

**SECTION IV.B**  
**CAPITAL FUNDING ARRANGEMENTS**

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Senior Vice President and General Counsel  
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**IV.B.1 Definitions:** Whenever used in this Section IV.B, in either the singular or plural number, capitalized terms shall have the meanings specified in Section I of the Tariff.

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#### **IV.B.2 Purpose of Section IV.B and the Charges Assessed Hereunder**

Section IV.B is the means by which the ISO collects: (1) the revenues necessary, to the extent not obtained by the ISO through private financing, for the acquisition of capital assets required for support of the ISO's operations; (2) any remaining unamortized costs of capital items financed by the ISO in the event of termination, acceleration or other required repayment of private financing approved by the Commission pursuant to Section 204 of the Federal Power Act and entered into by the ISO (or by ISO

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New England Inc. as an independent system operator prior to the Operations Date) in support of capital item acquisitions; (3) the working capital amount required by the ISO in the event of termination, acceleration or required repayment of private financing approved by the Commission pursuant to Section 204 of the Federal Power Act and entered into by the ISO (or by ISO New England Inc. as an independent system operator prior to the Operations Date) (following approval thereof by the Commission pursuant to Section 204 of the Federal Power Act) to meet working capital requirements; and (4) amounts owned by the ISO in the event of termination, acceleration or required repayment of “Shortfall Funding Arrangement” financing approved by the Commission pursuant to Section 204 of the Federal Power Act and entered into by the ISO in support of weekly billing under the

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Billing Policy.

Section IV.B comprises four charges corresponding to the four categories of costs described above.

- The Capital Funding Charge (the “CFC”) will collect from the Market Participants funds for the direct purchase of capital assets if the ISO does not enter into private financing to fund these purchases or the ISO funds the purchases through interim financings and does not enter into private financing to provide long-term funding of these purchases
- The Early Amortization Charge (the “EAC”) will collect from the Market Participants remaining unamortized costs of capital items financed by the ISO in the event of termination, acceleration or required repayment of private financing, or in the case of non-amortizing private financing, payment at maturity if the ISO is unable to refinance such non-amortizing private financing, entered into by the ISO (or by ISO New England Inc. as an independent system operator prior to the

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Operations Date) in support of capital item acquisitions, including refinancings in support of such acquisitions.

- The Early Amortization Working Capital Charge (the “EAWCC”), will collect from the Market Participants such funds as are required to fund the Working Capital Amount in the event of termination, acceleration or required repayment of private financing entered into by the ISO (or by ISO New England Inc. as an independent system operator) in support of its working capital needs.
- The Early Payment Shortfall Funding Charge (the “EPSFC”) will collect from the Market Participants such funds as are required to be paid by the ISO in the event of termination, acceleration or required repayment of the “Shortfall Funding Arrangement” financing entered into by the ISO in support of weekly billing under the Billing Policy.

The ISO will not, and will not cause anyone else to, seek a revocation or termination of the EAC, EAWCC or EPSFC, or seek any modification thereto that would adversely affect the rights of the ISO’s lenders during the terms of the ISO’s private financing agreements or while any indebtedness or other obligations of the ISO are outstanding thereunder.

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#### **IV.B.2.1 The CFC**

As stated above, the CFC recovers the acquisition costs of the ISO's capital items that have not been otherwise funded by private financing or another source of funding.

The cost of each capital item is allocated among the three Services corresponding to the extent to which that capital item is utilized in providing the Service.

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To assist the Market Participants in their planning for payments of the CFC, if the ISO determines that it needs to assess a CFC, the ISO will post on its website, in advance of collection, a non-binding estimate of cash flow requirements of the ISO (for the upcoming calendar year or portion thereof) with respect to acquisition of the ISO's capital items, and allocated among the Schedules.

