

PROCEDURE



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Market Manual 5: Settlements
Part 5.4: Prudential
Support

Issue 23.0

This procedure describes the activities to be undertaken by the *IESO* and *Market Participants* to manage the *prudential support* required to participate in the *real-time market*.

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This *market manual* may contain a summary of a particular *market rule*. Where provided, the summary has been used because of the length of the *market rule* itself. The reader should be aware, however, that where a *market rule* is applicable, the obligation that needs to be met is as stated in the “Market Rules”. To the extent of any discrepancy or inconsistency between the provisions of a particular *market rule* and the summary, the provision of the *market rule* shall govern.

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| | | |
|------|---|--------------|
| | order to change the Network Service, Line Connection Service, and Transformation Connection Service Rates from \$2.31/kW, \$0.59/kW, and \$1.61/kW to \$2.57/kW, \$0.70/kW, and \$1.62/kW respectively. | |
| 23.0 | To reflect: (i) the OEB's interim fees order to change the OPA's usage fee starting January 1, 2010 from \$0.485/MWh to \$0.551/MWh, (ii) the OEB's fees order to change the Network Service, Line Connection Service, and Transformation Connection Service Rates from \$2.66/kW, \$0.70/kW, and \$1.57/kW to \$2.97/kW, \$0.73/kW, and \$1.71/kW respectively. (iii) update the IESO fee to \$0.822/MWh (iv) update Rural and Remote rate to \$1.30/MWh and (v) update applicable taxes from 5% to 13%. | June 2, 2010 |

Related Documents

| Document ID | Document Title |
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Market Manuals

The *market manuals* consolidate the market procedures and associated forms, standards, and policies that define certain elements relating to the operation of the *IESO-administered markets*. Market procedures provide more detailed descriptions of the requirements for various activities than is specified in the "Market Rules". Where there is a discrepancy between the requirements in a document within a *market manual* and the "Market Rules", the "Market Rules" shall prevail. Standards and policies appended to, or referenced in, these procedures provide a supporting framework.

Market Procedures

The Settlements Manual is Volume 5 of the *market manuals*, where this document forms “Part 5.4: Prudential Support.”

A list of the other component parts of the Settlements Manual is provided in “Part 5.0: Settlements Overview”, in Section 2, “About This Manual”.

Structure of External Procedures

Each external procedure is composed of the following sections:

1. “**Introduction**”, which contains general information about the procedure, including an overview, a description of the purpose and scope of the procedure, and information about roles and responsibilities of the parties involved in the procedure.
2. “**Procedural Work Flow**”, which contains a graphical representation of the steps and flow of information within the procedure.
3. “**Procedural Steps**”, which contains a table that describes each step and provides other details related to each step.
4. “**Appendices**”, which may include such items as forms, standards, policies, and agreements.

Conventions

The *market manual* standard conventions are defined in the "Market Manual Overview" document.

– End of Section –

1. Introduction

1.1 Purpose

This procedure describes the activities undertaken by the *IESO* and *market participants* (or *applicants* wishing to become authorized as *market participants*)¹ in relation to the initial, and ongoing, assessment of a *market participant's prudential support obligation* (PSO) by the *IESO* based on the *market participant's* expected and actual market activities. It also addresses the posting of *prudential support* by *market participants* to satisfy these obligations and the actions undertaken by the *IESO* when this is not done.

The *IESO* is responsible for ensuring that *prudential support* is posted by all *market participants* to satisfy their *prudential support obligation* and, therefore, mitigate the impact of an *event of default* by a *market participant* on the rest of the market. This process involves the following activities:

- the initial assessment of the *prudential support obligation* for an *applicant* wishing to become authorized as a *market participant*, based on their estimated trading activity in the *real-time market*;
- the regular review of a *market participant's trading limit* by the *market participant* (with the exception of *market participants* under the *no margin call option*);
- the regular review of a *market participant's trading limit, default protection amount* (DPA) and *prudential support obligation* by the *IESO* prior to the start of a new *billing period* as applicable;
- the annual review of each price basis used in the calculation of a *metered market participant's minimum trading limit* and *default protection amount*, and modification of the applicable price basis if it has increased or decreased by 15% or more from the price basis used by the *IESO*;
- the daily monitoring of the *market participant's actual exposure* in the *real-time market* against their *trading limit* (with the exception of *market participants* under the *no margin call option*);
- the posting of *prudential support* by *market participants* to meet their current *prudential support obligation*; and
- the review of the *prudential support* requirements set out in Chapter 2 of the *market rules* at least once every three years, with the first review to be completed no later than September 30, 2010.

The initial assessment of the *prudential support obligation* for an *applicant* wishing to become authorized as a *market participant* (and the subsequent posting of initial *prudential support* by the *applicant*) is undertaken as part of the Participant Authorization process. (See the Market Manual 1: "Market Entry, Maintenance & Exit, Part 1.1 Participant Authorization" for more information on this

¹ Unless otherwise stated, references to *market participants* in this procedure should also be read as including applicants wishing to become authorized as a *market participant*.

process.) However, the calculation of the initial *prudential support obligation* that occurs as part of this authorization process is undertaken in accordance with the process for establishing a *prudential support obligation* described in this procedure.

Elements of the assessment of a *market participant's prudential support obligation* are an internal process undertaken by the *IESO*, in accordance with the obligations established in the *market rules*. However, details on this process are documented in this procedure to provide background information and context for the processes that are addressed in this procedure.

1.2 Scope

This procedure is intended to provide *market participants* with a summary of the steps and interfaces between *market participants* and the *IESO* with regard to managing *prudential support*. The procedural work flows and steps described in this document serve as a roadmap for *applicants* and the *IESO*, and reflect the requirements set out within the *market rules* and applicable *IESO* policies and standards.

This procedure relates only to the *real-time market*. The *energy forward market* is presently deferred and is not addressed by this procedure. In addition, this procedure does not address the process of posting *transmission rights* (TR) market deposits, which are a prerequisite for participating in a *TR auction*. See Market Manual 4: Market Operations, “Part 4.4 – Transmission Rights Auction” for more details on this process.

The overview information in Section 1.3 is provided for context purposes only, highlighting the main actions that comprise the procedure, as set out in Section 2.

1.3 Overview

1.3.1 Assessment of Prudential Support Obligation for the Physical Markets

The *IESO* undertakes an assessment of the *prudential support obligation* for each *applicant* wishing to become authorized as a *market participant* during the Participant Authorization process. The *IESO* assesses this *prudential support obligation* based on information provided by the *applicant* about its expected trading activity in the *real-time market* via IMO-FORM-1044 – “Prudential Support Information”, IMO-FORM-1044 attachment – “Prudential Support Spreadsheet”, and the IMO-FORM-1445 – “Prudential Support Supplementary Form” (IMO-FORM-1445 - for those *market participants* who wish to apply for the *no margin call option* or LDC prudential credit reduction). (See the Market Manual 1: “Market Entry, Maintenance & Exit”, Part 1.1, “Participant Authorization” for more information on the Participant Authorization process.)

The *IESO* may reassess this initial *prudential support obligation* for a number of reasons, including (Chapter 2, section 5.3.11 of the *market rules*):

- prior to the start of each *energy market billing period*;

- within two *business days* after a *market participant's actual exposure* exceeds the *trading limit* for that *market participant* (with the exception of *market participants* under the *no margin call option*);
- 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 maximum net exposure* was last calculated if the *IESO* determines that the change in such status would have a material impact on the *market participant's maximum net exposure*;
- when the *IESO* has adjusted a *market participant's minimum trading limit* (Chapter 2, section 5.3.4.3 of the *market rules*); and
- when the *IESO* has adjusted its price basis under Chapter 2, section 5.3.10B of the *market rules*).

Market participants must submit an initial *self-assessed trading limit* (with the exception of *market participants* under the *no margin call option*) via IMO-FORM-1044 as part of the authorization process. *Market participants* should review this *self-assessed trading limit* prior to the start of each *billing period* and submit a revised *self-assessed trading limit*, as necessary at least seven *business days* prior to the start of the next *billing period* (Chapter 2, section 5.3.2 of the *market rules*). Once a *market participant's trading limit* has been established (Chapter 2, Section 5.3.7 of the *market rules*), that *market participant* is not permitted to change or request a change to that *trading limit* during the upcoming *energy market billing period*. If a revision is not required, the previously submitted *self-assessed trading limit* is treated as a standing *self-assessed trading limit* by the *IESO* (Chapter 2, section 5.3.3 of the *market rules*).

The *IESO* undertakes a three-stage process in assessing the *prudential support obligation* that a *market participant* must satisfy. This consists of:

- assessing a minimum dollar *trading limit* (with the exception of *market participants* under the *no margin call option*) and dollar *default protection amount* for the *market participant* as set out in Appendix B;
- reviewing this *minimum trading limit* against the *self-assessed trading limit* submitted by the *market participant* (or the *trading limit* applied to the *market participant* during the previous *billing period*, if the *market participant* has not sought to revise its *trading limit*), selecting the greater of the two *trading limit* amounts and establishing the *maximum net exposure* for the *market participant* as the sum of the selected *trading limit* and the *default protection amount* (with the exception of *market participants* under the *no margin call option*); and
- calculating the *market participant's prudential support obligation* as being equal to the *market participant's maximum net exposure*, unless reduced, where appropriate to reflect the *market participant's credit rating*, the *market participant's good payment history* for the purchase of electricity in Ontario, or the LDC prudential credit.

For prudential calculation purposes, the *IESO* shall calculate a *metered market participant's minimum trading limit* and *default protection amount* using *energy prices* based on the *Ontario Energy Board's* (“*OEB's*”) price forecasts for electricity in Ontario for use in setting retail prices under its regulated price plan (“*RPP*”). The price basis for Local Distribution Companies will be equal to the lower tier RPCMT1 as reported by the *OEB* for its tiered *RPP prices*². The price basis for all other *market*

² The price basis for “designated consumers” such as municipalities, hospitals, schools, universities and colleges will also be equal to the lower tier RPCMT1 until April 30, 2009

participants will be equal to the average RPP supply cost (RPA) as forecasted by the *OEB*. The *IESO* shall annually review each price basis referred to in Chapter 2, section 5.3.10A of the *market rules*, and shall modify the applicable price basis if it has increased or decreased by 15% or more from the price basis used by the *IESO*.

