



Alberta Electric System Operator Credit Procedures Guide

April 2013

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1. Introduction

In accordance with the ISO Rules – Division 103 Section 103.3 – Financial Security Requirements, **Market Participants** are subject to a financial review by the Alberta Electric System Operator (“AESO”), the intent of which is to assess the creditworthiness of a Market Participant in order to determine if any **Unsecured Credit Limit** should be granted to the Market Participant by the AESO. The purpose of this procedures guide is to provide Market Participants with transparency as it relates to the process the AESO will be using for the granting of Unsecured Credit Limits to Market Participants.

It should be noted that in the event of any discrepancies between this guide and the ISO Rules, the ISO Rules will take precedence over this guide. The granting of an Unsecured Credit Limit for any Market Participant is at the discretion of the AESO and at any point in time the Unsecured Credit Limit for a Market Participant may be reduced to zero by the AESO.

2. Contact Information

Mailing Address:

The Independent System Operator, operating as the Alberta Electric System Operator
2500, 330 5th Avenue SW
Calgary, Alberta T2P 0L4

Karen Mazuryk

Manager, Credit Risk and Financial Settlement

Tel: (403) 539-2590 Fax: (403) 539-2612 Email: karen.mazuryk@ieso.ca

3. Definitions

Ancillary Services – as defined in the **Act** means those services required to ensure that the **interconnected electric system** is operated in a manner than provides satisfactory level of service with acceptable levels of voltage and frequency.

Credit Rating - means, in respect of any Person at any time, the rating assigned to the Person's unsecured, senior long-term debt obligations by an **AESO Recognized Ratings Agency**.

Financial Security – means sufficient enforceable credit support to secure the **financial obligations** of a **market participant** to the **ISO**

Guarantee - means a written, irrevocable guarantee of a Person (the "**Guarantor**") that guarantees the performance of the obligations and covenants of the **Market Participant**.

Guarantor - has the meaning provided in the definition of **Guarantee**.

Market Participant – as defined in the Act means:

- i) Any person that supplies, generates, transmits, distributes, trades, exchanges, purchases or sells electricity, electric energy, electricity services or **ancillary services**; or
- ii) Any broker, brokerage or forward exchange that trades or facilitates the trading of electricity, electric energy, electricity services or **ancillary services**

Material Adverse Change – means a downgrade in the credit rating of a **market participant** by any credit rating agency, or an event that may result in the materially weaker creditworthiness of a **market participant** as reasonably determined by the **ISO**.

Non-Rated Entities - investor owned (public), private or **Government/Statutory Entities** who do not have a **Credit Rating** or have a **Credit Rating** from a credit ratings agency not acceptable to the AESO.

Government/Statutory Entities - Market Participants who are formed or operate under Acts of the Province of Alberta (other than the Business Corporations Act).

Net Energy Consumed - defined as the energy consumed by a **Market Participant** less energy purchased from a third party by the **Market Participant** using net settlement instructions less energy produced by the **Market Participant** plus energy sold to a third party by the **Market Participant** using net settlement instructions.

Pool Participant - means a market participant who is registered to transact, listed in the **Pool Participant** list.

Proxy Credit Rating – means a **Credit Rating** determined by the AESO, as per Appendix 3 of the ISO Rules, for a **Market Participant** (or guarantor or a **Market Participant**) who does not have a **Credit Rating** from a **Recognized Ratings Agency**.

Rated Entities – investor owned (public), private or **Government/Statutory Entities** that have a **Credit Rating** from AESO **Recognized Ratings Agency**.

Recognized Ratings Agency - acceptable rating agencies include the Dominion Bond Rating Service, Standard & Poor's and Moody's Investor Service. Other rating agencies may be accepted at the sole discretion of the AESO.

Tangible Net Worth – is defined as the total assets less total liabilities less intangible assets (i.e. goodwill, trademark, etc.) of the **Market Participant** or **Guarantor**.

Unsecured Credit Limited – the amount of unsecured credit granted to a **Market Participant** by the AESO.

4. Market Participant Financial Security Requirements

I. Calculation of Exposure

The amount of **Financial Security** required to be provided by a **Market Participant** is the amount by which a Market Participant's financial obligations owing to the AESO for two settlement periods exceeds the amount of any **Unsecured Credit Limit** granted to the Market Participant.

The AESO will determine a Market Participant's financial obligations owing to the AESO by taking the actual **Net Energy Consumed** for the two most recent settlement periods, adjusted for any anomalies, by the Market Participant and multiplying it by an estimated prudential pool price. For new pool participants, the Market Participant shall provide to the AESO, as part of its application, its estimated net energy to be consumed for two settlement periods.

II. Pool Price for Prudential Calculation

By the third business day of each month, the AESO will publish to its website, a pool price for the current month, which will be used for the prudential requirement calculations for AESO **Market Participants**.

The AESO will calculate the monthly pool price for prudential requirements using a multiplier applied to the Alberta forward electricity price. The use of a multiplier is to allow for price volatility differences between actual pool prices and forward pool prices. The multiplier has been set by the AESO at 1.15 times the forward pool price which is based on historical differences between actual pool prices and forward pool prices. For example, if the forward pool price is \$60.00 / MWh for the month of April multiplied by the multiplier 1.15, the pool price used for the AESO prudential requirements would be set \$69.00 /MWh. If the actual pool price reaches or exceeds the pool price used for AESO prudential requirement, the AESO may request additional **Financial Security** from a Market Participant at its discretion.

An AESO Market Participant may contact the AESO to have their Financial Security reviewed by the AESO, if the Market Participant's current Financial Security held by the AESO is based on a pool price that exceeds the pool price that is being used for the current month's calculation.

5. Transition to Updated Prudential ISO Rule

This procedure guide as it relates to **Market Participants** will be effective the date the ISO Rules relating to the provision of unsecured credit to **Non-Rated Market Participants** are formally adopted by the AESO. Existing Market Participants, who have already been granted an **Unsecured Credit Limit** by the AESO, are not required to prepare and provide an application form to the AESO. Market Participant applicants who are not requesting an Unsecured Credit Limit are not required to provide an application form to the AESO.

