



Market Rule Amendment Proposal

PART 1 – MARKET RULE INFORMATION

Identification No.:	MR-00416-R04		
Subject:	Prudential Support Obligations		
Title:	Demand Response Auctions – Prudential Support Obligations		
Nature of Proposal:	<input checked="" type="checkbox"/> Alteration	<input type="checkbox"/> Deletion	<input checked="" type="checkbox"/> Addition
Chapters:	2, 3, 7, 11	Appendix:	
Sections:	Chapter 2 section 5B (new), Chapter 3 section 6.3, Chapter 7 section 2.5.4, Chapter 11 definitions		
Sub-sections proposed for amending:			

PART 2 – PROPOSAL HISTORY

Version	Reason for Issuing	Version Date
1.0	Draft for Technical Panel Review	August 4, 2015
2.0	Publish for Stakeholder Review and Comment	August 13, 2015
3.0	Submitted for Technical Panel Vote	September 15, 2015
4.0	Recommended by Technical Panel; Submitted for IESO Board Approval	September 22, 2015
5.0	Approved by IESO Board	October 22, 2015
Approved Amendment Publication Date:	October 22, 2015	
Approved Amendment Effective Date:	November 13, 2015	

PART 3 – EXPLANATION FOR PROPOSED AMENDMENT

Provide a brief description of the following:

- The reason for the proposed amendment and the impact on the *IESO-administered markets* if the amendment is not made.
- Alternative solutions considered.
- The proposed amendment, how the amendment addresses the above reason and impact of the proposed amendment on the *IESO-administered markets*.

Summary

The IESO proposes to amend the market rules to specify the demand response (DR) prudential support requirements for market participants with a demand response capacity obligation.

This proposal is based on the Demand Response Auction stakeholder engagement.

Further information on the Demand Response Auction stakeholder engagement can be found on the IESO’s website at:

<http://www.ieso.ca/Pages/Participate/Stakeholder-Engagement/Demand-Response-Auction.aspx>

Background

The IESO’s “prudential support” or collateral requirements ensure that a reasonable amount of collateral is available to cover the risk of payment defaults by market participants.

This amendment package proposes amendments for the prudential support construct for the demand response auction process.

The DR prudential support requirements will require participants with DR capacity obligations to post DR prudential support for each commitment period based on their highest monthly availability payment, less any allowable reductions.

The proposed construct for DR prudential support largely mirrors the existing prudential support requirements in chapter 2 (e.g. required provisions for letters of credit, general prudential support requirements, allowable reductions for credit ratings and good payment history).

Discussion

Market participants with a DR capacity obligation will be required to continue to adhere to the existing prudential support requirements in chapter 2 of the market rules related to their energy withdrawals in the real-time market, in addition to adhering to the new proposed section 5B – Demand Response Prudential Support requirements related to DR capacity obligations.

In order to clarify this distinction within the existing prudential support rules in chapter 2, it is proposed to amend section 5.1.1 to clarify that market participants participating solely as a DR market participant or DR auction participant, shall only be subject to the DR prudential support obligations specified in proposed new section 5B below.

It is proposed to add a new section 5B, “Demand Response Prudential Requirements” as follows:

5B.1 Purpose:

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- Insert section 5B.1.1 to specify that section 5B sets forth the nature and amount of DR prudential support that must be provided by a market participant as a condition of delivering on a DR capacity obligation obtained through a DR auction. Market participants must provide and maintain DR prudential support on an on-going basis;
- Insert section 5B.1.2 to specify that the IESO shall review the DR prudential support requirements at least once every three years, as part of the existing review of prudential support requirements as required under section 5.1.2 of the market rules;

5B.2 Market Participant Obligations:

