

# 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(2) All **financial security** a **market participant** provides or causes to be provided to the **ISO** in accordance with this section 103.3, 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**;

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- (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 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) 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**.

#### 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 unsecured credit limit referred to in subsection 4 may be granted based on the long-term unsecured credit rating of the **market participant** or its guarantor from an acceptable credit rating agency determined in accordance with subsection 5(2).

(2) The credit rating 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 is acceptable to the **ISO** in its sole discretion.

(3) If more than one (1) acceptable credit rating agency provides a credit rating for a **market participant** or its guarantor, then the **ISO** must establish the unsecured credit limit for the **market participant** based on the lowest credit rating the agencies provide.

(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:

**Table 1**

**Subsection 5 Unsecured Credit Limit**

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

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#### 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**

Proxy Credit Rating	Unsecured Credit Limit
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;

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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.

#### Acceptable Forms of Financial Security

**8(1)** Subject to subsection 8(2), the form of any **financial security** to be provided to the **ISO** 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 referred to under subsection 5(2).

**(4)** If a proposed letter of credit referred to 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.

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(5) The **ISO** must be able to register any cash collateral deposit as a first security interest held by the **ISO** under the *Personal Property Act*, 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.

(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.

(8) 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(7).

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

9(1) From time to time the **ISO** may 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**.

(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;

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** 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** delivered the demand.

(4) 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**, and upon receipt of that request, the **ISO** may at its sole discretion reduce the **financial security** of the **market participant** if after review and reassessment the **ISO** determines that:

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- (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.

#### Material Adverse Change

**10(1)** 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 (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.

**(4)** If the **ISO** determines that replacement or additional **financial security** is required after determining the impact of the **material adverse change**, then the **ISO** may make a written demand on the **market participant** specifying the dollar amount and form of that replacement or additional **financial security**.

**(5)** The **market participant** must deliver to the **ISO** any specified replacement or additional, **financial security** demanded in accordance with subsection 10(4) no later than the close of business on the 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

**11** 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 103.3 are the responsibility and to the sole account of that **market participant**.

#### 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

**13** The failure of a **market participant** to comply with its obligations to provide **financial security** under this 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 103.7 of the **ISO rules**, *Financial Default and Remedies*.

#### Revision History

Effective	Description
2016-11-29	Revisions to the Applicability section
2011-07-01	Initial Release