6. Unsecured Credit Limit Application

Market Participant applicants and existing Market Participants requesting an **Unsecured Credit Limit** for the first time from the AESO will be required to prepare an Unsecured Credit Limit Application as attached in Appendix A of this guide. It is the responsibility of the Market Participant to ensure that the application is complete, properly authorized and that all informational requirements have been provided to the AESO as a part of the application.

As a part its application, the Market Participant must provide the following information to the AESO:

- The Market Participant's most recently audited financial statements and latest quarterly financial statements. The statements should include:
 - Management Discussion and Analysis (if available);
 - Copy of the Independent Auditors' Report;
 - Balance sheet;
 - Income statement;
 - Statement of Cash flows;
 - Statement of Retained Earnings;
 - Notes to the financial statements;
- In addition to annual audited financial statements, the Market Participant must provide the AESO a general description of its business, its business risks and how the Market Participant manages its business risks;
- Provide a listing of officers and company board of directors.

If the application is determined by the AESO to be incomplete, the application will be returned to the Market Participant to be completed. No unsecured credit will be granted by the AESO until the application has been completed to the AESO's satisfaction.

7. Unsecured Credit Rating Calculations

I. Unsecured Credit - Rated Entities

Rated Entities (or a **Guarantor** of a **Market Participant**) who have a **Credit Rating** from a **Recognized Ratings Agency** may obtain an **Unsecured Credit Limit** from the AESO. If the Rated Market Participant or Guarantor is rated by more than one rating agency, then the AESO will rely on the lowest Credit Rating when establishing the Unsecured Credit Limit.

The AESO will grant up to the following Unsecured Credit Limit for each Market Participant or Guarantor in relation to the relevant, established, Credit Rating of the Market Participant or Guarantor (or equivalent Credit Rating):

Rating	Unsecured Credit Limit
AAA	\$25,000,000
AA	\$20,000,000
A	\$15,000,000
BBB	\$10,000,000
<BBB	\$0

II. Unsecured Credit Limit – Non-Rated Entities

Non-Rated Entities (or a Guarantor of a Market Participant) may apply to the AESO for an Unsecured Credit Limit based on a **Proxy Credit Rating** to be determined by the AESO. The AESO will grant up to the following Unsecured Credit Limits to a Non-Rated entities (or Guarantor) based on the following Credit Ratings scale:

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

The amount of the Unsecured Credit Limit provided to a Non-Rated Entities (or Guarantor) can not exceed 0.5% of the Market Participant's **Tangible Net Worth** ("TNW").

For example, if a Market Participant is determined by the AESO to have a Proxy Credit Rating of AA, the initial Unsecured Credit Limit would be \$5 million. If the Market Participant is determined to have a TNW of \$250 million, the AESO would perform the following calculation $0.5\% \text{ times } \$250 \text{ million} = \1.25 million . The pool participant's Unsecured Credit Limit would be reduced to \$1.25 million.

The Steps to be performed by the AESO to determine an Unsecured Credit Limit for Non-Rated entities are as follows:

Step 1: Completed Unsecured Credit Application Form received by the AESO with required information attached from the Market Participant;

Step 2: AESO to perform a review of the most recent audited financial statements and other financials and non financials information provided by the Market Participant. AESO to determine if Proxy Credit Rating, based on this review should be reduced. The following information will be considered by the AESO as a part of this review:

- Applicants financial and operational history;
 - Industry conditions;
 - Going concern issues;
 - Management history;
 - Existence of litigation;
 - Business risks and risk management programs;
 - Existence of commitments and contingencies;
 - Credit policy and management programs;
 - Governance practices and disclosures;

At the discretion of the AESO, the Market Participant's Proxy Credit Rating may be reduced by the AESO and ultimately the Unsecured Credit Limit for the Market Participant could be reduced to zero based on this review.

Step 3: AESO performs size test using Tangible Net Worth ("TNW") calculation (i.e. TNW multiplied by the 0.5% threshold). Reduce Unsecured Credit Limit based on TNW test performed;

Step 4: Recommendation of Unsecured Credit Limit to be approved by the Director, Risk and Settlement and Vice President, Finance;

Step 5: Communicate Unsecured Credit Limit to the Market Participant;

Note: The final AESO approved Proxy Credit Rating can not exceed the initial Proxy Credit Rating as determine in Step 2.

Appendix B of this document contains a Process Map of the Unsecured Credit Limit granting process.

The AESO will monitor Market Participants daily, based on publicly available information, for **Material Adverse Changes** and any change in a Market Participant's financial position. Market Participants are required to notify the AESO of Material Adverse Changes in accordance with Division 103 Section 103.3 of the ISO Rules.

On a quarterly basis, a Proxy Credit Rating will be determined using the Pool Participant's latest quarterly financial statements. Steps 2 thru 6 above will be performed by the AESO and the Pool Participant's Unsecured Credit Limit and Financial Security will be adjusted accordingly.

On an annual basis, the AESO will perform a comprehensive review of each Market Participant's Proxy Credit Rating and Unsecured Credit Limit based on updated financial and non-financial information. The Market Participant is required to provide audited financial statements and non-financial information as required by the AESO within 120 days of Market Participant's year end in order for the AESO to complete this review. The AESO will perform Steps 2 thru 6 for each Market Participant.

It should be noted that income/royalty trusts will not be granted an **Unsecured Credit Limit** by the AESO based on **Proxy Credit Rating** at this time, unless the income/royalty trust has a **Credit Rating** from a **Recognized Ratings Agency**.

8. Credit Rating Categories

A **Credit Rating** with a plus or minus sign indicates the relative standing within the major rating categories. The base rating shall be considered when determining creditworthiness; for example, an "AA minus" would be considered an "AA" for purposes of the applicable **Unsecured Credit Limit** in the above table. An exception to this is a rating of BBB minus which falls in the <BBB category and therefore no **Unsecured Credit Limit** is granted.

9. Parent, Subsidiary and Affiliated Company Unsecured Credit Limits

A **Market Participant**, who is a subsidiary company, may request for an **Unsecured Credit Limit** as a **Non-Rated Market Participant** even though its parent company has a **Credit Rating** from a **Recognized Ratings Agency**. The Unsecured Credit Limit granted to the Market Participant will be based on the lower of the parent company's Credit Rating and the Pool Participant's Proxy Credit Rating.