- Insert section 5B.2 which specify the obligations on market participants:
 - 5B.2.1: initially and continually satisfy the obligations regarding the provision of DR prudential support;
 - 5B.2.2: satisfy the DR prudential support obligations prior to participating in the real-time markets;
 - 5B.2.3: provide to the IESO, on an ongoing basis, information required by the IESO for the purposes of determining a market participant's DR prudential support obligation;
 - 5B.2.4: if DR prudential support is due to expire or terminate, at least 10 business days prior to expiry/termination, the market participant must provide replacement DR prudential support;
 - 5B.2.5: where a market participant's DR prudential support has been reduced based on a market participant's credit rating or good payment history, and subsequent to the reduction being granted, the relevant credit rating or payment history has changed resulting in an increase in the market participant's DR prudential support obligation, the market participant must within five business days, post any additional DR prudential support;
 - 5B.2.6: where any part of DR prudential support otherwise ceases to be current or valid for any reason, the market participant must immediately notify the IESO, and provide within 2 business days replacement DR prudential support;
 - 5B.2.7: if the IESO draws upon part or all of DR prudential support under section 6.3.3.2 of Chapter 3 (events of default) and the remaining DR prudential support held by the IESO is less than the market participant's security obligation, the market participant must within 5 business days provide additional DR collateral.

5B.3 Calculation of DR Prudential Support Obligations:

- Insert section 5B.3.1 to specify that the IESO will determine, in accordance with the applicable market manual, a market participant's DR prudential support obligation for each commitment period based on a percentage of the highest monthly availability payment, less any allowable reductions. The percentage factor will be outlined in the applicable market manual;
- Insert section 5B.3.2 to obligate the IESO to review the DR prudential support of market participants:
 - Prior to the start of each commitment period;

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- Within two business days after it receives notice of any changes to the status of a market participant; or
- As a result of either a change in or loss of a market participant's credit rating or good payment history reduction.

Any such review may result in a change to the DR prudential support obligation, requiring a market participant to post additional collateral within five business days of the effective date of the change (5B.3.3);

5B.4 Obligation to Provide DR Prudential Support:

- Insert section 5B.4.1 specifying that a market participant must provide and maintain DR prudential support to the IESO, the value of which is at least equal to a market participant's DR prudential support obligation as determined by the IESO;
- Insert section 5B.4.2 on the acceptable forms of DR prudential support:
 - 5B.4.2.1: a guarantee or irrevocable letter of credit provided by a bank named in a Schedule to the Bank Act, S.C. 1991, c.46 or credit union licensed by the Financial Services Commission of Ontario with a minimum long-term credit rating of "A" from an IESO acceptable major bond rating agency.
 - 5B.4.3: the following provisions will apply to letters of credit:
 - Issued subject to either The Uniform Customs and Practice for Documentary Credits, 2007 Revision, ICC Publication No. 600 or The International Standby Practices 1998;
 - The IESO shall be named as beneficiary in each letter of credit, each letter of credit shall be irrevocable, partial draws on any letter of credit shall not be prohibited and the letter of credit or the aggregate amount of all letters of credit shall be in the face amount of at least the amount specified by the IESO;
 - The only conditions for the IESO to draw on the letter of credit shall be the occurrence of an event of default by or in respect of the market participant and a certificate of an officer of the IESO that the IESO is entitled to draw on the letter of credit in the amount specified in the certificate as at the date of delivery of the certificate;
 - The letter of credit shall either provide for automatic renewal (unless the issuing bank advises the IESO at least thirty days prior to the renewal date that the letter of credit will not be renewed) or be for a term of at least one year. In either case it is the responsibility of the market participant to maintain the requisite amount of DR prudential support. Where the IESO is advised that a letter of credit is not to be renewed or the term of the letter of credit is to expire, the market participant shall arrange for and deliver alternative DR prudential support within the time frame mandated by the market rules so as to enable the market participant to be in compliance with the market rules; and
 - By including a letter of credit as part of its DR prudential support, the market participant represents and warrants to the IESO that the issuance of the letter of

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credit is not prohibited in any other agreement, including without limitation, a negative pledge given by or in respect of the market participant.