EXAMPLE - How the IESO will establish the price basis used for determining your *Minimum Trading Limit* and *Default Protection Amount*

For illustrative purposes only – the current price basis used by the IESO may vary from the prices used in this example.

Assumptions:

Base year is October Year 1

IESO establishes its price basis for *market participants* using the prices published in the most recently issued *OEB* Regulated Price Plan Price Report:

- *Distributors*: RPCMT1 as reported by the *OEB* = \$55/MWh
- All other *market participants*: RPP supply cost as reported by the *OEB* = \$58.95/MWh

April Year 2 – Price basis published in the OEB Price Report:

- *Distributors*: RPCMT1 as reported by the *OEB* = \$46.00/MWh
- All other *market participants*: RPP supply cost as reported by the *OEB* = \$50.00/MWh

October Year 2 – Price basis published in the OEB Price Report:

- *Distributors*: RPCMT1 as reported by the *OEB* = \$60.00/MWh
- All other *market participants*: RPP supply cost as reported by the *OEB* = \$63.00/MWh

Case 1:

Applicant XYZ Company, a metered market *applicant* and non-*distributor* applies to become a *market participant* on May 1, Year 2.

- The price basis used in the *IESO*'s calculation of the *minimum trading limit* and *default protection amount* will be \$58.95/MWh even though the April Year 2 price basis published in the *OEB* Price Report has changed by more than 15%. This is because \$58.95/MWh was established as the price basis in October, Year 1 and is in effect until the next annual review which will occur in October, Year 2.

Case 2:

Applicant LDC Company, a metered market *applicant* who is a *distributor* applies to become a *market participant* on November 1, Year 2.

The price basis used in the *IESO*'s calculation of the *minimum trading limit* and *default protection amount* for this *distributor* will be \$55.00/MWh. Because the annual review in this example occurs in October of each year we can proceed to compare the established price basis to the current *OEB* forecast. First, we must identify the 15% price range to determine if the *IESO* established price basis should change. The price range is determined by adjusting the established price basis 15% higher and 15% lower. The *IESO* will change the price basis only if the price is equal to or greater than the higher end of the range or equal to or lesser than the lower end of the range.

Therefore, the price range in Case 2 is:

\$63.25/MWh (\$55.00 x 1.15) **to** **\$46.75/MWh** (\$55.00 x 0.85)

The RPCMT1 price basis published by the *OEB* in October Year 2 is \$60.00/MWh, falling within the 15% price range. Therefore, the *IESO* price basis will remain at the \$55.00/MWh price established in October Year 1.

The *IESO* may reduce the *market participant's prudential support obligation* from the full *maximum net exposure* amount, depending on the credit rating of the *market participant*, good payment history (if applicable), or the LDC prudential credit in accordance with Section 5 of Chapter 2 of the "Market Rules³." A list of bond rating agencies that can provide credit ratings for this purpose can be found on the *IESO* public Web site at <http://www.ieso.ca/imoweb/marketentry/bralist.asp>

If a *market participant's maximum net exposure*, as calculated by the *IESO* is zero or negative, the *market participant* is not required to provide any form of *prudential support* to the *IESO*. If a *market participant's maximum net exposure*, as calculated by the *IESO* is positive, and the allowable prudential reductions do not reduce the *market participant's prudential support obligation* to zero, the *market participant* must provide an amount of *prudential support* to the *IESO*.

The calculated *default protection amount*, *maximum net exposure*, *trading limit* and *prudential support obligation* (where applicable) are entered in "Prudential Support Obligation - Schedule A" (IMO-FORM-1443) by the *IESO* and sent to the *market participant*. Upon receipt of Schedule A, the *market participant* must complete and return to the "IESO Prudential Support Posted - Schedule B" (IMO-FORM-1444) prior to posting the required level of *prudential support* with the *IESO* or the custodian bank designated by the *IESO*.

Regardless of the activity that initiates the assessment of the *prudential support obligation* for a *market participant*, the *prudential support* posted by a *market participant* to satisfy this obligation must take one of the following forms (Chapter 2, section 5.7.2 of the *market rules*):

- a guarantee or irrevocable commercial letter of credit, which in both bases 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* approved bond rating agency; 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* approved bond rating agency;

³ Where a credit rating is available, this will take precedence over any good payment history that may be available.

- a guarantee in a form acceptable to the *IESO* provided by a person, other than an *affiliate* of the *market participant*, having a credit rating from an *IESO* approved bond rating agency;
- Marketable securities in the form of Canadian Government treasury bills. Such treasury bills shall be valued as cash at their current market value less 2 percent to take into account the potential eroding effects of interest rate increases;
- subject to Section 5.7.4 and 5.7.4A of Chapter 2 of the “Market Rules,” a guarantee in a form acceptable to the *IESO* provided by a person that is a rated *affiliate* of the *market participant* and has a credit rating from an *IESO* approved bond rating agency; and/or
- cash deposits made with the *IESO* by or on behalf of the *market participant* provided that the *market participant* meets the following criteria:
 - the *market participant* was already meeting its *prudential support obligation* in whole or in part through cash deposit on November 4, 2004; and
 - The *market participant’s prudential support obligation* was less than or equal to \$200,000 on November 4, 2004 and remains less than or equal to \$200,000 thereafter.

Section 5.7.4 and 5.7.4A of Chapter 2 of the “Market Rules” states that the *IESO* shall not accept a guarantee from a person referred to in Section 5.7.2.4 where the value of the guarantee exceeds, or would bring the total value of all guarantees provided by that person to an amount that exceeds, the greater of the allowable reduction amounts referred to in the tables in Sections 5.7.4 and 5.7.4A. This section is intended to apply to guarantees provided to the *IESO* only.

Interest will be paid in arrears, on cash deposits posted as *prudential support*.

1.3.2 Daily Monitoring of Prudential Support

Actual Exposure of a Market Participant

On a daily basis, the *IESO* verifies that each *market participant* has provided sufficient levels of *prudential support* to cover their financial trading activity in the *real-time market*. The *IESO* calculates the *market participant’s actual exposure* (AE) and compares it to the *trading limit* (with the exception of a *market participant* who has elected the *no-margin call option*) established for the *market participant*. A *market participant’s actual exposure* is calculated as being the sum of three amounts:

- **Amount Invoiced But Not Paid (INP):** all amounts payable by the *market participant* in respect of *billing periods* prior to the current *billing period* which remain unpaid, whether or not the *payment date* thereof has yet been reached, less all amounts payable to the *market participant* (i.e. prepayments made by the *market participant*) in respect of *billing periods* prior to the current *billing period* which remain unpaid, whether or not the *payment date* thereof has yet been reached;
- **Amount Settled But Not Invoiced (SNB or SNI):** all hourly and non-hourly amounts payable by the *market participant* in respect of the current *billing period* that have been settled by the *IESO*, whether or not the corresponding *settlement statement* has been issued by the *IESO*, less all hourly and non-hourly amounts payable to the *market participant* in respect of the current *billing period* that have been settled by the *IESO*, whether or not the corresponding *settlement statement* has been issued by the *IESO*. The SNB quantity is calculated by summing the total *settlement* amount that has appeared on either preliminary or final statements but not *invoiced* **and** the total *settlement* amount that has been calculated but has not yet appeared on a preliminary or final statement; and

- **Amount Cleared But Not Settled (CNS):** all amounts payable by the *market participant* in respect of the current *billing period* in relation to dispatched *energy* and operating reserve quantities⁴ that have not yet been settled by the *IESO*, less all amounts payable to the *market participant* in respect of the current *billing period* in relation to dispatched *energy* and operating reserve quantities that have not yet been settled by the *IESO*.

Generally, a non-dispatchable participant's *actual exposure* will include the above components (SNB and INP), but will not include CNS. Instead of a CNS figure, for a specific trade day, the *IESO* will use an AE estimate amount discussed in subsequent sections. For non-dispatchable *market participants* who are non-metered *market participants* (e.g. retailers, marketers), the estimated net *settlement amounts* as specified in IMO-FORM-1044 will be taken and divided by 30 days, in order to calculate a daily estimate.

Six calendar days after trade day, these estimates will be replaced with Amount Settled But Not Invoiced (SNB) amounts which represent total *settlement amounts* that have appeared on either preliminary or final statements (but have not been invoiced), and the total *settlement amounts* that have been calculated but have not yet appeared on preliminary or final statements. Therefore, the *actual exposure* calculation will contain a "moving" six day component based on IMO-FORM-1044 quantities (or estimated net *settlement amounts* on a daily basis for non-metered *market participants*) until the *IESO*'s commercial reconciliation system is populated with actual SNB data.

For both dispatchable and non-dispatchable *market participants*, non-hourly and other monthly settlement charges (DRC, RRP, *IESO* Fee, *OPA* Fee, Ancillary charges, transmission tariffs) will be estimated and allocated on a pro rata daily basis in the *actual exposure* calculation, based on IMO-FORM-1044 information.

ACTUAL EXPOSURE ALGORITHM

Overview:

Monitoring of *actual exposure* against *trading limit* is done on a daily basis. The formula for AE is:

$$\begin{aligned} \text{Actual Exposure (AE)} = & \quad \text{Cleared But Not Settled (CNS) (Dispatchable } \textit{market participants} \\ & \quad \text{only) OR AE Estimate (Non-dispatchable } \textit{market participants} \text{ only)} \\ & + \quad \text{Settled Not Billed (SNB) (All } \textit{market participants}) \\ & + \quad \text{Invoiced Not Paid (INP) (All } \textit{market participants}) \end{aligned}$$

where CNS estimates or AE estimates are replaced by SNB actuals, which are replaced by final INP data as the information becomes available.

The *actual exposure* calculation begins with estimates of charges for both dispatchable and non-dispatchable *market participants*. For **dispatchable** *market participants*, estimates are based on a *market participant's* CNS amounts. For **non-dispatchable**, *metered market participants*, estimates are calculated based on their IMO-FORM-1044 information quantities multiplied by **the following**: (i) for a *metered market participant* that is a *distributor*, the applicable Regulated Price Conventional Meter Tier 1 price or its equivalent published by the *OEB*, and (ii) for a *metered market participant* other than a *distributor*, the average of the *hourly Ontario energy price (HOEP)* for the specific trade

⁴ The CNS amount does not include amounts relating to any *physical bilateral contract data* submissions by *Market Participants*.

day. For non-dispatchable *market participants* who are non-metered *market participants* (e.g. retailers, marketers), the estimated net *settlement amounts* as specified in IMO-FORM-1044 will be taken and divided by 30 days, in order to calculate a daily estimate.