For example, if a parent company has a Credit Rating of BBB from a ratings agency and a subsidiary of the parent applies for a **Proxy Credit Rating** from the AESO which determined to be an A rating, the Credit Rating used for determining the Unsecured Credit Limit would be the BBB. The Unsecured Credit Limit granted would be \$2.5 million.

Only one **Unsecured Credit Limit** will be granted to a related group of companies including parent, subsidiary and affiliated company relationships.

For example, if a parent company has a Credit Rating of A from a rating agency and a subsidiary of the parent has a Proxy Credit Rating BBB as determined by the AESO. The parent would not be eligible for \$15 million and the subsidiary \$2.5 million for a total of \$17.5 million. The parent and subsidiary would only be eligible for a maximum of \$15 million of unsecured credit based on the parent company's Credit Rating. The Unsecured Credit Limit would be allocated on the basis of \$12.5 for the parent company, \$2.5 million to the subsidiary for a total of \$15 million.

10. Forms of Security

Generally, the security must be in the form of one of the following:

Letter of Credit – an unconditional and irrevocable standby letter of credit, payable on demand. The letter of credit must be issued from a Canadian chartered bank or other comparable financial institution, with at least an A minus rating from Standard & Poor's or similar rating from a recognized rating agency executed in favor of the AESO, and be in form and substance acceptable to the AESO, acting reasonably. If the letter of credit proposed to be provided to the AESO is from a financial institution that is based outside of Canada, the AESO, at its sole discretion, may determine whether to accept the letter of credit or not.

Cash Deposit – cash is an acceptable form of security. A Cash Collateral Agreement must be provided to the AESO by the **Market Participant** and such agreement must be in form and substance satisfactory to the AESO. Cash will be registered under the Personal Property Security Act and a no interest waiver will be obtained as required from the Market Participant's lenders.

Guarantee - The guarantee must be a written, irrevocable, continuous and unconditional guarantee that is payable on demand and be in form and substance acceptable to the AESO, acting reasonably. The AESO will attribute as **Financial Security** up to the **Unsecured Credit Limits** prescribed in Section 6.I of this guide for **Guarantors** who have a long term unsecured debt rating from an **AESO Recognized Ratings Agency** or prescribed in Section 6.II of this guide for non-rated **Guarantors**. At any time after the attributing an amount of Financial Security for a Guarantor and regardless of the **Credit Rating** of the Guarantor, the AESO at its sole discretion may reduce the amount of Financial Security attributed to a Guarantor. The AESO will notify the **Market Participant** in writing of such reduction and the new amount of Financial Security attributed to the Guarantor. The Market Participant must provide the AESO any additional Financial Security required by the AESO within two business days of receiving such written notice.

The standard form documents are attached as Appendix C to this guide.

11. Reporting

On a monthly basis the AESO will report on its website the Unsecured Credit Limits and related credit exposures by credit rating category (i.e. AAA,AA, A, BBB) for Rated Pool Participants for the preceding two months. The AESO will also report the unsecured credit exposures totals for both Rated and Non Rated Pool Participants and the related Unsecured Credit Limits. To protect the confidentiality of its Pool Participant's, the AESO will only provide this information on totals and no information will be provided on an individual Pool Participant basis.

Rating Categories	Credit Exposures	Unsecured Credit Limits
Rated Pool Participants	\$ xxx	\$ xxx
AA and A	xxx	xxx
BBB	xxx	xxx
Total	\$ xxx	\$ xxx
Proxy Rated Pool Participants	xxx	xxx
Total	\$ xxx	\$ xxx
Secured Pool Participants	xxx	xxx
Total	\$ xxx	\$ xxx

2. Is the Applicant an affiliate of an existing AESO participant / customer or an affiliate of an entity providing a corporate guarantee for an AESO participant? Yes No

If yes, Participant's / Customer's name

Guarantor

Conditions

- a) The information provided by the Applicant in and with this application true and accurate.
- b) The Applicant has read, and understands the ISO Rules and will comply with the terms of the ISO Rules currently in effect, or as may be modified from time to time.
- c) The Applicant acknowledges its responsibility to provide the AESO with financial reports on a timely basis and prompt notification of material changes to its financial condition.
- d) The Applicant specifically authorizes the AESO to investigate on an ongoing basis, the Applicant's credit history and creditworthiness.
- e) The Applicant acknowledges that the AESO can provide the information to a third party, on a confidential basis, for the determination of a proxy credit rating.

Authorization

The undersigned represent(s) that he/she/they has/have the authority to bind the Applicant to enter into this Application and commit the Applicant to comply with the terms and conditions of the Application.

