Bond Rating Service, Standard & Poor's, Moody's Investor Service, and any other credit rating agency which a market participant tenders to the ISO for the market participant or its guarantor and that the ISO issued prior to December 31, 2021, which the ISO and may, from time to time, revise is acceptable to the ISO in its sole discretion.~~

- (b) (3) If more than one (1) acceptable credit rating agency provides a credit rating for a market participant or withdraw.

(2) The ~~its guarantor, then the~~ ISO must establish the unsecured credit limit for the market participant based on the lowest credit rating, if the market participant or its guarantor has more than 1 credit rating in accordance with subsection 5(1). ~~the agencies provide.~~

(3) ~~The (4) If a market participant or its guarantor has a credit rating from an acceptable credit rating agency, then the~~ ISO may grant an unsecured credit limit to the market participant up to the maximum amount specified in the second column of the following Table 1, based on the long term unsecured credit rating for the market participant or its guarantor specified in the first column of Table 1, if a market participant or its guarantor has a credit rating from an acceptable credit rating agency.

**Table 1**  
**Subsection 5 Unsecured Credit Limit**

Credit Rating	Unsecured Credit Limit
<del>AA+/AAA</del>	<del>\$5025,000,000</del>
<del>AA</del>	<del>\$45,000,000</del>
<del>AA+, AA-, AA-</del>	<del>\$4020,000,000</del>
<del>A+</del>	<del>\$35,000,000</del>
<del>A</del>	<del>\$30,000,000</del>
<del>A+, A-, A-</del>	<del>\$2515,000,000</del>
<del>BBB+</del>	<del>\$20,000,000</del>
<del>BBB</del>	<del>\$15,000,000</del>
<del>BBB+, BBB</del>	<del>\$10,000,000</del>
<del>&lt;BBB-</del>	<del>\$0</del>

**Unsecured Credit Limit for Non-Rated Entities**

~~6(1) If a market participant or its guarantor does not have a credit rating from an acceptable credit rating agency as referenced under subsection 5(2), then the market participant may request that the ISO grant to the market participant an unsecured credit limit based on a proxy credit rating of the market participant or its guarantor.~~

~~(2) The ISO may at its sole discretion accept or reject a request made under subsection 6(1) to grant a market participant an unsecured credit limit based on a proxy credit rating.~~

~~(3) For the ISO to determine whether initially to grant a proxy credit rating, or to approve of maintaining a proxy rating once it has been granted pursuant to this subsection 6, the market participant or its guarantor must provide the ISO the financial information the ISO requests, which must include:~~

- ~~(a) the most recent audited annual financial statements and, if the proxy rating is granted, subsequent audited annual financial statements to be provided within one hundred and twenty (120) days after each fiscal year end of the market participant or its guarantor;~~
- ~~(b) the most recent unaudited quarterly financial statements and, if the proxy rating is granted, subsequent audited quarterly financial statements to be provided within sixty (60) days after each fiscal quarter of the market participant or its guarantor;~~
- ~~(c) a general description of the business and business risks of the market participant or its guarantor, how the market participant or the guarantor manages such business risks and, if the proxy rating is granted, an annual update of all such information; and~~
- ~~(d) any other information that the ISO may require to enable the ISO to more fully understand and assess the financial risks of the market participant or its guarantor.~~

~~(4) Subject to the provisions of this subsection 6, the ISO may grant an unsecured credit limit up to the maximum amount specified in the second column of the following Table 2, based on the proxy credit rating, if any, the ISO grants for the market participant or its guarantor, as the case may be:~~

Table 2  
Subsection 6 Unsecured Credit Limit

<u>Proxy Credit Rating</u>	<u>Unsecured Credit Limit</u>
AAA	\$10,000,000
AA+, AA, AA-	\$5,000,000
A+, A, A-	\$2,500,000
BBB+, BBB	\$1,250,000
<BBB	\$0

(5) Any unsecured credit limit granted under this subsection 6 must not exceed zero point five percent (0.5%) of the tangible net worth of the **market participant** or its guarantor, as the case may be, determined by the **ISO** as follows:

- the total assets of the **market participant** or its guarantor;
- minus
- total liabilities of the **market participant** or its guarantor;
- minus
- intangible assets, including goodwill and trademarks, of the **market participant** or its guarantor.