Six calendar days after the specific trade date, the IESO's commercial reconciliation system begins producing *preliminary settlement statement* data of actual charges for internal IESO purposes, based on settlements data. Note that *market participants* do not have access to the *preliminary settlement statements* until 10 *business days* after the trade date. Therefore, *market participants* will need to use estimates for several days longer than the IESO. This SNB actual data will replace the CNS estimates/AE Estimates calculated for the corresponding trade date, and this process will continue for each subsequent trade date as actual charges based on settlements data is produced by the commercial reconciliation system (i.e. constant replacement of estimates with actual charges).

Once invoicing is run, an INP number is produced for each *market participant*. Similarly, the INP amounts will replace the corresponding SNB amounts.

The *actual exposure* calculation will also take into account an adjustment for both dispatchable and non-dispatchable *market participants*, for an estimated level of *physical bilateral contracts* based on previous participant activity.

Dispatchable Market Participant Specifics:

Actual Exposure is the summation of the 3 categories **CNS + SNB + INP** as applicable for the different trade dates.

Plus

1. Estimate of month end charges (see below) applied on a daily basis (currently incorporated in the calculator for all *market participants* based on their MWh/day quantities submitted on their IMO-FORM-1044). Note that without such an estimate, monthly charges would not otherwise be included in the *actual exposure* on a daily basis until invoicing at the end of the month, resulting in an understatement of *actual exposure* on a daily basis prior to invoicing. Please note that the month end charges indicated below are subject to change, and may be adjusted from time to time.

Transmission Exposure:

Network Service Charge (if applicable):

Peak MWs as indicated on form 1044 spreadsheet * 1000kW/MW * \$2.97kW = A

Line Connection Service Charge (if applicable):

Peak MWs as indicated on form 1044 spreadsheet * 1000kW/MW * \$0.73kW = B

Transformation Connection Service Charge (if applicable):

Peak MWs as indicated on form 1044 spreadsheet * 1000kW/MW * \$1.71kW = C

*Total (included in actual exposure on a daily basis) = (A+B+C) * 1.13 (applicable taxes) / 30 days*

Other monthly fees and charges:Debt Recovery Charge:

MWhs/day as indicated on form 1044 spreadsheet * \$7/MWh = D

Rural and Remote Settlement:

MWhs/day as indicated on form 1044 spreadsheet * \$1.30/MWh = F

IESO Fee:

MWhs/day as indicated on form 1044 spreadsheet * \$0.822/MWh = G

Uplift & Ancillary Charges:

MWhs/day as indicated on form 1044 spreadsheet * \$4.20/MWh = H

OPA Fee:

MWhs/day as indicated on form 1044 spreadsheet * \$0.551/MWh = I

*Total (included in actual exposure on a daily basis) = (D+F+G+H+I) * 1.13 (applicable taxes)*

Note:

Replacement of monthly charge estimates as calculated above with actual monthly charges as per the participant's monthly invoice is performed by the prudential tool six calendar days after the end of a billing cycle.

Non-Dispatchable Market Participant Specifics:

1. *Actual Exposure* is the summation of the 3 categories **AE Estimate** + **SNB** + **INP** as applicable for the different trade dates where:

Actual Exposure (AE) estimate

The initial estimate of *actual exposure* for a specific trade date for a *metered market participant* that is a *distributor* is based on the MWh/day figures provided by *market participants* on their *IESO* form 1044 spreadsheet multiplied by the applicable Regulated Price Conventional Meter Tier 1 price or its equivalent published by the *OEB*.⁵

⁵ RCMPT1, rather than *HOEP*, is used to reflect the fact that the majority of the customer base for *distributors* is comprised of residential consumers who are part of the regulated price plan set by the *OEB*. The electricity prices paid by both distributors under the regulated price plan and large commercial and industrial consumers will reflect prices paid to generators. The difference is that prices under the price plan are smoothed over the course of a year, whereas prices for the large consumers are not, and are based on market prices.

The initial estimate of *actual exposure* for a specific trade date for a *metered market participant* other than a *distributor*, is based on the MWh/day figures provided by *market participants* on their IESO form 1044 spreadsheet multiplied by the average of the *hourly Ontario energy price (HOEP)* for the specific trade day.

For non-dispatchable *market participants* who are non-metered *market participants* (e.g. retailers, marketers), the estimated net *settlement amounts* as specified in IMO-FORM-1044 will be taken and divided by 30 days, in order to calculate a daily estimate. When *preliminary settlement statements* are issued (SNB) they replace the AE estimate for that trade date.

Adjusting Actual Exposure for Planned Outages

For *metered market participants*, the MWh/day used in calculating the *actual exposure* estimate will be adjusted for planned outages lasting for a minimum of five calendar days, upon notification by the *market participant* at least two *business days* prior to the outage.

Settled Not Billed (SNB)

SNB amounts are based on *preliminary settlement statements*, replaced by final statements with adjustments as they become available.

Invoiced Not Paid (INP)

Amounts invoiced but not paid would replace the SNB amounts for the invoice month (trade dates 1-30). Note that all estimates of month-end costs listed below would be dropped for invoiced month trade dates, as the actual month end costs for these trade dates are included in the invoice.

PLUS

2. Estimate of month end charges (see below) applied on a daily basis (currently incorporated in the calculator for all *market participants* based on their MWh/day quantities submitted on their IMO-FORM-1044). Note that without such an estimate, monthly charges would not otherwise be included in the *actual exposure* on a daily basis until invoicing at the end of the month, resulting in an understatement of *actual exposure* on a daily basis prior to invoicing. Please note that the month end charges indicated below are subject to change, and may be adjusted from time to time.

Transmission Exposure:

Network Service Charge (if applicable):

Peak MWs as indicated on form 1044 spreadsheet * 1000kW/MW * \$2.97kW = A

Line Connection Service Charge (if applicable):

Peak MWs as indicated on form 1044 spreadsheet * 1000kW/MW * \$0.73kW = B

Transformation Connection Service Charge (if applicable):

Peak MWs as indicated on form 1044 spreadsheet * 1000kW/MW * \$1.71kW = C

*Total (included in actual exposure on a daily basis) = (A+B+C) * 1.13 (applicable taxes) / 30 days*

Other monthly fees and charges:

Debt Recovery Charge:

MWhs/day as indicated on form 1044 spreadsheet * \$7/MWh = D

Rural and Remote Settlement:

MWhs/day as indicated on form 1044 spreadsheet * \$1.30/MWh = F

IESO Fee:

MWhs/day as indicated on form 1044 spreadsheet * \$0.822/MWh = G

Uplift & Ancillary Charges:

MWhs/day as indicated on form 1044 spreadsheet * \$4.20/MWh = H

OPA Fee:

MWhs/day as indicated on form 1044 spreadsheet * \$0.551/MWh = I

*Total (included in actual exposure on a daily basis) = (D+F+G+H+I) * 1.13 (applicable taxes)*

Note:

Replacement of monthly charge estimates as calculated above with actual monthly charges as per the participant's monthly invoice is performed by the prudential tool six calendar days after the end of a billing cycle.

Physical Bilateral Contract Adjustment in Actual Exposure – Dispatchable and Non-Dispatchable Metered Market Participants:

For *metered market participants* who have entered into *physical bilateral contracts*, the IESO will take the average bilateral contract quantities for the last 6 days for which *physical bilateral contract* data is available, and multiply by an average *HOEP* price, all multiplied by 6 days in order to reflect the impact of *physical bilateral contracts* within the 6 day *actual exposure* estimate/CNS component for a *market participant*. If you are a buyer in a *physical bilateral contract*, your *actual exposure* will be decreased by this adjustment, and if you are a seller, your *actual exposure* will be increased. Note that the SNB amounts already include adjustments for *physical bilateral contracts*.

Table 1-1 summarizes the resulting action taken by the *IESO* based on the results of this comparison between a *market participant's trading limit* and their *actual exposure* (with the exception of *market participants* under the *No margin call option*). While a *market participant* may only revise its self-assessed *trading limit* as set out in Section 1.3.1, a *market participant* may reduce the level of its *actual exposure* at any time through making a pre-payment to the *IESO*, using “IMO-FORM-1130”. See “Part 5.9: Settlement Payment Methods and Schedule” for more details on making a pre-payment to the *IESO*.

Table 1–1: Trading Limit and Actual Exposure comparisons

| Trading Limit – AE comparison | Action |
|--|--|
| <i>Actual exposure < 70 % trading limit</i> | None |
| <i>70% trading limit <= AE < 100 % trading limit</i> | <i>IESO</i> issues a notice of <i>margin call</i> warning (with the exception of <i>market participants</i> under the <i>no margin call option</i>) |
| <i>Actual exposure >= 100 % trading limit</i> | A <i>margin call</i> is issued to the <i>market participant</i> (with the exception of <i>market participants</i> under the <i>no margin call option</i>) |

Where a *market participant's actual exposure* reaches the level of 70% of their *trading limit* but remains less than 100% of their *trading limit*, as identified in Table 1-1, the *IESO* issues a “Notice of Margin Call Warning” to the *market participant* (with the exception of *market participants* under the *no margin call option*). The *market participant* may make a cash payment to reduce a portion of any amounts payable to the *IESO* at this time to reduce their *actual exposure*, or take other appropriate action to ensure that its *actual exposure* does not reach its *trading limit*⁶ (Chapter 2, section 5.4.1 of the *market rules*).

Where a *market participant's actual exposure* equals or exceeds its *trading limit*, as identified in table 1-1, the *IESO* issues a *margin call* to the *market participant* (with the exception of *market participants* under the *no margin call option*). The *market participant* is required to satisfy this *margin call* through paying a portion of the amount payable by cash sufficient to reduce the *market participant's actual exposure* to no more than 75% of the *market participant's trading limit* (Chapter 2, section 5.6.1 and 5.6.2 of the *market rules*).