Applicant Name

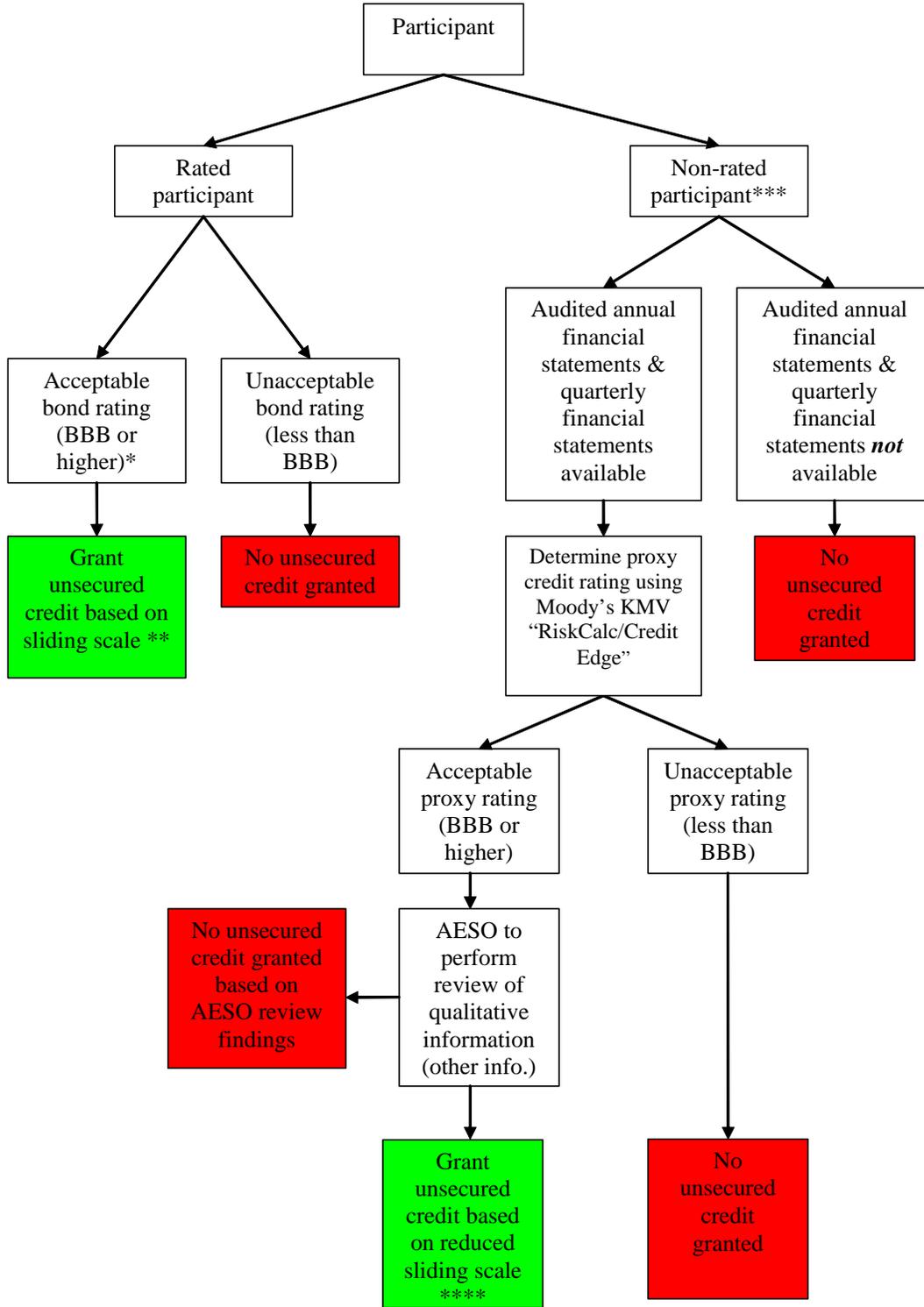
_____	_____
Signature	Title
_____	_____
Printed Name	Date
_____	_____
Signature	Title
_____	_____
Printed Name	Date

Checklist

The following financial information must accompany this Application:

- Audited financial statements for the most recent fiscal year;
- Financial statements for the most recent financial quarter;
- A general description of the Applicants business, its business risk and how it manages its business risks;
- Listing of company officers and board of directors;
- Management Discussion and Analysis (if available)

Appendix B – Unsecured Credit Granting Process Map



* BBB or higher from a reputable rating agency (S&P, DBRS or Moody's)

** Unsecured credit limits for rated participants

AAA	\$25 million
AA	20 million
A	15 million
BBB	10 million

*** includes Private and non-rated Public companies

**** Unsecured credit limits for non-rated participants

AAA	\$10 million
AA	5 million
A	2.5 million
BBB	1.25 million

Credit limit amount limited to maximum of 0.5% of Tangible Net Worth

Appendix C – Standard Forms

FORM OF IRREVOCABLE STANDBY LETTER OF CREDIT

Letter of Credit Reference No.

Beneficiary:

Independent System Operator
2500, 330 - 5 Avenue S.W.
Calgary, AB
T2P 0L4
Attention: Chief Financial Officer

Applicant:

[Insert Corporation's full legal name,
address and contact person]

Amount: CAD\$[Insert Amount]

Date of Expiry: [Insert Date]

At the request of [Insert Applicant's Name] (the "**Applicant**"), we, [Insert Name of Bank] (the "**Bank**") hereby issue in favour of Independent System Operator (the "**Beneficiary**") our irrevocable standby Letter of Credit No. [Insert Reference Number], effective [Insert Effective Date], in the amount of CAD\$[Insert Amount].

This Letter of Credit is issued in connection with the Independent System Operator Rules, Tariff or Construction Commitment Agreements or other agreements between the Applicant and the Beneficiary.

This Letter of Credit shall remain in effect until [Insert Expiry Date] (the "**Expiry Date**") or any future Expiry Date in accordance with the terms of this Letter of Credit.

A payment under this Letter of Credit shall be made payable to the Independent System Operator forthwith upon the Beneficiary presenting to the Bank on or before the Expiry Date, or any future Expiry Date, demand, in writing, for payment in the amount set out in a certificate signed by the Beneficiary, stating that such amount is payable by the Applicant to the Independent System Operator. Presentation of such certificate shall be made at [Insert Bank Branch in Calgary] (a) by physical delivery of such certificate to such branch, or (b) by facsimile transmission of such certificate to such branch at facsimile number [Insert Facsimile Number] with immediate oral confirmation by the Beneficiary (such presentation to be effective upon such oral confirmation) followed by physical delivery of such certificate by overnight courier.

Upon receipt by the Bank on or before the Expiry Date, or any future Expiry Date, of your demand and certificate as aforesaid, the Bank shall pay to the Independent System Operator the amount stated in such certificate without inquiring whether you have a right

to such amount as between yourself and the Applicant, provided that such amount does not exceed the amount of this Letter of Credit.

Partial and multiple drawings are permitted.

This Letter of Credit shall be deemed automatically extended, with no consents or notices required and no amendments, for additional periods of one (1) year from its Expiry Date or from any future Expiry Date, unless the Bank notifies the Beneficiary in writing sixty (60) days prior to any such Expiry Date that it is not extending the term in which case Letter of Credit will expire on such Expiry Date.

Except as otherwise expressly stated, this Letter of Credit is subject to the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500.