Each month, the ISO shall bill each Market Participant, and each Market Participant shall pay, as its CFC: (1) the proportion of the capital costs allocated to Schedule 1 actually incurred by the ISO during the preceding month equaling the proportion of the Market Participant's charges under Schedule 1 to the total charges to all Market Participants under that rate schedule during the preceding month; (2) the proportion of the capital costs allocated to Schedule 2 actually incurred by the ISO during the preceding month equaling the proportion of the Market Participant's charges under Schedule 2 to the total charges to all Market Participants under that rate schedule during the preceding month; and (3) the proportion

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of the capital costs allocated to Schedule 3 actually incurred by the ISO during the preceding month equaling the proportion of the Market Participant's charges under Schedule 3 to the total charges to all Market Participants under that rate schedule during the preceding month.

For example, if the Schedule 2 capital costs and the Schedule 3 capital costs incurred in the preceding month are \$500,000 each, and the Market Participant's share of total charges to Market Participants under Schedule 2 for March was 5%, and the Market Participant's share of total charges under Schedule 3 for March was 3%, the Market Participant's CFC that month would equal (for Schedule 2)  $\$500,000 \times .05$  or \$25,000, plus (for Schedule 3)  $\$500,000 \times .03$  or \$15,000, for a total CFC of \$40,000.

#### **IV.B.2.2 The EAC**

In the event of termination, acceleration or required repayment of private financing, or in the case of non-amortizing private financing, payment at maturity if the ISO is unable to refinance such non-amortizing private financing, entered into by the ISO (or by ISO New England Inc. as an independent system operator) in support of the ISO's capital items and if no

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replacement financing has been obtained by the ISO, an EAC will be billed to, and paid by, each Market Participant. The ISO shall provide electronic notice (no less than thirty (30) business days in advance of the date payment is due to the ISO's lenders) to each Market Participant of the aggregate amount of the unamortized costs of the financed assets (the "EA Amount"), and the portion of the EA Amount assigned by the ISO to each of the Schedules (the "Announced Schedule 1 EA Amount," the "Announced Schedule 2 EA Amount," and the "Announced Schedule 3 EA Amount," respectively). The foregoing assignment by the ISO of the EA Amount to each of the Schedules shall be made in proportion to the total respective value of capital items allocated to each of the Schedules. In each such circumstance, the ISO shall, immediately after giving the notice described above, bill each Market Participant and each Market Participant shall pay, as its EAC: (1) the proportion of the Announced Schedule 1 EA Amount equaling the proportion of the Market Participant's charges under Schedule 1 to the total charges to all Market Participants under that rate schedule during the month previous to the

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month in which the foregoing notice has been given; (2) the proportion of the Announced Schedule 2 EA Amount equaling the proportion of the Market Participant's charges under Schedule 2 to the total charges to all Market Participants under that rate schedule during the month previous to the month in which the foregoing notice has been given; and (3) the proportion of the Announced Schedule 3 EA Amount equaling the proportion of the Market Participant's charges under Schedule 3 to the total charges to all Market Participants under that rate schedule during the month previous to the month in which the foregoing notice has been given.

For example, if the Announced Schedule 2 EA Amount and the Announced Schedule 3 EA Amount in April are \$500,000 each, and the Market Participant's share of total charges to Market Participants under Schedule 2 for March was 5%, and the Market Participant's share of total charges under Schedule 3 for March was 3%, the Market Participant's EAC would equal (for Schedule 2)  $\$500,000 \times .05$  or \$25,000, plus (for Schedule 3)  $\$500,000 \times .03$  or \$15,000, for a total EAC of \$40,000.

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### **IV.B.2.3 The EAWCC**

In the event of termination, acceleration or required repayment of private financing that has been entered into by the ISO (or by ISO New England Inc. as an independent system operator) in support of the ISO's working capital requirements, and if no replacement financing has been obtained by the ISO, an EAWCC will be billed to, and paid by, each Market Participant. The ISO shall provide electronic notice (no less than thirty (30) business days in advance of the date payment is due to the ISO's lenders) to each Market Participant of the aggregate amount of the Working Capital Amount (the "EAWW Amount"). In each such circumstance, the ISO shall immediately bill each Market Participant and each Market Participant shall pay, as its EAWCC, the proportion of the EAWW Amount equaling the proportion of the Market Participant's charges under the Schedules to the total charges to all Market Participants under the Schedules during the month previous to the month in which notice has been given.