If a *margin call* is not satisfied by 1600 hours on the second *business day* after the *margin call* is issued, an *event of default* is declared, and a default notice (or *notice of intent to suspend*) may be issued. The *market participant* is given a period of time to remedy the *event of default*. This can be done by the *market participant* paying all monies due for payment, together with any *default interest* and other costs or expenses established by the *IESO*.

If the *event of default* is not rectified within the timeframe specified in the default notice, , the *IESO* may begin the process to draw upon part or all of the *market participant's* prudential support, or impose a lower trading limit, more frequent schedule of payments, or more stringent prudential support requirements.

⁶ This could include entering in to a physical bilateral contract with another *market participant*. See “Part 5.3: Submission of Physical Bilateral Contract Data” for more information on this process.

For further information on *events of default*, please refer to “Market Manual 2: Market Administration, Part 2.6: Treatment of Compliance Issues.”

Impact of the Ontario Power Generation (“OPG”) Rebate on Daily Prudential Monitoring

Those *market participants* receiving an OPG Rebate will receive an adjustment to their *actual exposure* in the billing period equal to the full estimated amount of the rebate as soon as estimated rebate amounts are available. For *distributors*, the *IESO* will adjust the actual exposure following receipt of IMO-FORM-1535.

Credit Warnings

Where the *IESO* determines that there is a credit watch negative warning on a *market participant* (i.e. a movement of the *market participant* to a negative credit watch status by any of the major bond-rating agencies) there is an automatic one-notch reduction in the *market participant's* credit rating (for example, from BBB+ to BBB), as set out in Appendix C (Chapter 2, section 5.8.2 of the *market rules*). The *IESO* will reassess the *market participant's* *prudential support obligation*, on this basis, and/or review the acceptability of any Prudential Guarantees received as *prudential support*, based on the revised bond rating of the guarantor.

1.3.3 No Margin Call Option

Subject to *IESO* approval, a *market participant* may elect the *no-margin call option* (through submission of "Prudential Support Supplementary Form "- IMO-FORM-1445), which would exempt a *market participant* from receiving a *margin call*, regardless of the level of its *actual exposure* (Chapter 2, sections 5.6.4, 5.6.5 and 5.6.6 of the *market rules*). The *IESO* will set the *maximum net exposure* for a *market participant* that has elected this option, to be equal to 70 days of market activity and assuming all of the participant's energy injected or withdrawn is transacted through the *real-time market*, or 100% of the *market participant's* net settlement amount for non-metered *market participants*. A *market participant* under the *no margin call option* will not have a *trading limit*. This participant would not be subject to *margin calls*, and would only receive the regular monthly *invoice* from the *IESO*. This *market participant* would not be able to claim any allowed reductions in *prudential support obligations* (i.e. good payment history, bond rating, or LDC prudential credit reduction) with the exception of the *small distributor*. The price basis used in the calculation of the *prudential support obligation* for metered *market participants* under the *no-margin call option* will be consistent with Chapter 2, section 5.3.10A.1, 5.3.10A.2, and 5.3.10B of the *market rules*.

1.3.4 Small Distributor

A *small distributor* is defined as a *distributor* with a projected energy consumption less than or equivalent to 0.25% of projected total system *energy* on an annual basis. A *small distributor* would be able to elect (through submission of IMO-FORM-1445) the *no margin call option* and still be able to claim allowed reductions in its *prudential support obligation* (i.e. good payment history, LDC prudential credit). A *distributor* may make a rough determination from their forecast annual energy consumption for the upcoming year as provided in their IMO-FORM-1044 submission divided by the sum of the monthly total system energy forecasts for the year. Final determination as to whether a *market participant* qualifies as a *small distributor* will be made by the *IESO*.

1.3.5 LDC Prudential Credit

There are three allowed reductions that may be used by *market participants* (if applicable) in order to reduce their *prudential support obligation* (Chapter 2, section 5.8 of the *market rules*):

1. Reduction for credit rating ("Prudential Support Information" - IMO-FORM-1044)
2. Good payment history reduction ("Prudential Support Information" - IMO-FORM-1044)
3. LDC prudential credit (new "Prudential Support Supplementary Form" - IMO-FORM-1445)

LDC Prudential Credit

The Retail Settlement Code authorizes *distributors* to collect *prudential support* from its customers, be they retailers or retail end-use customers. This can result in instances where there is *prudential support* posted by both the (wholesale) *distributor* participant and its retail customer for the very same MWhs (i.e. *prudential support* posted by retail customer with the *distributor*, in addition to *prudential support* posted by the *distributor* with the *IESO* for the same MWhs).

In order to eliminate this over-collateralization, and to provide greater flexibility for *distributors* to meet their *prudential support obligation* it is proposed that the *distributors* be permitted to have a sixty cent reduction in their wholesale market *prudential support obligation* of the “tangible” *prudential support* for every dollar collected in retail *prudential support* they have collected from their customers (Chapter 2, section 5.8.8 of the *market rules*). Tangible *prudential support* includes cash, Government of Canada T-Bills, irrevocable commercial letters of credit from a Schedule Bank in Canada and guarantees by a third person or affiliate. To qualify for this reduction in *prudential support obligation* in the market, a *distributor* would need to provide proof for the *prudential support* it has collected from its customers. This proof would be in the form of completion of “Affidavit Regarding Reduction in Prudential Support Obligations” – IMO_AFF_0001, which is an affidavit attesting to the amount of tangible *prudential support* being held by the *distributor* from its customers, and copies of the irrevocable letters of credit and bank statements detailing cash deposits held for such a purpose as requested by the *IESO*.

For example, if an LDC has a *maximum net exposure* of \$25 million, but the LDC has collected *prudentials* in the amount of \$10 million from its own customers, and can provide verifiable proof (i.e. an affidavit) of said *prudentials* to the *IESO*, then its outstanding *prudential support obligation* would be \$19 million [$\$25\text{M} - (\$10\text{M} * 0.6)$]. Any outstanding *prudential support obligation* would have to be met from one or a combination of the other instruments listed in Chapter 2. Under this option *distributors* would also be able to claim good payment history or credit rating reduction pursuant to Chapter 2, Section 5.8.5 or 5.8.1A of the “*Market Rules*” to meet its *prudential support obligation*. The LDC prudential credit will be deducted first before other applicable deductions could be utilized.

A *market participant* claiming the LDC prudential credit reduction, *market participants* must submit the required documentation in addition to completing IMO-FORM-1445.

1.3.6 Event of Default

Where the *IESO* issues a default notice, or a *notice of intent to suspend*, it will also:

- deem any *physical bilateral contract quantities* to be zero for the period from the date the *event of default* occurs until it is remedied if that *market participant* is the *selling market participant*; or
- rescind or refuse to accept any initial or revised *physical bilateral contract* data relating to a *dispatch day* after the date of the *event of default* if that *market participant* is the *buying market participant*.

The process of default is addressed in “Part 5.9: Payment Methods and Schedule”, where this relates to non-payment of an invoice and in “Market Manual 2: Market Administration, Part 2.6: Treatment of Compliance Issues”, where it relates to a compliance issue.

See “Part 5.3: *Submission of Physical Bilateral Contract Data*” for more information on the *Physical Bilateral Contract* process. See “Part 5.2: Meter Data Processing” for more information on the *physical allocation data* submission process.

1.4 Roles and Responsibilities

Responsibility for *prudential support* is shared among:

- **Market participants**, who are responsible for:
 - Submitting the required prudential support information via IMO-FORM-1044 – “Prudential Support Information”, IMO-FORM-1044 attachment – “Prudential Support Spreadsheet”, and IMO-FORM-1445 – “Prudential Support Supplementary Form”;
 - notifying the *IESO* that they wish to adjust its *self-assessed trading limit*, as necessary at least seven *business days* prior to the start of a *billing period*, to reflect its expected trading activity during that *billing period*; (with the exception of *market participants* under the *no margin call option*)
 - providing *prudential support* that satisfies their *prudential support obligation*;
 - for *metered market participants* with a credit rating of BBB- or higher, and who have requested their *minimum trading limit* and *default protection amount* be calculated removing the *energy* quantities associated with the participant’s *physical bilateral contracts* registered with the *IESO*, submit to the *IESO* the quantity and duration of the applicable *physical bilateral contracts* and notify the *IESO* immediately upon a change in the quantity or duration of the *physical bilateral contract* including the termination of the contracts;
 - receiving a notice of *margin call* warning and/or a *margin call* and taking appropriate corrective action (with the exception of *market participants* under the *no margin call option*);
 - receiving a default notice, or a *notice of intent to suspend*, and taking appropriate action to remedy the *event of default*; and
 - re-establishing *prudential support*, if drawn on by the *IESO*, in order to retain market participation – If *prudential support* is due to expire or terminate, at least ten *business days* prior to expiration (“Market Rules,” Chapter 2, Section 5.2.5); Where a participant’s credit rating or good payment history had been revised, resulting in additional *prudential support* requirements, participants must provide any additional *prudential support* within five *business days* (“Market Rules,” Chapter 2, Section 5.2.6); Where any part of the *prudential support* provided by a participant otherwise ceases to be current or valid for any reason, the participant must immediately notify the *IESO* and provide to the *IESO* within two *business days*, a replacement *prudential support* (“Market Rules,” Chapter 2, Section 5.2.7).
- The *IESO*, which is responsible for:

- assessing (and reassessing) the *minimum trading limit*, *trading limit*, and *default protection amount* of each *market participant* (or *applicant* seeking authorization) as applicable;
- annually reviewing each price basis used in the calculation of a *metered market participant's minimum trading limit* and *default protection amount*, and modification if the applicable price basis has increased or decreased by 15% or more from the price basis used by the *IESO*;
- assessing (and reassessing) the *maximum net exposure* and *prudential support obligation* of each *market participant* (or *applicant* seeking authorization);
 - determining whether adequate *prudential support* has been provided by the *market participant*, according to the *market rules*;
 - checking for credit watch warnings against *market participants*;
 - determining if the *actual exposure* is within the *trading limit*, and warning *market participants* of potential *margin calls* or issuing *margin calls*, as appropriate (with the exception of *market participants* under the *no margin call option*);
 - taking appropriate action in response to an *event of default*; and
 - drawing on a *market participant's prudential support*, as necessary, and verifying that *prudential support* is re-established within a specified timeframe.