[Issuing Bank]

By:

Name:
Title:

Name:
Title:

STANDARD FORM OF GUARANTEE

This Guarantee made as of •, 20•

BY: •, a corporation subsisting under the laws of • (the "**Guarantor**")
IN FAVOUR OF: Independent System Operator, operating as the Alberta Electric System Operator (the "**AESO**") in its capacity pursuant to the *Electric Utilities Act* (Alberta)

WHEREAS:

- A. The AESO and •, a corporation subsisting under the laws of • (the "**Corporation**") have and intend to have commercial relationships pursuant to which the Corporation owes or may owe Obligations to the AESO;
- B. The AESO has requested that the Guarantor issue to the AESO a guarantee respecting the Obligations; and
- C. The Guarantor deems it advisable and in the best interests of and beneficial to the Guarantor to enter into a guarantee;

NOW THEREFORE for good and valuable consideration, the receipt and sufficiency of which is acknowledged, the Guarantor agrees as follows:

1. **Defined Terms.** Unless defined herein, capitalized terms used in this Guarantee shall have the meanings set out in Schedule A hereto.
2. **Guarantee.** The Guarantor hereby unconditionally and irrevocably guarantees the prompt payment to the AESO, forthwith upon written demand by the AESO, of the Obligations; [**provided however, that notwithstanding anything to the contrary contained in this Guarantee, the recourse of the AESO under this Guarantee shall be limited to the aggregate sum of \$•, excluding liabilities, cost and expenses payable in accordance with Section 14.**]. All amounts payable by the Guarantor will be paid to the AESO at the address of the AESO set forth in Section 22 or as otherwise directed in writing by the AESO. Any amounts payable by the Guarantor under this Guarantee which are not paid forthwith upon demand from the AESO will bear interest from the date of such demand at the rate or rates applicable to the corresponding Obligations.
3. **Guarantor.** The obligations of the Guarantor under this Guarantee are those of a primary obligor, and not merely a surety, and are independent of the Obligations. The AESO shall not be bound to exhaust its recourse against the Corporation or others before being entitled to payment from the Guarantor. A separate action or actions may be brought against the Guarantor whether or not an action is brought against the Corporation, any other guarantor or other obligor in respect of the Obligations.

4. **Enforcement.** Upon the failure of the Corporation to pay any of the Obligations, the AESO shall be entitled to enforce its rights and remedies under this Guarantee.

5. **Continuing, Unconditional and Absolute Guarantee.** The obligations of the Guarantor under this Guarantee are continuing, unconditional and absolute and, without limiting the generality of the foregoing, will not be released, discharged, limited or otherwise affected by (and the Guarantor consents to or waives, as applicable, to the fullest extent permitted by any applicable law):

- (a) any waiver or release in respect of any Obligation, Person, or otherwise;
- (b) any change in the name, existence, business, control or ownership of the Corporation or any other Person, or any amalgamation, reorganization, insolvency, bankruptcy, or other similar proceeding affecting the Corporation or any other Person or its assets;
- (c) the existence of any claim, set-off or other rights which the Guarantor may have at any time against the Corporation, the AESO, or any other Person, whether in connection with this Guarantee or any other transactions;
- (d) any invalidity or unenforceability relating to or against the Corporation or any provision of any applicable law purporting to prohibit the payment by the Corporation of the Obligations;
- (e) any defence arising by reason of any failure of the AESO to make any presentment, demand for performance, notice of non-performance, protest, and any other notice;
- (f) any defence arising by reason of any failure of the AESO to proceed against the Corporation or any other Person, or to pursue any other remedy in the power of the AESO;
- (g) any other act or omission to act or delay of any kind by the Corporation, the AESO, or any other Person or any other circumstance, whether similar or dissimilar to the foregoing, which might, but for the provisions of this Section 4, constitute a legal or equitable discharge, limitation or reduction of the Guarantor's obligations under this Guarantee (other than the irrevocable and unconditional payment in full of all of the Obligations).

The foregoing provisions apply (and the foregoing waivers, to the extent permitted under applicable law, will be effective) even if the effect of any action (or failure to take action) by the AESO is to destroy or diminish the Guarantor's subrogation rights, the Guarantor's right to proceed against the Corporation for reimbursement, the Guarantor's right to recover contribution from any other guarantor or any other right or remedy.

6. **Dealing with the Corporation.** The AESO may from time to time grant time, extensions and indulgences, refrain from giving credit to, enter into transactions with and otherwise deal with the Corporation, without in any way limiting or lessening the liability of the Guarantor under this Guarantee.

7. **Release of Obligations.** [This Guarantee may not be terminated until • months following the date of it, upon which it] [This Guarantee] may be terminated by the Guarantor on sixty (60) days prior written notice to the AESO; provided however that notwithstanding any such termination this Guarantee will remain in full force and effect until the Obligations, which are accrued, outstanding, contracted or committed for as at the effective date of such termination, are irrevocably and unconditionally performed and paid in full.

8. **Settlement of Accounts.** Any account settled or stated between the AESO and the Corporation will be accepted by the Guarantor as *prima facie* evidence, subject to manifest error, that the amount appearing due by the Corporation to the AESO is so due.

9. **No Waiver.** No delay on the part of the AESO in exercising any of its options, powers or rights, or partial or single exercise thereof, will constitute a waiver thereof. No waiver of any of the AESO's rights under this Guarantee, and no modification or amendment of this Guarantee, will be deemed to be made by the AESO unless it is in writing and duly signed by the AESO and the Guarantor. Each such waiver, if any, will apply only with respect to the specific instance involved, and will in no way impair the rights of the AESO or the liabilities of the Guarantor to the AESO in any other respect at any other time.

10. **Indemnity.** If any amount in respect of the Obligations is not recoverable from the Guarantor on the basis of a guarantee, then notwithstanding any other provision of this Guarantee, the Guarantor will indemnify the AESO in respect of the due payment of such amount and will pay such amount, to the AESO after demand as provided in this Guarantee.

11. **No Subrogation.** Notwithstanding any payment made by the Guarantor under this Guarantee or any set-off or application of funds of the Guarantor by the AESO, the Guarantor will have no right of subrogation to, and waives, to the fullest extent permitted by law, any right to enforce any remedy which the AESO now has or may hereafter have against the Corporation, until all of the Obligations have been irrevocably and unconditionally paid in full. Until that time, the Guarantor waives any benefit of, and any right to participate in, any security, whether real or personal property, now or hereafter held by the AESO for the Obligations.