- Insert section 5B.4.4 to obligate the IESO to establish, maintain, and publish a list of financial institutions eligible to provide bank guarantees or letters of credit, in addition to establishing aggregate limits for each financial institution. This list will be the same list that is already posted on the IESO’s website for the purposes of existing section 5.7.2.1.
- Insert section 5B.4.5 to specify that the IESO shall only return excess DR prudential support within five business days of a written request by a market participant, and only after all payments and charges for the final month of a commitment period have been settled;
- Insert section 5B.4.6 to specify the minimum terms and conditions that must be included in the letter of credit (i.e. a written instrument, constitute valid and binding unsubordinated obligations to pay the IESO in accordance with the terms which relate to the obligations under the market rules, permit drawings or claims on the letter of credit, including partial drawings or claims);
- Insert section 5B.4.7 to specify that in the case of an event of default, that the IESO shall be entitled to exercise its rights and remedies set out in the market rules, including setting-off and applying DR prudential support held against the liabilities of the market participant in respect of their participation in the real-time markets;
- Insert section 5B.4.8 to specify that the IESO may in its sole discretion exercise any and all rights available under the market rules comprising the DR prudential support provided;
- Insert section 5B.4.9 to specify that a market participant agrees to pay to the IESO all reasonable costs, charges, expenses and fees incurred by the IESO or on behalf of the IESO in the realization, recovery, or enforcement of the rights and remedies of the IESO under the market rules;

5B.5 Reductions in DR Prudential Support Obligations:

- Insert section 5B.5.1 to specify that a market participant’s DR prudential support obligation may be reduced by the amounts specified in the accompanying table for a credit rating from an IESO approved bond rating agency listed in proposed section 5B.5.7;
- Insert section 5B.5.2 to specify that any recommendation made by an approved bond rating agency to “credit watch negative” shall be deemed to automatically result in a one-notch reduction for the purposes of calculating a market participant’s DR prudential support obligation;
- Insert section 5B.5.3 to obligate a market participant to immediately notify the IESO in writing upon the market participant becoming aware of a change or loss in their credit rating or decision to move their credit rating to “credit watch negative” status;
- Insert section 5B.5.4/5B.5.5 to specify that a market participant’s DR prudential support obligation may be reduced by the amounts specified in the accompanying table, based on “good payment history” in the IESO markets;
- Insert section 5B.5.6 to specify the following additional restrictions for receiving either a credit rating or good payment history reduction:
 - A market participant shall not be eligible for a good payment history reduction based

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on an affiliate of the market participant;

- A good payment history reduction shall not be applicable where a market participant has a bond rating from an IESO approved rating agency (i.e. the credit rating will override any good payment history);
- If either a credit rating or good payment history reduction is utilized by a market participant in the physical market/existing prudential regime under section 5.8 of chapter 2, any allowable reductions in proposed section 5B will be correspondingly reduced.
- Insert section 5B.5.7 to obligate the IESO to establish, maintain, and publish a list of IESO approved bond rating agencies, based on which a market participant is eligible to receive a credit rating reduction. This list will be the same list that is already posted on the IESO’s website for the purposes of existing section 5.7.2.1 (list found at: [IESO Participant Registration](#) and includes Standard and Poor’s, Moody’s, Dominion Bond Rating Service) .

Consequential Amendments – Chapters 2, 3, 7:

Consequential to the creation of a unique DR prudential support obligation for market participants, it is proposed to also edit section 7.1.1 of Chapter 2 to specify that the events of default relating to either prudential support, demand response security, or DR prudential support are specified in section 6.3 of Chapter 3.

In addition, it is proposed to amend section 2.5 of Chapter 7 to address financial risk associated by the transfer of registered facilities. Market participants transferring a registered facility to another owner will remain financially liable for any charges incurred until such time as the incoming owner of the registered facility has posted DR prudential support with the IESO.