(6) If the **market participant** or its guarantor fails to provide any **financial information** requested or required under subsection 6(3), then in addition to any other rights or remedies, the **ISO** may provide written notice to the **market participant** and the guarantor, as applicable:

- (a) reducing any previously granted unsecured credit limit; and
- (b) demanding that the **market participant** or its guarantor provide the **ISO** with additional or replacement **financial security**, no later than the close of business on the second (2<sup>nd</sup>) **business day** following the delivery of the demand by the **ISO**.

(7) The **ISO** must review the proxy credit rating the **ISO** grants and the **financial information** of each non-rated **market participant** and its guarantor at least once per year.

(8) Upon completion of the yearly review referenced under subsection 6(7), the **ISO** must provide written notice to the **market participant** and its guarantor, as the case may be, of any changes in the assigned proxy credit rating, unsecured credit limit or **financial security** requirements.

**Unsecured Credit for Parent, Subsidiary and Affiliated Companies**

7(1) A **market participant** who is a subsidiary or affiliate of a parent company with an unsecured rating from a credit rating agency approved under subsection 5(2) may make an application to the **ISO** for an unsecured credit limit under subsection 6.

(2) The **ISO** in accordance with subsection 6 may grant the **market participant** an unsecured credit limit, based on the lower of the proxy credit rating for the **market participant** and that of its subsidiary or affiliate parent company.

(3) If a **market participant** or its guarantor is one of two (2) or more affiliated companies, and the **ISO** has granted any one of those companies an unsecured credit limit, then the **ISO** may not grant any other of those companies an unsecured credit limit.

# ISO Rules

## Part 100 General

### Division 103 Administration

#### Section 103.3 Financial Security Requirements



#### Acceptable Forms of Financial Security

**68(1)** A market participant must provide~~Subject to subsection 8(2), the form of any financial security to be provided to the ISO in the following form:~~

~~(a) under this section 103.3 must be a letter of credit, a cash collateral deposit or third-party written guarantee.~~

~~(2) A market participant may request that the ISO approve of an alternative form of financial security to those specified under subsection 8(1), and the ISO may at its sole discretion accept or reject the alternative form of financial security.~~

~~(3) An approved letter of credit form must:~~

~~(a) contain provisions to the effect that it is an unconditional and irrevocable standby letter of credit, payable on demand with the ISO as beneficiary; and~~

~~(b) be issued from a Canadian chartered bank, or other acceptable and comparable financial institution, with at least an A minus rating from an acceptable credit rating agency, as determined by the ISO, and include provisions to the effect that it is an unconditional and irrevocable standby letter of credit, payable on demand with the ISO as beneficiary, and that is otherwise in form and substance satisfactory to the ISO; referred to under subsection 5(2).~~

~~(b) a cash collateral deposit together with a cash collateral agreement that is in form and substance satisfactory to the ISO; or~~

~~(c) a parent guarantee from an entity that qualifies for an unsecured rating under subsection 5, and that is in form and substance satisfactory to the ISO. :~~

~~(2) The ISO may accept or reject a~~**(4)** ~~If a proposed letter of credit, cash collateral agreement, or parent guarantee, referred to in subsection 6(1).~~

**(3)** A market participant may request that the ISO approve of an alternative form of financial security to those specified under subsection 6(1).

**(4)** The ISO may accept or reject the alternative form of financial security requested in subsection 8(3) is from a bank or other financial institution with a head office outside of Canada, then the ISO may at its sole discretion accept or reject the letter of credit.

**(5)** A market participant~~The ISO~~ must ensure that the ISO is~~be~~ able to register its security interest in any cash collateral deposit the market participant provides as a first security interest held by the ISO under the Personal Property Security Act or other similar legislation.

