

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** that 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) Subject to subsection 2(3), 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 subsection 6.

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

(3) The **ISO**:

- (a) may establish a list of **ISO fees** exempt from the requirement set out in subsection 2(1); and
- (b) must publish the list referenced in subsection 2(3)(a) on the AESO website.

Refundable ISO Fees

3(1) The **ISO** may, for an **ISO fee** exempt from the provision of **financial security** under subsection 2(3), collect the **ISO fee** from a market participant on a refundable basis.

(2) The **ISO** must, for an **ISO fee** that is collected on a refundable basis under subsection 3(1):

- (a) publish in advance on the AESO website the terms and conditions upon which the **ISO fee** will be forfeited to the **ISO** or, alternatively, refunded in accordance with subsections 3(2)(b) and (c);
- (b) issue a refund of the **ISO fee** to the market participant that paid it, or as otherwise directed by the market participant that paid it, within 30 days of the **ISO** determining that the terms and conditions established under subsection 3(2)(a) are satisfied; and
- (c) refund the amount of the **ISO fee**, for which the terms and conditions published by the **ISO** under subsection 3(2)(a) are satisfied, without interest.

(3) The **ISO** must, within 30 days of the **ISO** determining that the terms and conditions established under subsection 3(2)(a) are not satisfied, notify the market participant in writing that the **ISO fee** has been forfeited to the **ISO**.

Determination of Financial Obligations Total Amounts

4(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 4(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 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 2 consecutive **settlement periods**

minus

the energy the **pool participant** produces during any 2 consecutive **settlement periods**

plus

the energy the **pool participant** sells to another **pool participant** through any **net settlement instructions** during any 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 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 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 the **market participant** referred to in subsection 4(1)(a) is registering as a **pool participant** under Section 201.1 of the **ISO rules**, *Pool Participant Registration*.

(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 4(2).

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

Unsecured Credit

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

Unsecured Credit Limit for Rated Entities

6(1) The **ISO** may:

- (a) grant an unsecured credit limit in an amount referred to in subsection 6(3) based on 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



(b) where the **ISO** has previously granted an unsecured credit limit based on a long-term unsecured proxy credit rating, grant twice the amount of such previous unsecured credit limit based on the long-term unsecured proxy credit rating of the **market participant** or its guarantor that the **ISO** issued prior to the effective date of this Section 103.3, which the **ISO** may, from time to time, revise or withdraw in accordance with the former provisions of this Section 103.3 that were in effect prior to the effective date of this Section 103.3.

(2) 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 6(1)(a).

(3) 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 6 Unsecured Credit Limit

Credit Rating	Unsecured Credit Limit
AA+/AAA	\$50,000,000
AA	\$45,000,000
AA-	\$40,000,000
A+	\$35,000,000
A	\$30,000,000
A-	\$25,000,000
BBB+	\$20,000,000
BBB	\$15,000,000
BBB-	\$10,000,000
<BBB-	\$0

(4) The **ISO** may not grant an unsecured credit limit to a **market participant**, its guarantor, or any company that is an affiliate of either the **market participant** or its guarantor if the **ISO** has already granted an unsecured credit limit to any of the **market participant**, its guarantor, or an affiliate of either of them.

(5) The **ISO** may, notwithstanding subsection 6(4), allocate the previously granted unsecured credit limit of a **market participant**, its guarantor, or any company that is an affiliate of either of them amongst those companies in a manner the **ISO** determines but which may not exceed the previously granted unsecured credit limit.

Acceptable Forms of Financial Security

7(1) A **market participant** must provide **financial security** to the **ISO** in the following form:

(a) a letter of credit 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

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- beneficiary, and that is otherwise in form and substance satisfactory to the **ISO**;
- (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 6, and that is in form and substance satisfactory to the **ISO**.
- (2) The **ISO** may accept or reject a letter of credit, cash collateral agreement, or parent guarantee, referred to in subsection 7(1).
- (3) A **market participant** may request that the **ISO** approve an alternative form of **financial security** to those specified under subsection 7(1).
- (4) The **ISO** may accept or reject the alternative form of **financial security** requested in subsection 7(3).
- (5) A **market participant** must ensure that the **ISO** is able to register its security interest in any cash collateral deposit the **market participant** provides as a first security interest under the *Personal Property Security Act* or other similar legislation.
- (6) A **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**.
- (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.
- (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 7(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 2nd **business day** following the delivery of the notice from the **ISO**, in accordance with subsection 7(8).

The **ISO** may extend such deadline for the delivery of additional or replacement **financial security** as the **ISO** may determine.

ISO Review and Reassessment of Financial Security Adequacy

- 8(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) The **ISO** may 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:
- the total dollar amount of all **financial obligations** of the **market participant** calculated under subsection 4
 - exceeds
 - any unsecured credit limit granted to the **market participant** under subsection 6, plus the **financial security** the **market participant** or its guarantor provides to the **ISO** pursuant to subsection 2.

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(4) A **market participant** must deliver the replacement or additional **financial security**, calculated in subsection 8(3), to the **ISO** no later than the close of business on the 2nd **business day** after the **business day** upon which the **ISO** issued its demand for such replacement or additional **financial security**.

The **ISO** may extend such deadline for the delivery of additional or replacement **financial security** as the **ISO** may determine.

(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 **ISO** may reduce the **financial security** of the **market participant**, upon receipt of a request made pursuant to subsection 8(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 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 6 has been upgraded.

Financial Information and Material Adverse Changes

9(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**.

(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 **market participant** or its guarantor experiences a **material adverse change**, or is aware of a likely **material adverse change** occurring, no later than the close of business on the 2nd **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 9(1) or otherwise becoming aware of the **material adverse change** or that the **material adverse change** is likely to occur.

(4) The **ISO** may, after determining the impact of the **material adverse change**:

- (a) 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 9(4) no later than the close of business on the 2nd **business day** after the **business day** upon which the **ISO** delivered the demand.

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The **ISO** may extend such deadline for the delivery of additional or replacement **financial security** as the **ISO** may determine.

Costs and Expenses Related to Financial Security

10 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** and the **market participant** must pay the **ISO** for any such costs and expenses incurred by the **ISO**.

ISO Recourse to Section 103.7 *Financial Default and Remedies*

11 The failure of a **market participant** to comply with its obligations to provide **financial security** under this Section 103.3, to keep the **financial security** in force and effect, or to pay in full its **financial obligation** to the **ISO** by the due date 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*.

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

Date	Description
2024-05-02	Update to subsection 2(1) and added new subsection 2(3) related to the provision of financial security for ISO fees; added new subsection 3 to incorporate a refundable fee scheme for ISO fees; revision to enable recourse under Section 103.7, <i>Financial Default and Remedies</i> for failure to pay a financial obligation in full; and administrative revisions.
2023-03-31	Updated to align with current AESO drafting principles.
2022-01-04	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, include right for ISO to extend deadlines for the delivery of additional or replacement security, and other administrative revisions.
2016-11-29	Revisions to the Applicability section
2011-07-01	Initial Release