Chapter 11 – New Defined Terms:

It is also proposed to add the following new defined terms in Chapter 11:

- “demand response prudential support” means the collateral provided by a market participant with a DR capacity obligation;
- “demand response prudential support obligation” means, the dollar amount of collateral required as specified by the IESO as a condition of delivering on a demand response capacity obligation obtained through a demand response auction.

PART 4 – PROPOSED AMENDMENT

Chapter 2

5. Prudential Requirements

5.1 Purpose

- 5.1.1 This section 5 sets forth the nature and amount of *prudential support* that must be provided by *market participants* as a condition of participation in the *real-time markets* or of causing or permitting electricity to be conveyed into, through or out of the *IESO-controlled grid*, and the manner in which *market participants* must provide and maintain such *prudential support* on an on-going basis in order to protect the *IESO* and *market participants* from payment defaults. *Market participants participating in the IESO-administered markets solely as a demand response market participant or demand response auction participant with a demand response capacity obligation shall be subject only to the demand response prudential support requirements in section 5B.*
- 5.1.2 The *IESO* shall review the *prudential support* requirements set out in this chapter at least once every three years. The first review shall be completed no later than September 30, 2010.

5B. Demand Response Prudential Requirements5B.1 Purpose

- 5B.1.1 This section 5B sets forth the nature and amount of *demand response prudential support* that must be provided by *market participants* that are either *demand response auction participants* or *demand response market participants* as a condition of delivering on a *demand response capacity obligation* obtained through a *demand response auction*, and the manner in which such *market participants* must provide and maintain *demand response prudential support* on an on-going basis, in order to protect the *IESO* and *market participants* from payment defaults.
- 5B.1.2 The *IESO* shall review the *demand response prudential support* requirements set out in this chapter at least once every three years, as part of the review of the *prudential support* requirements pursuant to section 5.1.2.

5B.2 Market Participant Obligations

- 5B.2.1 Each market participant shall initially and continually satisfy the obligations set forth in this section 5B.2 with regard to the provision of demand response prudential support as a condition of delivering on a demand response capacity obligation.
- 5B.2.2 No market participant that is required to provide demand response prudential support shall participate in the real-time markets or cause or permit electricity to be conveyed into, through or out of the IESO-controlled grid unless that market participant satisfies the requirements of this section.
- 5B.2.3 Each market participant shall provide to the IESO, on an ongoing basis, such information as the IESO may reasonably require for the purpose of determining that market participant's demand response prudential support obligation.
- 5B.2.4 If demand response prudential support previously provided to the IESO by a market participant is due to expire or terminate, and upon expiry or termination of the existing demand response prudential support, the total demand response prudential support held by the IESO in respect of that market participant will be less than the market participant's demand response prudential support obligation, then at least ten business days prior to the time at which the existing security is due to expire or terminate, the market participant must provide to the IESO replacement demand response prudential support which will become effective no later than the expiry or termination of the existing collateral, such that the total demand response prudential support provided is at least equal to the market participant's demand response prudential support obligation.
- 5B.2.5 Where a market participant's demand response prudential support obligation has been reduced pursuant to section 5B.5 and the relevant credit rating is revised or the relevant payment history has changed, such as to result in an increase in the market participant's demand response prudential support obligation, then within five business days, the market participant must provide to the IESO additional demand response prudential support such that the total demand response prudential support provided is at least equal to the market participant's demand response prudential support obligation when calculated on the basis of the revised credit rating or payment history.
- 5B.2.6 Where any part of the demand response prudential support provided by a market participant otherwise ceases to be current or valid for any reason, the market participant must immediately so notify the IESO and provide to the IESO, within two business days, replacement demand response prudential support such that the total demand response prudential support provided is at least equal to the market participant's demand response prudential support obligation.
- 5B.2.7 If the IESO draws upon part or all of a market participant's demand response prudential support in accordance with section 6.3.3.2 of Chapter 3 and the remaining demand response prudential support held by the IESO in respect of

that market participant is less than the market participant's demand response prudential support obligation, the market participant must, within five business days of receiving notice from the IESO, provide the IESO with additional demand response prudential support such that the total demand response prudential support provided is at least equal to the market participant's demand response prudential support obligation.