**(6)** A,~~and if the ISO requests, the market participant~~ must provide the ISO with registerable written waivers or postponements in favour of the ISO provided by all third parties who have a registerable security interest in priority to the security interest the ISO may register, if requested by the ISO.

**(6)** An approved written guarantee from the guarantor of a market participant must contain provisions to the effect that it is:

~~(a) an irrevocable, continuous and unconditional guarantee of payment and other performance obligations of the market participant; and~~

~~(b) payable on a demand by the ISO.~~

**(7)** The ISO may, at any time after initially approving the creditworthiness of a guarantor of the market participant and the maximum dollar amount under any approved form of guarantee, reassess and reduce that creditworthiness regardless of the credit rating of the guarantor, and after that reassessment and reduction the ISO must notify in writing the market participant and its guarantor of the reduced creditworthiness.

# ISO Rules

## Part 100 General

### Division 103 Administration

#### Section 103.3 Financial Security Requirements



~~(8)~~ The ISO must notify the market participant and its guarantor, in writing, of the reduced creditworthiness following a reassessment and reduction made pursuant to subsection 8(7).

~~(9)~~ The market participant must provide the ISO with additional or replacement financial security which the ISO must receive no later than the close of business on the second (2<sup>nd</sup>) business day following the delivery of the notice from the ISO in accordance with subsection 8(87).

#### ISO Review and Reassessment of Financial Security Adequacy

~~79(1)~~ The ISO may, from time to time, review and reassess any financial security, unsecured credit limits, financial information and standing, creditworthiness and credit rating, and generally the ability of a market participant and its guarantor to meet the financial obligations of the market participant and other performance obligations to the ISO.

~~(2)~~ Upon completion of the review and reassessment, the ISO may at its sole discretion by written notice reduce any unsecured credit limit of the market participant or demand that the market participant provide replacement or additional financial security, upon completion of a review and reassessment.

~~(3)~~ The ISO may demand, in writing, replacement or additional financial security from a market participant in a dollar amount sufficient to provide security for the calculated difference, if at any one time:

~~(3)~~ Without limiting the generality of subsection 9(1), if at any one time:

the total dollar amount of all financial obligations of the market participant calculated under subsection 3;

exceeds

any unsecured credit limit granted to the market participant under subsection 5 or 6, plus the financial security the market participant or its guarantor provides to the ISO pursuant to subsection 2;

~~(4)~~ A then the ISO may demand in writing replacement or additional financial security from the market participant in a dollar amount sufficient to provide security for the calculated difference, and the market participant must deliver the replacement or additional financial security, calculated in subsection 7(3), to the ISO no later than the close of business on the second (2<sup>nd</sup>) business day after the business day upon which the ISO issued its demand for such replacement or additional financial security delivered the demand.

~~(5)~~ A market participant may request in writing that the ISO reduce the financial security required from and provided by the market participant to the ISO.

~~(6)~~ The, and upon receipt of that request, the ISO may at its sole discretion reduce the financial security of the market participant, upon receipt of a request made pursuant to subsection 7(5), if after review and reassessment the ISO determines that:

- (a) any unsecured credit limit granted to the market participant plus the financial security the market participant provides exceeds all financial obligations of the market participant for ~~two (2)~~ settlement periods as the ISO estimates; or
- (b) the credit rating of the market participant or its guarantor, as the case may be, determined in accordance with subsection 5 has been upgraded.

#### Financial Information and Material Adverse Changes

~~8(1)~~ A market participant must provide, or cause its guarantor to provide, the ISO with any financial information the ISO requests, following a request by the ISO for such financial information.