1.5 Contact Information

As part of the participant authorization and registration process, *applicants* are able to identify a range of contacts within their organization that address specific areas of market operations. For *prudential support*, this contact will most likely be the Prudential Requirements Market Contact Type as indicated in PLC (MP Contact screens). If a *market participant* has not identified a specific contact, the *IESO* will seek to contact the Main Contact that is established during the participant authorization process. The *IESO* will seek to contact these individuals for activities within this procedure, unless alternative arrangements have been established between the *IESO* and the *market participant*. For more information on PLC and the participant authorization process see Market Entry, Maintenance and Exit, “Part 1.1 – Participant Authorization Maintenance and Exit.”

If the *market participant* wishes to contact the *IESO*, the *market participant* can contact *IESO* Customer Relations via email at IESOCustomerRelations@ieso.ca, or by the phone number provided on the *IESO*'s website (www.ieso.ca), on the “Contact Us” page. If the *IESO* Customer Relations Centre is closed, messages or emails can be left, which will be logged.

Standard forms that participants must complete for this procedure are listed in Appendix A. These forms are generally available for downloading on the *IESO*'s Web site. These forms as well as the accompanying supporting documentation must be transmitted to the *IESO* via mail or courier by using the appropriate address provided on the *IESO*'s Web site or on the form. All correspondence relating to this procedure shall identify the subject: ***Prudential Support***.

– End of Section –

2. Procedural Work Flow

The diagrams in this section represent the flow of work and information related to the *prudential support* procedures between the *IESO*, the primary external *market participant* involved in the procedure, and any other parties.

The steps illustrated in the diagrams are described in detail in Section 3.

Table 2–1: Legend for Work Flow Diagrams

| Legend | Description |
|-----------------------|---|
| Oval | An event that triggers task or that completes task. Trigger events and completion events are numbered sequentially within procedure (01 to 99) |
| Task Box | Shows reference number, party responsible for performing task (if “other party”), and task name or brief summary of task. Reference number (e.g., 1A.02) indicates procedure number within current <i>market manual</i> (1), sub-procedure identifier (if applicable) (A), and task number (02) |
| Solid horizontal line | Shows information flow between the <i>IESO</i> and external parties |
| Solid vertical line | Shows linkage between tasks |
| Broken line | Links trigger events and completion events to preceding or succeeding task |

2.1 Review of Trading Limit

Prior to the start of each *billing period*, following the issuance of a *margin call*, following an *event of default* or following a credit watch warning, the *IESO* reviews a *market participant’s trading limit* (with the exception of *market participants* under the *no margin call option*). This process is also initiated for the first time during the participant authorization process.

The steps are described in detail in Section 3.1, Table 3-1.

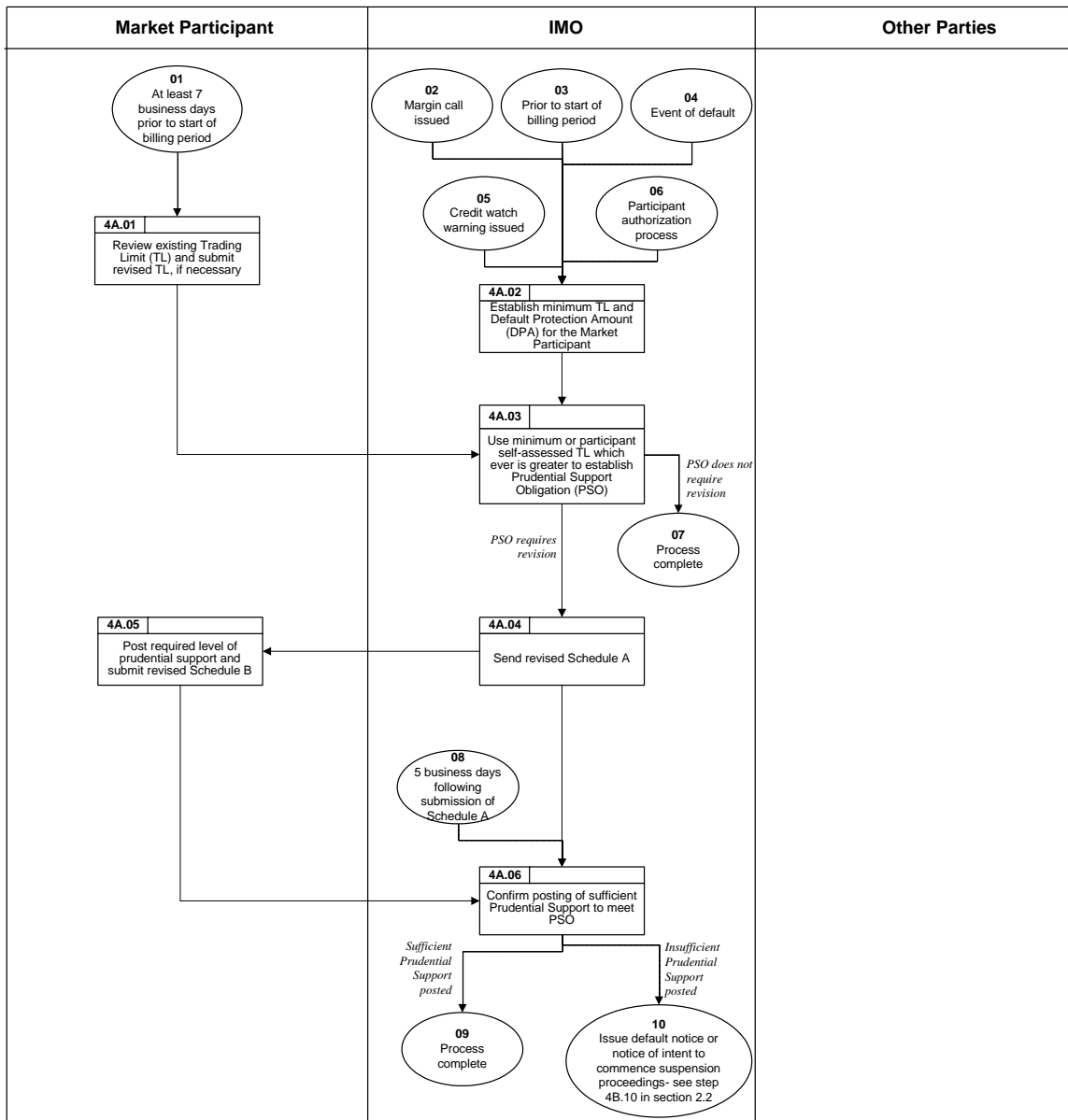


Figure 2–1: Work Flow for Review of Trading Limit

2.2 Daily Monitoring of Prudential Support

On a daily basis, the IESO conducts monitoring of market activity, including monitoring of both *actual exposure to trading limit* (with the exception of *market participants under the no margin call option*) and credit watch warnings. Figure 2-2 shows the steps in this process.

The steps are described in detail in Section 3.2, Table 3-2.