5B.3 Calculation of Demand Response Prudential Support Obligations

5B.3.1 The IESO shall determine, in accordance with the applicable market manual, for each market participant, a demand response prudential support obligation for each commitment period, based on a percentage of the highest monthly availability payment, less any allowable reductions pursuant to section 5B.5.

5B.3.2 The IESO shall review the demand response prudential support obligation of each market participant as follows:

5B.3.2.1 prior to the start of each commitment period;

5B.3.2.2 within two business days after it receives notice of any changes to the status of a market participant as compared to such status that was in effect when the market participant's demand response prudential support was last calculated; or

5B.3.2.3 as a result of either a change in or loss of a market participant's credit rating or good payment history reduction calculated in accordance with section 5B.5.

5B.3.3 The IESO may change the demand response prudential support obligation for a market participant at any time as a result of a review conducted pursuant to section 5B.3.2, and shall promptly notify the market participant of any such change. Any change to a market participant's demand response prudential support obligation shall apply with effect from such time, not being earlier than the time of notification of the change to the demand market participant, as the IESO may specify in the notice. The market participant must supply the IESO, within five business days of the effective date of the change, any additional demand response prudential support that may be required as a result of an increase in the market participant's demand response prudential support obligation that results from such change.

5B.4 Obligation to Provide Demand Response Prudential Support

5B.4.1 Each market participant must provide to the IESO and maintain demand response prudential support, the value of which is at least equal to the market participant's demand response prudential support obligation. The aggregate value of the demand response prudential support shall be equal to the value of the undrawn or

unclaimed amounts of demand response prudential support provided by the market participant.

5B.4.2 A market participant's demand response prudential support obligation must be met through the provision to the IESO and the maintenance of demand response prudential support in the following form:

5B.4.2.1 a guarantee or irrevocable commercial letter of credit, which in both cases must be in a form acceptable to the IESO and provided by:

- a. a bank named in a Schedule to the *Bank Act*, S.C. 1991, c.46 with a minimum long-term credit rating of "A" from an IESO acceptable major bond rating agency as identified in the list referred to in section 5B.5.7; or
- b. a credit union licensed by the Financial Services Commission of Ontario with a minimum long-term credit rating of "A" from an IESO acceptable major bond rating agency as identified in the list referred to in section 5B.5.7.

5B.4.3 The following provisions shall apply to a guarantee or irrevocable letter of credit provided in section 5B.4.2.1:

5B.4.3.1 the letter of credit shall provide that it is issued subject to either The Uniform Customs and Practice for Documentary Credits, 2007 Revision, ICC Publication No. 600 or The International Standby Practices 1998;

5B.4.3.2 the IESO shall be named as beneficiary in each letter of credit, each letter of credit shall be irrevocable, partial draws on any letter of credit shall not be prohibited and the letter of credit or the aggregate amount of all letters of credit shall be in the face amount of at least the amount specified by the IESO;

5B.4.3.3 the only conditions on the ability of the IESO to draw on the letter of credit shall be the occurrence of an *event of default* by or in respect of the *market participant* and a certificate of an officer of the IESO that the IESO is entitled to draw on the letter of credit, in accordance with the provisions of the *market rules* in the amount specified in the certificate as at the date of delivery of the certificate;

5B.4.3.4 the letter of credit shall either provide for automatic renewal (unless the issuing bank advises the IESO at least thirty days prior to the renewal date that the letter of credit will not be renewed) or be for a term of at least one (1) year. In either case it is the responsibility of the *market participant* to maintain the requisite amount of *demand response prudential support*. Where the IESO is advised that a letter of credit is not to be renewed or the term of the letter of credit is to expire, the *market participant* shall arrange for and deliver alternative

demand response prudential support within the time frame mandated by the market rules so as to enable the market participant to be in compliance with the market rules; and

5B.4.3.5 by including a letter of credit as part of its demand response prudential support, the market participant represents and warrants to the IESO that the issuance of the letter of credit is not prohibited in any other agreement, including without limitation, a negative pledge given by or in respect of the market participant.