# ISO Rules

## Part 100 General

### Division 103 Administration

#### Section 103.3 Financial Security Requirements



~~(2) A market participant must give notice in writing to the ISO, or cause its guarantor to give notice in writing to the ISO, if the~~**(2) If a market participant** or its guarantor experiences a **material adverse change**, or is aware of a likely **material adverse change** occurring, ~~then the market participant or its guarantor, as the case may be, must give notice in writing to the ISO of the matter.~~

~~(2) The ISO must receive the notice~~ no later than the close of business on the ~~second~~ **second** (2<sup>nd</sup>) **business day** after the **day** the **market participant** or its guarantor experiences, or becomes aware, of the likely occurrence of, the **material adverse change**.

**(3)** The **ISO** must determine the impact of the **material adverse change** on any unsecured credit limit of the **market participant** and the overall creditworthiness of the **market participant** or its guarantor, upon receiving notice pursuant to subsection 8(1) or otherwise becoming aware of the **material adverse change** or that the **material adverse change** is likely to occur.

**(4)** ~~The ISO may, if the ISO determines that replacement or additional financial security is required~~ after determining the impact of the **material adverse change**:

~~(a) , then the ISO may~~ make a written demand on the **market participant** specifying the dollar amount and form of **replacement or additional financial security**, if the **ISO** determines that replacement or additional **financial security** is required; or

~~(b) if the ISO determines that the market participant or its guarantor is, or is likely to become, insolvent or unable to pay its debts as they mature:~~

~~(i) exercise its rights to terminate or suspend the market participant in accordance with subsection 7 of Section 103.7 of the ISO rules, Financial Default and Remedies; or~~

~~(ii) make a written demand on the market participant that the market participant remit payment in advance to the ISO prior to incurring any financial obligations in accordance with such terms and conditions as determined by the ISO, without limiting any of the other rights or remedies of the ISO including the right to terminate or suspend the market participant.~~

**(5)** The **market participant** must deliver to the **ISO** any specified replacement or additional, **financial security** or **prepayment, as applicable**, demanded in accordance with subsection ~~8(340(4))~~ no later than the close of business on the ~~second~~ **second** (2<sup>nd</sup>) **business day** after the **business day** upon which the **ISO** delivered the demand.

#### Costs and Expenses Related to Financial Security

**914** All costs and expenses of a **market participant** associated with the implementation of any **financial security** and any related obligations of the **market participant** under this ~~Section~~ **Section** 103.3 are the responsibility and to the sole account of that **market participant** ~~and the market participant~~ **must pay the ISO for any such costs and expenses incurred by the ISO.**

#### Confidential Financial Information

~~12 The ISO must treat all information and records a market participant or a guarantor provides under this section 103.3 as confidential, in accordance with subsection 2(1) of section 103.1 of the ISO rules, Confidentiality.~~

#### ISO Recourse to Section 103.7 Financial Default and Remedies

**1143** The failure of a **market participant** to comply with its obligations to provide **financial security** under this ~~Section~~ **Section** 103.3, or to keep the **financial security** in force and effect, is deemed to be a default event which will allow the **ISO** to have recourse to the rights and remedies of the **ISO** under ~~Section~~ **Section** 103.7 of the **ISO rules, Financial Default and Remedies.**

# ISO Rules

## Part 100 General

### Division 103 Administration

#### Section 103.3 Financial Security Requirements



#### Discretionary Rights

12(1) All rights, powers, and remedies granted to the ISO under this Section 103.3 are for the sole benefit and protection of the ISO and the ISO may exercise any such right, power, or remedy at its option and in its sole and absolute discretion.

(2) The ISO may, if it is given 2 or more alternative courses of action, elect any alternative or combination of alternatives, at its option and in its sole and absolute discretion.

#### Revision History

<u>DateEffective</u>	<u>Description</u>
<u>xxxx-xx-xx</u>	<u>Revisions to include minimum level of financial security, increase unsecured credit limits, remove the process for assigning proxy credit ratings, clarify the forms of financial security, include rights to request financial information and clarify the rights of the ISO in the event of a material adverse change, and other administrative revisions.</u>
2016-11-29	Revisions to the Applicability section
2011-07-01	Initial Release