12. **Postponement of Claims.** All indebtedness and liability, present and future, in favour of the Guarantor from the Corporation, together with any security held by the Guarantor in respect of such indebtedness and liability, are hereby assigned to the AESO and postponed to the satisfaction in full of the Obligations. Following a demand for payment by the AESO pursuant to Section 2, all moneys received by the Guarantor

from the Corporation shall be received and held by the Guarantor in trust for the AESO and shall be paid over to the AESO forthwith after receipt by the Guarantor until all of the Obligations have been irrevocably and unconditionally paid in full. This assignment and postponement is independent of and severable from the guarantee herein provided. The Guarantor waives all rights to receive from the AESO a copy of any financing statement filed in respect of this assignment.

13. Taxes and Set-off by Guarantor. All payments to be made by the Guarantor hereunder will be made without set-off or counterclaim and without deduction for any taxes, levies, duties, fees, deductions, withholdings, restrictions or conditions of any nature whatsoever. If at any time any applicable law, regulation or international agreement requires the Guarantor to make any such deduction or withholding from any such payment, the sum due from the Guarantor with respect to such payment will be increased to the extent necessary to ensure that, after the making of such deduction or withholding, the AESO receives a net sum equal to the sum which it would have received had no deduction or withholding been required.

14. Payment of Expenses; Indemnification. The Guarantor will pay on demand, and will indemnify and save the AESO harmless from, any and all reasonable liabilities, costs and expenses (including reasonable legal fees and expenses on a solicitor and own client basis and any sales, goods and services or other similar taxes payable with respect to any such liabilities, costs and expenses) incurred by the AESO (a) in the enforcement of this Guarantee, (b) with respect to, or resulting from, any failure or delay by the Guarantor in performing or observing any of its obligations under this Guarantee, or (c) in performing or observing any of the other covenants of the Guarantor under this Guarantee.

15. Additional Security. This Guarantee is in addition and without prejudice to any security of any kind (including other guarantees) now or hereafter held by or for the benefit of the AESO and any other rights or remedies that the AESO might have.

16. Representations and Warranties. The Guarantor represents and warrants to the AESO, upon each of which representations and warranties the AESO specifically relies, as follows:

- (a) **Good Standing, etc.** The Guarantor is a corporation validly subsisting under the laws of its governing jurisdiction and is duly authorized and licenced to own its properties and to carry on its businesses as presently owned and carried on by it. The Guarantor has the necessary power and authority to enter into and perform its obligations under this Guarantee.
- (b) **Due Execution, etc.** This Guarantee has been duly executed and delivered by or on behalf of the Guarantor and constitutes a valid and binding obligation of the Guarantor enforceable in accordance with its terms, except as enforceability may be limited by any bankruptcy, insolvency, reorganization, or similar law affecting the enforcement of creditors' rights generally and by general principles of equity.

- (c) **No Default, etc.** Neither the execution nor the delivery of this Guarantee, nor compliance with the terms, conditions and provisions hereof conflicts with or will conflict with the constating documents of the Guarantor, or results or will result in the contravention of any applicable law to which the Guarantor or its assets are subject, and as a consequence of which would materially adversely affect the ability of the Guarantor to perform its obligations under this Guarantee.

17. Governing Law; Attornment. This Guarantee will be governed by and construed in accordance with the laws of the Province of Alberta and the laws of Canada applicable therein, without giving effect to the conflict of law principles thereof. Without prejudice to the ability of the AESO to enforce this Guarantee in any other jurisdiction, the Guarantor irrevocably submits and attorns to the non-exclusive jurisdiction of the courts of the Province of Alberta. To the extent permitted by any applicable law, the Guarantor irrevocably waives any objection (including any claim of inconvenient forum) that it may now or hereafter have to the venue of any legal proceeding arising out of or relating to this Guarantee in the courts of the Province of Alberta.

18. Successors and Assigns. The provisions of this Guarantee will be binding upon and enure to the benefit of the AESO, its successors and assigns and will be binding upon the Guarantor, its successors and permitted assigns. The Guarantor's obligations under this Guarantee will not be assigned or delegated without the prior written consent of the AESO, not to be unreasonably withheld. The AESO may from time to time, and without the consent of the Guarantor, assign or transfer all or any of the Obligations or any interest therein. Notwithstanding any such assignment or transfer or any subsequent assignment or transfer thereof, any such Obligation or part thereof so transferred or assigned will remain an "Obligation" for the purposes of this Guarantee. Any immediate and successive assignee or transferee of any Obligation or any interest therein will, to the extent of the interest so assigned or transferred, be entitled to the benefit of, and the right to enforce, this Guarantee.

19. Time. Time will be of the essence in this Guarantee.

20. Severability. Any provision of this Guarantee that is prohibited or unenforceable in any jurisdiction will, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions, and any such prohibition or unenforceability in any jurisdiction will not invalidate or render unenforceable such provision in any other jurisdiction.

21. Set-off by AESO. The AESO may, to the fullest extent permitted by law, set-off and apply any and all deposits at any time held by the AESO and any other indebtedness at any time owing by the AESO to or for the credit or for the account of the Guarantor against any and all of the obligations of the Guarantor now or hereafter existing under this Guarantee.

22. Notice. All notices, demands, offers, consents and other instruments and communications ("**Notices**") to be made or given pursuant to this Guarantee will be in

writing and may be made or given by personal delivery or by transmittal by telecopier addressed to the respective parties as follows:

To the AESO:

Independent System Operator

2500, 330 - 5 Avenue S.W.
Calgary, Alberta, T2P 0L4

Attention: Chief Financial Officer
Telecopy No.: (403) 539-2949

To the Guarantor:

[•]

[•]

Attention: [•]

Telecopy No.: [•]

or to such other address or telecopy number as any party may from time to time notify the other in accordance with this Section 22. Any Notices made or given by personal delivery or by telecopier during normal business hours at the place of receipt on a Business Day will be conclusively deemed to have been made or given at the time of actual delivery or transmittal, as the case may be, on such Business Day. Any Notices made or given by personal delivery or by telecopier after normal business hours at the place of receipt or otherwise than on a Business Day will be conclusively deemed to have been made or given at 9:00 a.m. (Calgary time) on the first Business Day following actual delivery or transmittal, as the case may be.

23. Guarantor's Credit Rating. The Guarantor shall promptly notify the AESO of a downgrade in its Credit Rating by any credit rating agency or the cessation of the Guarantor being rated by any credit rating agency.

