

## **26.6 Collateral Requirements**

As security for the prompt payment of a Customer's obligations to the ISO arising under the Services Tariff or the OATT, including without limitation an obligation to (i) satisfy any credit requirement for bidding on or holding TCCs, and (ii) to the extent that its Operating Requirement and/or Bidding Requirement exceed(s) the total of its Unsecured Credit plus any posted collateral, Customer shall provide to the ISO collateral in an acceptable form in accordance with Section 26.6.1 hereof.

### **26.6.1 Acceptable Collateral**

#### **26.6.1.1 Cash deposit**

A cash deposit shall be held in escrow by the ISO, with actual interest earned on the deposit accrued to the Customer's account.

#### **26.6.1.2 Letter of credit**

A letter of credit shall be in a form acceptable to the ISO and issued or guaranteed by an approved U.S. or Canadian commercial bank, or an approved U.S. or Canadian branch of a foreign bank, with a minimum "A" rating from Standard & Poor's, Fitch, Moody's, or Dominion. A Customer's failure to provide acceptable collateral in an amount sufficient to secure its obligations to the ISO fifty (50) days prior to the termination of a letter of credit, which collateral shall be guaranteed to remain in effect for a period of not less than one (1) year, shall be a condition of default enabling the ISO to immediately draw upon the full value of the letter of credit.

#### **26.6.1.3 Surety Bonds**

A surety bond shall be in a form acceptable to the ISO, payable immediately upon

demand without prior demonstration of the validity of the demand, and issued by a U.S.

Treasury-listed surety with a minimum “A” rating from A.M. Best. A Customer’s failure to provide acceptable collateral in an amount sufficient to secure its obligations to the ISO fifty (50) days prior to the termination of a surety bond, which collateral shall be guaranteed to remain in effect for a period of not less than one (1) year, shall be a condition of default enabling the ISO to immediately demand payment of the full value of the surety bond.

#### **26.6.1.4 Netting of Amounts Receivable**

A Customer may elect to treat as cash collateral the amount that the ISO determines will be owed to the Customer as of the day after the next regular weekly payment to the Customer and that will be payable to the Customer in the following regular weekly payment; *provided, however*, that (i) any such payment to the Customer may be adjusted by the ISO as necessary to correct for any error in this determination, and (ii) the Customer first enter into a security agreement with the ISO in a form acceptable to the ISO. At a minimum, the security agreement must grant to the ISO a continuing, first priority security interest in the Customer’s ISO receivables and authorize the ISO to file financing statements, as necessary, at Customer’s expense, to protect the ISO’s interest.

#### **~~26.6.2 Cash Collateral Investment Alternatives~~**

##### **~~26.6.2.1 Investment Alternatives~~**

~~A Customer may elect to deposit some or all of its cash collateral it has posted with the ISO to satisfy its Operating Requirement into one or both of two bond funds: a short term bond fund (“Short-Term Bond Fund”) and an intermediate-term bond fund (“Intermediate-Term Bond Fund”) (each a “Bond Fund”). A Customer’s election shall be in writing and shall not be changed more than twice each year.~~

#### **~~26.6.2.2 — Additional Premium~~**

~~A Customer electing to deposit cash collateral into a Bond Fund shall be required to also deposit a premium above the base amount of cash collateral to protect against fluctuations in the value of the Bond Fund. A 5% premium shall be required for investments in the Short-Term Bond Fund. A 10% premium shall be required for investments in the Intermediate-Term Bond Fund.~~

#### **~~26.6.2.3 — ISO Monitoring~~**

~~The ISO shall monitor the value of the Bond Funds at least once each week. If at any time the value of the Customer's account in a Bond Fund reduces by an amount equal to fifty percent (50%) of the premium required for participation in that Bond Fund, or more, the ISO shall provide the Customer with a notice requesting additional cash collateral to restore the required balance in the Bond Fund. If a Customer fails to provide the additional collateral by 4:00 p.m. on the business day following the NYISO's notice requesting additional cash collateral, the ISO may immediately liquidate the Customer's Bond Fund deposit and transfer the balance to a standard cash collateral deposit account.~~

#### **~~26.6.2.4 — Example~~**

~~Assume a Customer has an Operating Requirement of \$300 and elects to place \$100 in the standard cash collateral deposit account; \$100 in the Short-Term Bond Fund; and \$100 in the Intermediate-Term Bond Fund. As such, the Customer would be required to place \$100 in the standard cash collateral deposit account. The Customer would be required to place \$100 plus \$5 (the 5% required premium) for a total of \$105 to participate in the Short-Term Bond Fund. The Customer would be required to place \$100 plus \$10 (the 10% required premium) for a total of \$110 to participate in the Intermediate-Term Bond Fund. Assume further that upon the ISO~~

~~monitoring, it discovers that the value of the Customer's Short-Term Bond Fund decreased to \$102.50 while the value of the Intermediate Term Bond Fund remained unchanged. The ISO would then notify the Customer to provide an additional \$2.50 of collateral such that the 5% premium would be met for the Short-Term Bond Fund. If the Customer failed to timely provide the additional collateral, the ISO may then liquidate the \$102.50 balance in the Short-Term Bond Fund and place it in a standard cash collateral deposit account. The Intermediate Term Bond Fund would remain unaffected.~~

### **26.6.3 Alternative Security Arrangements**

Alternative security arrangements substantially similar to the credit requirements set forth in this Attachment K may be made in exigent circumstances to protect the financial position of the ISO if proposed by the Customer and approved by the ISO.