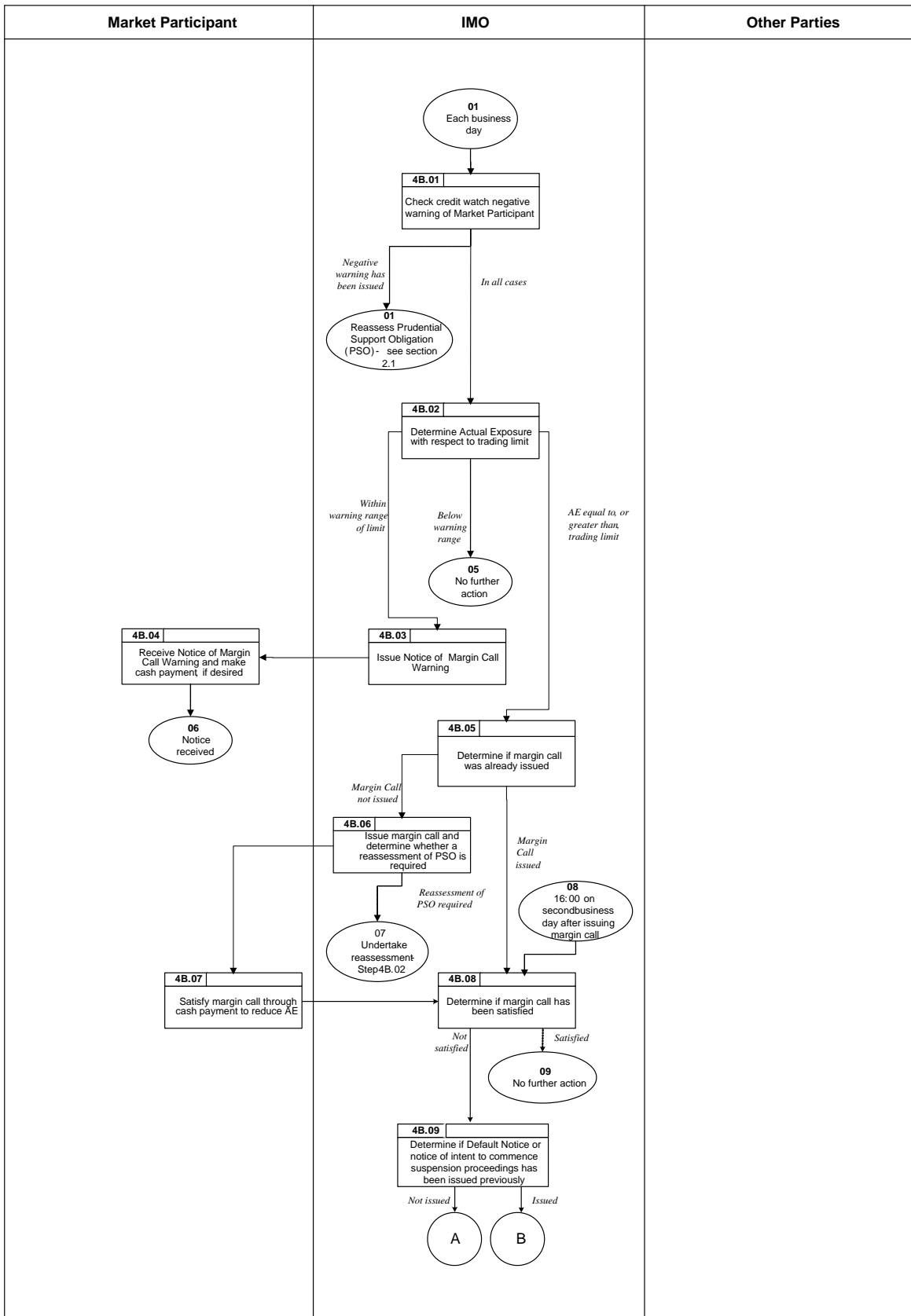


Figure 2–2: Work Flow for Daily Monitoring of Prudential Support

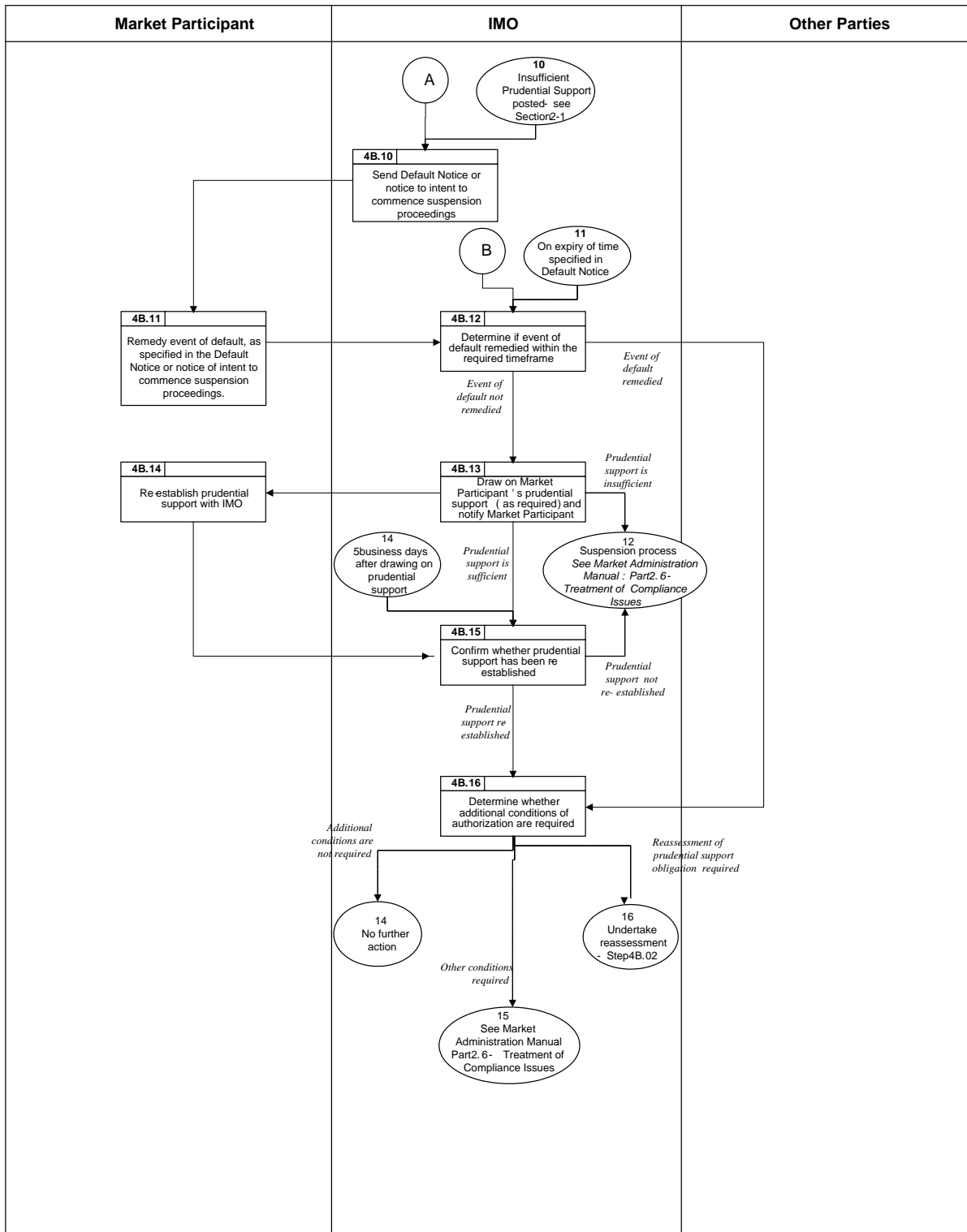


Figure 2–2: Work Flow for Daily Monitoring for Prudential Support (continued)

– End of Section –

3. Procedural Steps

This section contains detail on the tasks (steps) that comprise the *prudential support* procedures. The tables contain seven columns, as follows:

Ref

The numerical reference to the task.

Task Name

The task name as identified in Section 2.

Task Detail

Detail about the task.

When

A list of all the events that can trigger commencement of the task.

Resulting Information

A list of the information flows that may or must result from the task.

Method

The format and method for each information flow are specified.

Completion Events

A list of all the circumstances in which the task should be deemed finished.

3.1 Review of Trading Limit

Prior to the start of each *billing period*, following the issuance of a *margin call*, following an *event of default* or following a credit watch warning, the *IESO* reviews a *market participant's trading limit* (with the exception of *market participants* under the *No margin call option*). This process is also initiated for the first time during the participant authorization process.

Steps shown in the following table are illustrated in Section 2.1, Figure 2-1.

Table 3–1: Procedural Steps for Review of Trading Limit

| Ref. | Task Name | Task Detail | When | Resulting Information | Method | Completion Events |
|-------------|---|--|---|------------------------------|---------------|--|
| 4A.01 | Review existing <i>trading limit</i> (TL) and submit revised <i>trading limit</i> , if necessary. | <p><i>Market participants</i> should monitor their existing <i>trading limit</i> to ensure that it is sufficient to cover their expected trading activity in the <i>real-time market</i> during the next <i>billing period</i>.</p> <p>If changes are required to the <i>trading limit</i>, the <i>market participant</i> must notify the <i>IESO</i> that it wishes to revise its current <i>trading limit</i>.</p> | At least 7 <i>business days</i> prior to the start of the <i>billing period</i> . | Revised <i>trading limit</i> | IMO-FORM-1044 | <i>Market participant</i> notifies <i>IESO</i> of revised <i>trading limit</i> , if desired. |

Table 3–1: Procedural Steps for Review of Trading Limit

| Ref. | Task Name | Task Detail | When | Resulting Information | Method | Completion Events |
|-------------|---|---|--|------------------------------|---------------|---|
| 4A.02 | Establish minimum trading limit and default protection amount (DPA) for the market participant. | The IESO assesses the market participant's minimum trading limit and default protection amount, as set out in Appendix B. | On one of the following: <ul style="list-style-type: none"> • Prior to start of billing period; • Margin call issued; • Event of default; • Credit watch negative warning issued; or • During participant authorization.. | None | None | Minimum trading limit and default protection amount assessed. |

Table 3–1: Procedural Steps for Review of Trading Limit

| Ref. | Task Name | Task Detail | When | Resulting Information | Method | Completion Events |
|-------|--|--|---|-----------------------|--------|--|
| 4A.03 | Use minimum or participant <i>self-assessed trading limit</i> , which is greater, to establish <i>prudential support obligation</i> (PSO). | <p>The <i>IESO</i> will review any <i>trading limit</i> submitted by a <i>market participant</i> (or the existing <i>trading limit</i> applied to the <i>market participant</i> during the previous <i>billing period</i>, if the <i>market participant</i> does not submit a <i>trading limit</i>) against the <i>minimum trading limit</i> calculated by the <i>IESO</i> and use the greater of these figures to establish the <i>market participant’s maximum net exposure</i> – the sum of a <i>market participant’s trading limit</i> and <i>default protection amount</i>.</p> <p>The <i>IESO</i> will reduce a <i>market participant’s prudential support obligation</i>, on the basis of a good payment history or credit rating, or LDC prudential credit as set out in Chapter 2, Section 5.8 of the “Market Rules.”</p> | Following Step 4A.02 or Step 4A.01, if <i>market participant</i> notifies <i>IESO</i> or revised <i>trading limit</i> . | None | None | <i>Prudential support obligation</i> established for <i>market participant</i> . |

Table 3–1: Procedural Steps for Review of Trading Limit

| Ref. | Task Name | Task Detail | When | Resulting Information | Method | Completion Events |
|-------------|--|---|---|---|----------------|---|
| 4A.04 | Send revised Schedule A. | The <i>IESO</i> sends a revised Schedule A, which sets out the level of <i>prudential support</i> that the <i>market participant</i> is required to post with the <i>IESO</i> . | Following Step 4A.03. | Revised "Prudential Support Obligation - Schedule A" (IMO-FORM-1443). | Email or fax | Revised Schedule A sent to <i>market participant</i> . |
| 4A.05 | Post required level of <i>prudential support</i> and submit revised Schedule B. | <i>Market participant</i> posts sufficient <i>prudential support</i> with the <i>IESO</i> to meet the <i>prudential support obligation</i> specified in Schedule A and submits a revised Schedule B detailing the type and amount of <i>prudential support</i> posted. | Within 5 <i>business days</i> of receiving the revised Schedule A from the <i>IESO</i> in Step 4A.04. | <i>Prudential support</i> Revised "Prudential Support Posted - Schedule B" (IMO-FORM-1444) | Email or fax . | <i>Prudential support</i> posted with <i>IESO</i> . |
| 4A.06 | Confirm posting of sufficient <i>prudential support</i> to meet <i>prudential support obligation</i> . | <i>IESO</i> confirms that sufficient <i>prudential support</i> has been posted by the <i>market participant</i> to meet the <i>prudential support obligation</i> in Schedule A. If the <i>market participant</i> has not posted sufficient <i>prudential support</i> , the <i>IESO</i> will issue a default notice, or <i>notice of intent to suspend</i> – see Step 4B.10 in Section 2.2. | 5 <i>business days</i> after submitting the revised Schedule A in Step 4A.04. | None | None | Confirm as to whether sufficient <i>prudential support</i> has been posted by the <i>market participant</i> . |

– End of Section –

3.2 Daily Monitoring of Prudential Support

On a daily basis, the *IESO* monitors *market participants* to verify adequate *prudential support* for their financial position in the market.