24. Interpretation. The division of this Guarantee into sections and paragraphs, and the insertion of headings, is for convenience of reference only and will not affect the construction or interpretation of this Guarantee. Unless the context otherwise requires, words importing the singular include the plural and vice versa, and words importing gender include all genders. When used in this Guarantee, the word “**including**” (or includes) means “**including (or includes) without limitation**”. The word “**Corporation**” shall include every successor of the Corporation.

IN WITNESS WHEREOF, Guarantor has executed this Guarantee at Calgary, Alberta by its duly authorized officers as of the date first above written.

[CORPORATION]

Per: _____

Name:

Title:

Per: _____

Name:

Title:

SCHEDULE A TO GUARANTEE

DEFINITIONS

“**Business Day**” means any day, except Saturday, Sunday or any day on which banks are not generally open for business in Calgary, Alberta;

“**Credit Rating**” means the rating assigned to the Guarantor's unsecured, senior long-term debt obligations, or if the Guarantor does not have an unsecured senior long-term debt rating, then the rating then assigned to it as an issuer rating, by Standard & Poor's or equivalent rating by a major reputable credit rating agency satisfactory to the AESO;

“**Guarantee**” means this document, including this Schedule, as amended, supplemented or modified from time to time;

“**Obligations**” means any and all amounts due, present or future, from the Corporation to the AESO under the Rules, the Tariff, any construction commitment agreement, any system access agreement, or any other agreement between the AESO and the Corporation;

“**Person**” means an individual, a partnership, a corporation, a company, a trust, an unincorporated organization, a union, a government or any department or agency thereof (collectively an “**entity**”) and the heirs, executors, administrators, successors, or other legal representatives, as the case may be, of such entity;

“**Rules**” means the rules made from time to time by the Independent System Operator pursuant to Section 20 of the *Electric Utilities Act* (Alberta), as such Act may be amended from time to time; “**Tariff**” means the tariff of the Independent System Operator approved by the Alberta Energy and Utilities Board and in effect from time to time pursuant to the *Electric Utilities Act* (Alberta), as such Act may be amended from time to time.

“**Tariff**” means the tariff of the Independent System Operator approved by the Alberta Utilities Commission and in effect from time to time pursuant to the *Electric Utilities Act* (Alberta), as such Act may be amended from time to time.

STANDARD FORM CASH COLLATERAL AGREEMENT

THIS AGREEMENT made as of ●, 20●.

BETWEEN:

INDEPENDENT SYSTEM OPERATOR,
a corporation established under the *Electric
Utilities Act* (Alberta), operating as Alberta
Electric System Operator ("**AESO**")

-and-

LEGAL NAME DEBTOR, a corporation
subsisting under the laws of Alberta (the
"**Debtor**")

WHEREAS:

- A. The AESO and the Debtor have and intend to have commercial relationships pursuant to which the Debtor owes or may owe Obligations to the AESO; and
- B. The AESO wishes to secure the Obligations by taking cash collateral from the Debtor;

NOW THEREFORE in consideration of the promises contained in this Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE 1 Definitions and Interpretation

1.1 Definitions

In this Agreement, unless there is something in the subject matter or context inconsistent with it:

"**Business Day**" means any day other than a Saturday, a Sunday or a day on which chartered banks in Calgary, Alberta are required or authorized to be closed;

"**Cash Collateral Account**" means an interest bearing account with a Schedule I Bank in which the AESO deposits cash collateral provided to it as security for obligations owing to it, and which (a) is separate from any operating accounts maintained by the AESO, and (b) contains no cash, money, funds or sums owned by the AESO;

"**Collateral**" means all cash, money, funds or sums provided, submitted, wired or otherwise transferred by the Debtor to the AESO at any time and from time to

time in satisfaction of, or in compliance with any requirements for the Debtor to provide security to the AESO under the Rules, the Tariff, any construction commitment agreement entered into pursuant to the Tariff, any system access service agreement entered into pursuant to the Tariff or any other agreement between the AESO and the Debtor;

"**Event of Default**" has the meaning specified in Section 6.1;

"**Obligations**" means any and all amounts due from the Debtor to the AESO under the Rules, the Tariff, any construction commitment agreement, any system access agreement, or any other agreement between the AESO and the Debtor;

"**Rules**" means the rules made from time to time by the Independent System Operator pursuant to Section 20 of the *Electric Utilities Act* (Alberta), as such Act may be amended from time to time;

"**Schedule I Bank**" means a Canadian chartered bank listed on Schedule I to the *Bank Act* (Canada); and

"**Tariff**" means the tariff of the Independent System Operator approved by the Alberta Utilities Commission (AUC) and in effect from time to time pursuant to the *Electric Utilities Act* (Alberta), as such Act may be amended from time to time.

1.2 **Headings and References**

- (a) The division of this Agreement into Articles and Sections and the insertion of headings is for convenience of reference only and shall not affect the construction or interpretation of this Agreement;
- (b) The term "this Agreement" refers to this Agreement and not to any particular Article, Section or other portion hereof and includes any amendments or supplements to this Agreement. Unless otherwise stated, references to Articles and Sections are to Articles and Sections of this Agreement; and
- (c) Words importing the singular number shall include the plural and vice versa, and words importing gender shall include the masculine, feminine and neuter genders.

ARTICLE 2 **Security**

2.1 **Security for Obligations**

As continuing security for the payment and performance of all of the Obligations, the Debtor grants to the AESO a security interest in the Collateral, together with all proceeds derived directly or indirectly from any dealing with the Collateral. The Collateral shall at

all times remain the property of the Debtor, subject always to the security interest of the AESO created under this Agreement.

2.2 Deposit

Upon receipt of the Collateral, the AESO shall deposit the Collateral into a Cash Collateral Account.