5B.4.4 For the purpose of section 5B.4.2.1, the IESO shall establish, maintain, and publish a list of organizations eligible to provide the demand response prudential support referred to in section 5B.4.2.1 and shall establish for each such eligible demand response prudential support provider, an aggregate limit of the demand response prudential support that may be provided by that demand response prudential support provider to market participants. If aggregate limits are reached for any of these eligible organizations, market participants will be required to obtain demand response prudential support from other eligible organizations that are still within their respective demand response prudential support limits.

5B.4.5 In the event that the demand response prudential support provided by a market participant is a greater amount than required by the market rules, the IESO shall, upon written request by the market participant, return to the market participant an amount equal to the difference between the value of demand response prudential support held by the IESO and the demand response prudential support obligation of the market participant at that time. The IESO shall return such amount within five business days of the receipt of the request for the return of the amount from the market participant. In all circumstances, the IESO shall return demand response prudential support only after all payments and charges for the final month of a commitment period have been settled.

5B.4.6 The minimum terms and conditions that shall be included in the demand response prudential support in accordance with section 5B.4.2.1 shall be as follows:

5B.4.6.1 demand response prudential support shall be obligations in writing;

5B.4.6.2 demand response prudential support shall constitute valid and binding unsubordinated obligations to pay to the IESO amounts in accordance with its terms which relate to the obligations of the relevant market participant under the market rules; and

5B.4.6.3 demand response prudential support shall permit drawings or claims by the IESO on demand to a stated certain amount, including partial drawings or claims.

5B.4.7 Upon the occurrence of an event of default, the IESO shall be entitled to exercise its rights and remedies as set out in the market rules, or provided for at law or in

equity. Without limiting the generality of the foregoing, such rights and remedies shall, in respect of the demand response prudential support provided by the market participant, include setting-off and applying any and all demand response prudential support held against the indebtedness, obligations and liabilities of the market participant to the IESO in respect of the participation by the market participant in the real-time markets, including the costs, charges, expenses and fees described in section 5B.4.9.

5B.4.8 Each of the remedies available to the IESO under the market rules or at law or in equity is intended to be a separate remedy and in no way is a limitation on or substitution for any one or more of the other remedies otherwise available to the IESO. The rights and remedies expressly specified in the market rules or at law or in equity are cumulative and not exclusive. The IESO may in its sole discretion exercise any and all rights, powers, remedies and recourses available under the market rules or under any document comprising the demand response prudential support provided by the market participant or any other remedy available to the IESO howsoever arising, and whether at law or in equity, and such rights, powers and remedies and recourses may be exercised concurrently or individually without the necessity of any election.

5B.4.9 The market participant agrees to pay to the IESO forthwith on demand all reasonable costs, charges, expenses and fees (including, without limiting the generality of the foregoing, legal fees on a solicitor and client basis) of or incurred by or on behalf of the IESO in the realization, recovery or enforcement of the demand response prudential support provided by the market participant and enforcement of the rights and remedies of the IESO under the market rules or at law or in equity in respect of the participation by the market participant in the real-time markets.

5B.5 Reductions in Demand Response Prudential Support Obligations

5B.5.1 Subject to section 5B.5.2, the IESO may reduce the demand response prudential support obligation of a rated market participant by an amount equal to the monetary value prescribed by the table below, resulting from a credit rating from a major bond rating agency identified in the list referred to in section 5B.5.7 issued and in effect in respect of the demand response market participant.