Steps shown in the following table are illustrated in Section 2.2, Figure 2-2.

Table 3–2: Procedural Steps for Daily Monitoring

| Ref. | Task Name | Task Detail | When | Resulting Information | Method | Completion Events |
|-------------|--|---|--|------------------------------|---------------|--|
| 4B.01 | Check credit watch negative warning of <i>market participant</i> . | <p>The <i>IESO</i> will maintain a list of major bond rating agencies that will be monitored to determine if a <i>market participant</i> is placed on credit watch negative status.</p> <p>This status affects the <i>IESO</i>'s assessment of the <i>market participant's prudential support obligation</i>. A credit watch negative warning issued by one of the agencies will trigger a reassessment of the <i>market participant's prudential support obligation</i>.</p> | At the start of each <i>business day</i> . | None | None | <p>The <i>IESO</i> determines whether a credit watch negative warning has been issued on a <i>market participant</i>.</p> <p>If a credit watch negative warning has been issued, the <i>IESO</i> reassesses the <i>market participant's prudential support obligation</i> – see Step 4A.02 in Section 2.1.</p> |

Table 3–2: Procedural Steps for Daily Monitoring

| Ref. | Task Name | Task Detail | When | Resulting Information | Method | Completion Events |
|-------|---|--|--|---|---|---|
| 4B.02 | Determine <i>actual exposure</i> (AE) with respect to <i>trading limit</i> . (with the exception of <i>market participants</i> under the <i>No margin call option</i>) | <p>The <i>market participant's actual exposure</i> is calculated daily as the hourly and non-hourly <i>settlements</i> amounts payable by the <i>market participant</i> less amounts payable to the <i>market participant</i> (including unpaid items from past <i>billing periods</i> and estimates for transactions that have occurred in the current <i>billing period</i>, per “Market Rules,” Chapter 2, Section 5.5).</p> <p>The <i>actual exposure</i> is then compared to the established <i>trading limit</i> for the <i>market participant</i>.</p> <p>If below warning range, as detailed in Table 1-1, no further action is taken.</p> | After Step 4B.01, regardless of whether a credit watch negative warning was issued. | None | None | The <i>IESO</i> determines whether the <i>actual exposure</i> is greater than, within warning range of, or below the warning range of the <i>market participant's trading limit</i> . |
| 4B.03 | Issue “Notice of Margin Call Warning” (with the exception of <i>market participants</i> under the <i>No margin call option</i>). | The <i>market participant</i> is notified that its exposure is approaching the <i>trading limit</i> established for that <i>market participant</i> , at which time the <i>IESO</i> would be required to issue a <i>margin call</i> . | After Step 4B.02, if the calculated <i>actual exposure</i> is $\geq 70\%$ of the <i>market participant's trading limit</i> and $< 100\%$. | “Notice of Margin Call Warning” (“IMO-FORM-1139”) | Email or fax and follow-up via telephone. | Notice of <i>margin call warning</i> issued to <i>market participant</i> . |

Table 3–2: Procedural Steps for Daily Monitoring

| Ref. | Task Name | Task Detail | When | Resulting Information | Method | Completion Events |
|-------|---|---|---|---|---|--|
| 4B.04 | Receive “Notice of Margin Call Warning” and make cash payment, if desired. | The <i>market participant</i> receives the “Notice of Margin Call Warning” and may elect to take action to reduce its AE through making a cash payment to the <i>IESO</i> in order to lessen the risk of a <i>margin call</i> . A <i>market participant</i> may elect to take alternative actions to ensure that its <i>actual exposure</i> does not reach its <i>trading limit</i> (ex: enter into <i>physical bilateral contracts</i>). | After Step 4B.03. | Optional: Cash payment | <i>Electronic funds transfer</i> (EDI-820 or wire transfer), completion of IMO-FORM-1130 faxed to <i>IESO</i> | Notice of <i>margin call warning</i> received and cash payment made, if desired. |
| 4B.05 | Determine if <i>margin call</i> was already issued. | The <i>IESO</i> determines whether a <i>margin call</i> has already been issued to the <i>market participant</i> | After Step 4B.02 if <i>actual exposure</i> is equal to, or greater than, the <i>trading limit</i> . | None | None | The <i>IESO</i> determines whether a <i>margin call</i> was previously issued. |
| 4B.06 | Issue <i>margin call</i> (with the exception of <i>market participants</i> under the <i>no margin call option</i>) and determine whether a reassessment of <i>prudential support obligation</i> is required. | If no previous <i>margin call</i> has been issued, the <i>IESO</i> issues a <i>margin call</i> to the <i>market participant</i> detailing the amount payable. The <i>IESO</i> will also determine whether a reassessment of the <i>market participant’s prudential support obligation</i> is required. | After Step 4B.05 if a <i>margin call</i> has not already been issued. | “Notice of Margin Call” (“IMO-FORM-1140”) | Email or fax and follow-up via Telephone | <i>Margin call</i> issued to market participant. |

Table 3–2: Procedural Steps for Daily Monitoring

| Ref. | Task Name | Task Detail | When | Resulting Information | Method | Completion Events |
|-------|---|--|---|-----------------------|---|--|
| 4B.07 | Receive <i>margin call</i> and satisfy <i>margin call</i> obligations through cash payment to reduce <i>actual exposure</i> . | When a <i>margin call</i> is issued, the <i>market participant</i> must provide a cash payment to reduce its <i>actual exposure</i> , as specified in the “Notice of Margin Call.” (Payments shall be applied first to the amount outstanding with respect to the earliest <i>billing period</i> under the <i>market rules</i> and, if the amount outstanding in respect of that <i>billing period</i> is less than the amount of the payment, then the excess shall be applied to the next earliest <i>billing period</i> in respect of which there is an amount outstanding under the <i>market rules</i> and so on until there is no excess.) | Before 1600 hours on the second <i>business day</i> following the issuance <i>margin call</i> . | Cash payment | <i>Electronic funds transfer</i> (EDI-820 or wire transfer)), completion of “IMO-FORM 1130” faxed to <i>IESO</i> | Obligations of <i>margin call</i> satisfied. |
| 4B.08 | Determine if <i>margin call</i> has been satisfied. | The <i>IESO</i> determines whether the <i>market participant</i> has satisfied the <i>margin call</i> within the specified timeframe, through providing a cash payment. If the <i>margin call</i> is satisfied, no further action is required. | Following 1600 hours on the second <i>business day</i> after issuing the “Notice of Margin Call”. | None | None | Determination rendered |

Table 3–2: Procedural Steps for Daily Monitoring

| Ref. | Task Name | Task Detail | When | Resulting Information | Method | Completion Events |
|-------|--|---|--|--|--|--|
| 4B.09 | Determine if default notice, or notice of intent to suspend has been issued previously. | An <i>event of default</i> has occurred. The <i>IESO</i> determines if a default notice or <i>notice of intent to suspend</i> has already been sent to the defaulting <i>market participant</i> . | After Step 4B.08, if the <i>margin call</i> was not satisfied. | None | None | Determination rendered |
| 4B.10 | Send default notice or <i>notice of intent to suspend</i> | The <i>IESO</i> sends a default notice or <i>notice of intent to suspend</i> to the <i>market participant</i> outlining: <ul style="list-style-type: none"> the <i>event of default</i> actions required to remedy the <i>event of default</i> by a specified due date; | After Step 4B.09, if a default notice, or <i>notice of intent to suspend</i> has not already been issued Following failure to post a sufficient level of <i>prudential support</i> (see Step 4A.06 in Section 2.1). | Default notice, or <i>notice of intent to suspend</i> | Email and phone call | Default notice or <i>notice of intent to suspend</i> sent to <i>market participant</i> . |
| 4B.11 | Remedy <i>event of default</i> , as specified in the default notice, or <i>notice of intent to suspend</i> . | The <i>market participant</i> receives the default notice or <i>notice of intent to suspend</i> from the <i>IESO</i> and remedies the <i>event of default</i> as specified in the notice. | On expiry of time specified in default notice or <i>notice of intent to suspend</i> (within 2 business days or such longer period as specified in the notice). | Remedy of <i>event of default</i> as specified in the appropriate notice | <i>Electronic funds transfer</i> (EDI-820 or wire transfer), completion of “IMO-FORM 1130” faxed to <i>IESO</i> if cash payment made | <i>Market participant</i> remedies <i>event of default</i> . |
| 4B.12 | Determine if the <i>event of default</i> was remedied within the required timeframe. | The <i>IESO</i> determines if the <i>market participant</i> has remedied the <i>event of default</i> . The <i>IESO</i> may draw upon the <i>market participant’s prudential support</i> . | First <i>business day</i> following Step 4B.11. | None | None | The <i>IESO</i> determines whether the <i>event of default</i> was remedied in the required timeframe. |

Table 3–2: Procedural Steps for Daily Monitoring

| Ref. | Task Name | Task Detail | When | Resulting Information | Method | Completion Events |
|-------|---|---|---|---|--|---|
| 4B.13 | Draw on <i>market participant's prudential support</i> (as required) and notify <i>market participant</i> . | If the <i>event of default</i> is not remedied within the timeframe specified in the notice, <i>IESO</i> may proceed to draw on the <i>market participant's prudential support</i> , as required, to realize the required payments. | After Step 4B.12, if the <i>event of default</i> was remedied within the specified timeframe. | Notification that <i>prudential support</i> has been drawn on and request to re-establish <i>prudential support</i> . | Telephone, followed up fax and/or mail | The <i>market participant's prudential support</i> is drawn upon and a determination is made as to whether the existing <i>prudential support</i> is adequate. |
| 4B.14 | Re-establish <i>prudential support</i> with <i>IESO</i> . | <i>Market participant</i> posts <i>prudential support</i> with <i>IESO</i> to satisfy its <i>prudential support obligation</i> . | Within 5 <i>business days</i> of Step 4B.13 | <i>Prudential support</i> | As appropriate for the type of <i>prudential support</i> posted. | <i>Prudential support</i> posted with <i>IESO</i> . |
| 4B.15 | Confirm that <i>prudential support</i> has been re-established. | The <i>IESO</i> confirms that sufficient <i>prudential support</i> has been posted to satisfy the <i>prudential support obligation</i> . If it has not, the <i>IESO</i> may suspend the market participant (as described in "Market Manual 2: Market Administration, Part 2.6, Treatment of Compliance Issues"). | 5 <i>business days</i> after Step 4B.13 | None | None | <i>IESO</i> confirms whether <i>prudential support</i> has been re-established Initiate further compliance actions as required if the <i>prudential support</i> is insufficient to meet the <i>prudential support obligation</i> . |