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For example, if notice is given in April that the EAWW Amount is \$1,000,000 and the Market Participant's share of total charges under all three Schedules for March was 4% of all charges to all Market Participants, the Market Participant would be charged an EAWCC of \$1,000,000 x .04 or \$40,000.

#### **IV.B.2.4 The EPSFC**

In the event of termination, acceleration or required payment of the "Shortfall Funding Arrangement" financing that has been entered into by the ISO in support of weekly billing under the Billing Policy, and if no replacement financing has been obtained by the ISO, an EPSFC will be billed to, and paid by, each Covered Entity. The ISO shall provide electronic notice (no less than thirty (30) business days in advance of the date payment is due to the ISO's lenders) to each Covered Entity of the aggregate amount of the Early Payment Shortfall Funding Amount (the "EPSF Amount"). In each such circumstance, the ISO shall immediately bill each Covered Entity and each Covered Entity shall pay, as its EPSFC, a pro rata portion of the

EPSF Amount allocated in the same manner as specified in Section 5.4(c) of the Billing Policy for payments required from Covered Entities to restore the Required Balance.

**IV.B.3 Billing and Payment Billing Procedure:** With respect to charges under this Section of the Tariff, the ISO will apply the Billing Policy.

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#### **IV.B.4 Regulatory Filings**

Nothing contained in this Section IV.B. shall be construed as affecting in any way the right of the ISO to file with the Commission under Section 205 of the Federal Power Act and pursuant to the Commission's rules and regulations promulgated thereunder for a change in any rates, terms and conditions, charges, classification of service, Service Agreement, rule or regulation.

Nothing contained in this Section IV.B. shall be construed as affecting in any way the ability of any Customer under Section IV.B to exercise its rights under the Federal Power Act and pursuant to the Commission's rules and regulations promulgated thereunder.

#### **IV.B.5 Creditworthiness**

The ISO will apply the creditworthiness provisions of the Financial Assurance Policy to the Market Participants. Each Market Participant shall comply with the requirements of the Financial Assurance Policy.

## **IV.B.6 Budgeting Process and Reports**

**IV.B.6.1 ISO's Capital Budgeting Process:** As part of its annual budget process, the ISO will submit to the Budget and Finance Subcommittee the ISO's proposed budget for capital expenditures. After taking into consideration the comments of the Budget and Finance Subcommittee, the ISO will submit its proposed budget for capital expenditures to the Participants Committee. The ISO shall report the results of all Participants Committee votes on the ISO's capital budget to the ISO's Board of Directors which shall have sole authority to approve the final ISO capital budget. Following such approval and at least 60 days prior to the beginning of the ISO's operating year, the ISO will file its capital budget with the Commission. All annual capital budget and expenditure filings will be filed pursuant to, and subject to Commission review under, Section 205 of the Federal Power Act and posted on the ISO's website.

**IV.B.6.2 Reporting of Incurred and Forecasted Capital Costs:** Consistent with the requirements imposed by the Commission in Docket No. ER02-2153, the ISO will file quarterly reports with the Commission specifying, by project, the ISO's prior year spending on multi-year projects, year to date spending and a forecast of the next calendar year spending. In addition, the ISO will file a schedule of the unamortized costs of the ISO's funded capital expenditures at the end of the quarter and the allocation of those costs to Schedules 1, 2 and 3. Such reports will be filed within forty-five (45) days of the end of each quarter and posted on the ISO's website. All quarterly capital budget and expenditure filings will be filed pursuant to, and subject to Commission review under, Section 205 of the Federal Power Act.

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