<u>Credit Rating Category using Standard and Poor’s Rating Terminology</u>	<u>Allowable Reduction in Prudential Support</u>
<u>AA- and above or equivalent</u>	<u>100% of the demand response prudential support obligation before allowable reductions</u>
<u>A-, A, A+ or equivalent</u>	<u>Greater of 90% of the demand response prudential support obligation before allowable reductions or \$37,500,000</u>

<u>BBB-, BBB, BBB+ or equivalent</u>	<u>Greater of 65% of the <i>demand response prudential support obligation</i> before allowable reductions or \$15,000,000</u>
<u>BB-, BB, BB+ or equivalent</u>	<u>Greater of 30% of the <i>demand response prudential support obligation</i> before allowable reductions or \$4,500,000</u>
<u>Below BB- or equivalent</u>	<u>0</u>

5B.5.2 Any recommendation to move a *market participant* to “credit watch negative” by any of the major bond rating agencies identified in the list referred to in section 5B.5.7, shall be deemed to automatically result in a one-notch reduction in terms of the credit rating (for example, from BBB+ to BBB) of that *market participant* for the purpose of determining the *market participant’s demand response prudential support obligation*.

5B.5.3 Where a *market participant’s demand response prudential support obligation* reflects a reduction by reason of the *market participant’s* credit rating from a major bond agency identified in the list referred to in section 5B.5.7, the *market participant* shall advise the *IESO* in writing immediately upon the *market participant* becoming aware of either a change in or loss of the then current credit rating or the decision of the bond rating agency to place the *market participant* on “credit watch status” or equivalent.

5B.5.4 Subject to section 5B.5.6, the *IESO* may reduce the *market participant’s demand response prudential support obligation* in accordance with section 5B.5.5 based on the *market participant’s* historical good payment history in the *IESO-administered markets*, provided that the *market participant’s* payment history includes no *event of default*.

5B.5.5 The *IESO* shall determine the dollar amount of any allowable reduction in the *demand response prudential support obligation* of an unrated *market participant*, by an amount equal to the monetary value prescribed, by the table below:

<u>Good Payment History Categories for Non-Distributors</u>	<u>Allowable Reduction in Prudential Support</u>
<u>≥6 years</u>	<u>Lesser of 50% of the <i>demand response prudential support obligation</i> before allowable reductions or \$12,000,000</u>
<u>≥5 years, <6 years</u>	<u>Lesser of 30% of the <i>demand response prudential support obligation</i> before allowable reductions or \$7,500,000</u>
<u>≥4, <5 years</u>	<u>Lesser of 25% of the <i>demand response prudential support obligation</i> before allowable reductions or \$6,000,000</u>
<u>≥3, <4 years</u>	<u>Lesser of 20% of the <i>demand response prudential</i></u>

	<u>support obligation before allowable reductions or \$4,500,000</u>
<u>>2, <3 years</u>	<u>Lesser of 15% of the demand response prudential support obligation before allowable reductions or \$3,000,000</u>
<u><2 years</u>	<u>0</u>

5B.5.6 The following restrictions shall apply to the provision of reductions in a market participant’s demand response prudential support obligation as provided for under sections 5B.5.1, and 5B.5.4:

5B.5.6.1 a market participant shall not be entitled to a reduction in its demand response prudential support obligation pursuant to section 5B.5.4 using the payment history of an affiliate;

5B.5.6.2 a market participant that has a credit rating from a major bond rating agency identified in the list referred to in section 5B.5.7 shall not be entitled to a reduction in its demand response prudential support obligation under section 5B.5.4; and

5B.5.6.3 a market participant’s reduction for either a credit rating or good payment history reduction shall be reduced by the amount of any reductions already granted to the market participant under section 5.8.

5B.5.7 For the purposes of this chapter, the IESO shall establish, maintain, and publish a list of major bond rating agencies eligible to provide the credit ratings mentioned in this section 5B.

7. Payment Default Procedure

7.1.1 The *events of default* relating to payment and either *prudential support*, ~~or demand response security~~, or demand response prudential support, as well as the rights and obligations of the IESO and *market participants* upon the occurrence of such *event of default*, are specified in section 6.3 of Chapter 3.

Chapter 3

6.3 Events of Default

6.3.1 An *event of default* occurs if a *market participant* or the person that has provided *prudential support*, ~~or demand response security~~, or demand response prudential support in relation to the *market participant*:

- 6.3.1.1 does not make a payment in full required under the *market rules* when due;
- 6.3.1.2 fails to provide payment in full of any amount claimed by the *IESO* under any *prudential support*, ~~or demand response security~~, or demand response prudential support;
- 6.3.1.3 fails to provide and maintain *prudential support*, ~~or demand response security~~, or demand response prudential support required to be supplied under the *market rules* within the time required;
-
- 6.3.2 A *market participant* shall notify the *IESO* immediately upon:
- 6.3.2.1 the occurrence of an *event of default* or any circumstance that may give rise to an *event of default* referred to in sections 6.3.1.4 to 6.3.1.11; or
- 6.3.2.2 the appointment of a receiver or receiver and manager or person having a similar or analogous function under the laws of any relevant jurisdiction in respect of any property of the *market participant* or the *market participant's prudential support provider*, ~~or demand response security~~, or demand response prudential support provider.
- 6.3.3 Where a *market participant* or a person providing *prudential support*, ~~or demand response security~~, or demand response prudential support on behalf of that *market participant* commits an *event of default*, the *IESO* may:
- 6.3.3.1 issue to the *market participant* a *notice of intent to suspend* stating that the *market participant* will be suspended unless it remedies the *event of default* within *2 business days* or such longer period as specified in the notice;
- 6.3.3.2 immediately draw upon part or all of the *market participant's prudential support*, ~~or demand response security~~, or demand response prudential support for either the amount of any money owing to the *IESO* under the *market rules* or where the *market participant's prudential support*, ~~or demand response security~~, or demand response prudential support is due to expire or terminate and has not been replaced as required under section 5.2.5, ~~or 5A.2.3~~ or 5B.2.4 of Chapter 2, the undrawn part of the *prudential support* or *demand response security* notwithstanding the provisions of section 5.7.2.5 of Chapter 2 until such time as the *market participant* has replaced its *prudential support*, ~~or demand response security~~, or demand response prudential support; and
- 6.3.3.3 set-off any amounts due or credited to the *market participant* under the *market rules*, including those set out in section 4.8.2 of Chapter 9, and any program administered through the billing and *settlement* systems of the *IESO* against any amounts owed by the *market participant*.

Chapter 7

2.5 Transfer of Registration of Facilities

- 2.5.4 Upon completion of the transfer of the *registered facility*, the proposed transferee will have to post with the *IESO prudential support* or demand response prudential support as applicable, equal to the proposed transferee's *prudential support obligation* or demand response prudential support obligation. Until the proposed transferee has done so, the transferring *market participant* shall continue to be liable for the obligations of the proposed transferee in the *IESO-administered markets*. Such obligations shall include, without limitation, the cost of electricity withdrawn from the *IESO-controlled grid* by the proposed transferee and related charges as determined by the *IESO* in accordance with Chapter 9. The *prudential support obligation* or demand response prudential support obligation as applicable of the transferring *market participant* shall include all such amounts whether or not the transferring *market participant* has complied with the provisions of this section 2.5.

Chapter 11

demand response prudential support means the collateral provided by a market participant with a demand response capacity obligation;

demand response prudential support obligation means the dollar amount of collateral required as specified by the IESO as a condition of delivering on a demand response capacity obligation obtained through a demand response auction;

PART 5 – IESO BOARD DECISION RATIONALE

The amendment specifies the demand response prudential support requirements for market participants with a demand response capacity obligation.