Table 3–2: Procedural Steps for Daily Monitoring

| Ref. | Task Name | Task Detail | When | Resulting Information | Method | Completion Events |
|-------------|--|--|--|------------------------------|---------------|--|
| 4B.16 | Determine whether additional conditions of authorization are required. | Following the occurrence of an <i>event of default</i> , the <i>IESO</i> may impose additional conditions on the market participant, such as a lower trading limit, more frequent schedule of payments, or more stringent prudential support requirements. | Following Step 4B.14, where the <i>event of default</i> is remedied. Following Step 4B.15, where <i>prudential support</i> is re-established. | None | None | If reassessment is not required: Process completed If reassessment is required: Start reassessment process – Step 4B.02 |

– End of Section –

Appendix A: Forms

This appendix contains a list of forms associated with the *prudential support* procedure, which are available on the *IESO*'s Web site (<http://www.ieso.ca/>). The forms included are as follows:

| Form Name | Form Number |
|---|--------------------------|
| Notice of Margin Call Warning | IMO-FORM-1139 |
| Notice of Margin Call | IMO-FORM-1140 |
| Prudential Support Information | IMO-FORM-1044 |
| Prudential Support Spreadsheet | IMO-FORM-1044 attachment |
| Notification of Prepayment | IMO-FORM-1130 |
| Prudential Guarantee | IMP-GRNT-0001 |
| Prudential Support Obligation – Schedule A | IMO-FORM-1443 |
| Prudential Support Posted – Schedule B | IMO-FORM-1444 |
| Prudential Support Supplementary Form | IMO-FORM-1445 |
| Affidavit Regarding Reduction in Prudential Support Obligations | IMO_AFF_0001 |

– End of Section –

Appendix B: Calculation of Minimum Trading Limit and Default Protection Amount

B.1 Introduction

With the exception of a *market participant* who has elected the *no-margin call option*, the *maximum net exposure* for a *market participant* is equal to the sum of its *trading limit* and *default protection amount* (DPA) (Chapter 2, section 5.3.1 of the market rules).

B.2 Default Protection Amount

The *IESO* shall establish a *default protection amount* for each *market participant* as follows (Chapter 2 section 5.3.8 of the market rules):

- For a *metered market participant*, its *default protection amount* shall be equal to the *IESO's* estimate of the *metered market participant's* net *settlement* amounts for that *energy market billing period*, excluding estimated *settlement amounts* associated with the *energy forward market* and estimated *settlement amounts* associated with a *transmission right*, assuming 21 days of participation in the *real-time market* and assuming all *energy* injected or withdrawn is transacted through the *real-time market* (i.e. ignoring the impact of *physical bilateral contracts*);
- For a *market participant* that is not a *metered market participant*, the *default protection amount* shall be equal to the *minimum trading limit* for that *market participant* for that *energy market billing period* as determined by the *IESO* pursuant to Chapter 2, section 5.3.4.2 or section 5.3.4.3, as applicable..

Adjusting the Default Protection Amount for Physical Bilateral Contracts

- A *metered market participant* with a credit rating of BBB- or higher, subject to any adjustment under section 5.8.2, may request its *default protection amount* be calculated removing the *energy* quantities associated with the participant's *physical bilateral contracts* registered with the *IESO* provided it submits to the *IESO* the quantity and duration of the applicable *physical bilateral contracts* and it notifies the *IESO* immediately upon a change in the quantity or duration of the *physical bilateral contracts* including the termination of any of the contracts.

- If the above conditions are met (Chapter 2, section 5.3.8A of the *market rules*), the *IESO* shall determine the *metered market participant's default protection amount* assuming all energy injected or withdrawn is transacted through the *real-time market* net of energy quantities associated with those *physical bilateral contracts*.

B.3 Minimum Trading Limit

The *IESO* shall establish a *minimum trading limit* (MTL) amount for each *market participant* as follows (with the exception of *market participants* under the *no margin call option*) (Chapter 2, section 5.3.4 of the *market rules*):

- The *minimum trading limit* for a *metered market participant* shall be equal to the *IESO's* estimate of the *metered market participant's net settlement amounts*, excluding estimated *settlement amounts* associated with the *energy forward market* and estimated *settlement amounts* associated with a *transmission right*, assuming 7 days of participation in the *real-time market* and assuming all energy injected or withdrawn is transacted through the *real-time market* (i.e. ignoring the impact of *physical bilateral contracts*). The *IESO* may use a greater number, up to and including 49 days of participation in the *real-time market* for the determination of a *metered market participant's minimum trading limit* if that *metered market participant* was subject to more than one *margin call* per *energy market billing period*, provided that any such *margin call* is not the result of a price spike.
- The *minimum trading limit* for a *market participant* that is not a *metered market participant*, shall be equal to 25% of the *IESO's* estimate of the *market participant's net settlement amounts* for the upcoming *energy market billing period*. In estimating this net *settlement amount*, the *IESO* shall, subject to section 5.3.4.3, use an average of actual net *settlement amounts* for the 3 most recent *energy market billing periods* in which that *market participant* has transacted in the *real-time market*. The *IESO* may use a greater percentage up to and including 100% of the estimated *market participant's net settlement amounts* for the determination of a *market participant's minimum trading limit* if that *market participant* was subject to more than one *margin call* per *energy market billing period*, provided that any such *margin call* is not caused by a price spike; and
- The *minimum trading limit* for a *market participant* that is not a *metered market participant* who has not transacted for at least 3 months in the *real-time market* shall be equal to 25% of the *market participant's* estimate of its net *settlement amount* for the upcoming *energy market billing period*. Such a *market participant* shall provide to the *IESO*, an estimate of its net *settlement amount* for the upcoming *energy market billing period* at least 7 *business days* prior to the start of the applicable *energy market billing period*. The *IESO* may adjust the *market participant's minimum trading limit* at any time if that *market participant's* actual net *settlement amounts* for the current *billing period* are projected to differ significantly from the estimate provided.

Adjusting the Minimum Trading Limit for Physical Bilateral Contracts

- A *metered market participant* with a credit rating of BBB- or higher, subject to any adjustment under section 5.8.2, may request its *minimum trading limit* be calculated removing the *energy quantities* associated with the participant's *physical bilateral contracts*

registered with the *IESO* provided it submits to the *IESO* the quantity and duration of the applicable *physical bilateral contracts* and it notifies the *IESO* immediately upon a change in the quantity or duration of the *physical bilateral contracts* including the termination of any of the contracts.

- If the above conditions are met (Chapter 2, section 5.3.8A of the *market rules*), the *IESO* shall determine the *metered market participant's minimum trading limit* assuming all *energy* injected or withdrawn is transacted through the *real-time market* net of *energy* quantities associated with those *physical bilateral contracts*.

– End of Section –

Appendix C: Credit Ratings

The reduction in the level of *prudential support obligation* relative to the *market participant's maximum net exposure* that can be applied by the *IESO* based on a *market participant's* credit rating is set out in the following tables (Chapter 2, section 5.8.1 and 5.8.1A of the market rules):

Table C–1: Credit Rating Reductions for Non-Distributors

| Credit Rating with Standard and Poor's Rating Terminology | Maximum allowable reduction in <i>Prudential Support</i> (\$) |
|--|--|
| AA- and above or equivalent | 100% of <i>maximum net exposure</i> |
| A-, A, A+ or equivalent | Greater of 85% of <i>maximum net exposure</i> or \$25,000,000 |
| BBB-, BBB, BBB+ or equivalent | Greater of 60% of <i>maximum net exposure</i> or \$10,000,000 |
| BB-, BB, BB+ or equivalent | Greater of 25% of <i>maximum net exposure</i> or \$3,000,000 |
| Below BB- or equivalent | 0 |

Table C-2: Credit Rating Reductions for Distributors

| Credit Rating with Standard and Poor's Rating Terminology | Maximum allowable reduction in <i>Prudential Support</i> (\$) |
|--|--|
| AA- and above or equivalent | 100% of <i>maximum net exposure</i> |
| A-, A, A+ or equivalent | Greater of 90% of <i>maximum net exposure</i> or \$30,000,000 |
| BBB-, BBB, BBB+ or equivalent | Greater of 75% of <i>maximum net exposure</i> or \$15,000,000 |
| BB-, BB, BB+ or equivalent | Greater of 50% of <i>maximum net exposure</i> or \$5,000,000 |
| Below BB- or equivalent | 0 |

The list of bond rating agencies that can provide a credit rating for this purpose can be found at: <http://www.ieso.ca/imoweb/marketentry/bralist.asp>

– End of Section –

References

| Document ID | Document Title |
|--------------------|---|
| IMO_LST_0001 | List of Financial Institutions Eligible to Provide Prudential Support |
| MDP_RUL_0002 | Market Rules |
| N/A | The Bank Act, S.C. 1991 |
| MDP_PRO_0014 | Market Manual 1: Market Entry, Maintenance & Exit Part 1.1: Participant Authorization, Maintenance and Exit |
| MDP_PRO_0022 | Market Manual 2: Market Administration, Part 2.6: Treatment of Compliance Issues |
| MDP_PRO_0029 | Market Manual 4: Market Operations, Part 4.4: Transmission Rights Auction |
| MDP_MAN_0005 | Market Manual 5: Settlements, Part 5.0: Settlements Overview |
| MDP_PRO_0032 | Market Manual 5: Settlements, Part 5.2: Meter Data Processing |
| MDP_PRO_0034 | Market Manual 5: Settlements, Part 5.3: Submission of Physical Bilateral Contract Data |
| MDP_PRO_0036 | Market Manual 5: Settlements Part 5.9: Settlement Payment Methods and Schedule |

– End of Document –