ARTICLE 3 Representations and Warranties

3.1 Debtor's Representations and Warranties

The Debtor represents and warrants to the AESO as follows:

- (a) the Debtor is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation;
- (b) except for the security interest of the AESO, the Debtor is the owner of the Collateral free and clear of any encumbrance of any nature;
- (c) this Agreement constitutes a legal, valid and binding obligation of the Debtor, enforceable against it in accordance with its terms, except to the extent that such enforceability may be limited by bankruptcy, insolvency, winding-up, reorganization, and similar laws affecting the enforceability of creditors' rights generally and the availability of equitable remedies such as specific performance or injunction; and
- (d) the authorization, execution and performance by the Debtor of this Agreement:
 - (i) will not violate any laws applicable to the Debtor;
 - (ii) is not in contravention of its constating documents or its by-laws or the provisions of any loan or similar agreement to which it is a party, and will not result in the creation or imposition of any lien on the Debtor's property, except as such lien arises with respect to the Collateral pursuant to the terms of this Agreement.

ARTICLE 4 Covenants

4.1 Debtor's Covenants

The Debtor covenants and agrees with the AESO as follows:

- (a) to defend its title to the Collateral against all persons and all claims; and

- (b) at any time when requested and at its expense to execute and deliver to the AESO all further documents, and to take all further action, that the AESO may reasonably deem necessary or advisable in order to perfect and protect the security interest granted to the AESO under this Agreement, and to enable the AESO to exercise its rights and remedies under this Agreement.

4.2 AESO's Covenant

The AESO covenants and agrees with the Debtor to defend its interest to the Collateral against all persons and all claims.

ARTICLE 5 Waiver

5.1 No Waiver

Waiver of or acquiescence in any default by the Debtor or the failure of the AESO to insist upon strict performance by the Debtor of any representations or covenants in this Agreement shall not constitute a waiver of any subsequent or other default or failure. No failure to exercise or delay in exercising any right or remedy of the AESO under this Agreement shall operate as a waiver of such right or remedy, nor shall any partial exercise of any right or remedy preclude any other or further exercise of such right or remedy or the exercise of any other right or remedy. The failure of the AESO to insist upon the strict observance or performance of any provision of this Agreement shall not be construed as a waiver or relinquishment of such provision.

ARTICLE 6 Default

6.1 Events of Default

Any one of the following, for so long as it is continuing, shall constitute an "Event of Default" by the Debtor under this Agreement:

- (a) failure by the Debtor to comply with or perform any provision of this Agreement or to pay any Obligations when due; or
- (b) any representation or warranty made or given by the Debtor in connection with this Agreement proves to be false or misleading in any material respect; or
- (c) any part of the Collateral is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any receiver, trustee, or assignee for the benefit of creditors claiming by, through or under the Debtor.

6.2 Remedy upon the Occurrence of an Event of Default

Upon the occurrence of any Event of Default, the AESO shall, immediately and without notice, be entitled to use the Collateral to pay all Obligations then due and owing by the Debtor.

ARTICLE 7 Expenses

7.1 Expenses

The Debtor shall pay to the AESO all reasonable out-of-pocket costs and expenses, including all legal fees (on a solicitor and own client basis) and other expenses incurred by the AESO from time to time in the documentation, preparation, negotiation, execution, registration and enforcement against the Debtor of this Agreement. All such amounts shall become part of the Obligations, shall be payable by the Debtor on demand and such amounts shall be secured by the security interest created by this Agreement.

ARTICLE 8 Miscellaneous

8.1 No Discharges Unless Specifically Provided

No postponement or partial release or discharge of the security interest in respect of the Collateral shall operate or be construed so as to release or discharge the security constituted under this Agreement in respect of the Collateral, except as specifically provided in such release or discharge, or to release or discharge the Debtor from its liability to the AESO to fully pay and satisfy the Obligations, provided that any Collateral returned to the Debtor by the AESO shall automatically be released from the AESO's security interest under this Agreement.

8.2 Governing Law

- (a) This Agreement shall be construed and enforced in accordance with the laws of the province of Alberta and the laws of Canada applicable therein.
- (b) The Debtor agrees that the courts of Alberta shall have jurisdiction to hear and determine any action or proceeding and to settle any disputes which may arise out of this Agreement and it irrevocably submits to the non-exclusive jurisdiction of such courts, without prejudice to the rights of the AESO to take proceedings in any other jurisdictions, whether concurrently or not.

8.3 Assignment

- (a) The Debtor shall not and cannot assign its obligations under this Agreement, or take any steps or enter into any transaction of any nature, which would have that effect, without the prior written consent of the

AESO, which may be arbitrarily withheld. Subject thereto, all obligations of the Debtor under this Agreement shall bind the Debtor and its successors and assigns.

- (b) The AESO may assign the Obligations and this Agreement in whole or in part at any time without the consent of the Debtor.

8.4 Waiver of Right to Receive Copy of Statements

The Debtor waives any right to receive from the AESO a copy of any financing statement in which the Debtor is named as a debtor.

8.5 Severability

Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

8.6 Security in Addition

The security constituted under this Agreement is not in substitution for any other security for the Obligations, or for any other agreement between the parties whether or not creating any security interest in the Collateral.

8.7 Waivers and Consents

No waiver of any provision of this Agreement, or consent to any action or inaction shall be effective unless it is in writing and signed by the party granting it.

8.8 Notices

All notices and other communications between the parties under this Agreement shall be in writing (which may include telefacsimile) and shall be delivered or sent to the address or telefacsimile number shown below, or to such other address or telefacsimile number as either of the parties may by written notice to the other have designated for such purpose. Any such notice or other communication shall not be effective until actually received.

If to the AESO:

Independent System Operator, operating
as Alberta Electric System Operator
2500, 330 - 5 Avenue S.W.
Calgary, AB T2P 0L4

Attention: Vice President Finance
Telefax: (403) 539-2450

If to the Debtor:

Debtor's name & address

Attention: Treasurer

Telefax:

8.9 Term

- (a) This Agreement shall continue in full force and effect until all Obligations owed by the Debtor have been paid in full.
- (b) No termination of this Agreement shall in any way affect or impair the rights and liabilities of the parties to this Agreement relating to any transaction or events prior to such termination date, or to the Collateral in which the AESO has a security interest, and all covenants, warranties and representations of the Debtor shall survive such termination.
- (c) Upon the payment in full of all Obligations owed by the Debtor and termination of this Agreement, the AESO shall return to the Debtor such amounts of the Collateral as have not otherwise been applied under this Agreement.

INDEPENDENT SYSTEM OPERATOR,
operating as Alberta Electric System Operator

Per: _____

DEBTOR

Per:
