

7. Event of Default

(Market Rules: Chapter 2, section 8)

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

- deems 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
- rescinds or refuses 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 [Market Manual 5: Settlements 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.

Refer to [Market Manual 5: Settlements Part 5.3: Submission of Physical Bilateral Contract Data](#) for more information on the Physical Bilateral Contract process.

7.1. Default Levy

If the *IESO* is unable to remedy an *event of default* using the posted *prudential support* by a defaulting *market participant*, the *IESO* is entitled to issue a *default levy* to all *non-defaulting market participants* that were participating in the *energy* markets at the time of the failure of payment of a *defaulting market participant* irrespective of whether the *event of default* occurred in the context of *physical transactions* or *virtual transactions*.

Following an *event of default*, the *IESO* has the authority to draw upon *market participants'* *prudential support* for both *physical transactions* and *virtual transactions* if a *market participant* has posted *prudential support* for both.

– End of Section –

8. Capacity Prudential Requirements

The *IESO* determines the *capacity prudential support* obligation for each *capacity market participant* for each *obligation period* based on a percentage of the monthly availability payment, less any allowable reductions.

The *IESO* calculates the *capacity prudential support* obligation as follows:

- [Monthly Availability Payment (\$) × 50%] – Allowable Reductions

where:

- Monthly Availability Payment = Σ (*Capacity obligation(s)* for the *obligation period* × Zonal Clearing Price × 23 days).

All *capacity auction participants* with a *capacity obligation* are encouraged to post *prudential support* for the *obligation period*, at least 60 days prior to the *obligation period*.

The Prudential Requirements Contact has a task in Online IESO to submit the *capacity prudential support* information.

The *capacity prudential support* posted by *market participants* or *capacity market participants* to satisfy this obligation must be in the following format (Chapter 2, section 5.B.4.2 of the *market rules*):

- a guarantee or irrevocable commercial letter of credit, which is in a form acceptable to the *IESO* and provided by:
 - a bank named in a Schedule to the Bank Act, S.C. 1991, c.46 with a minimum Standard and Poor's long-term credit rating of "A" or equivalent from an *IESO* acceptable major bond rating agency; or
 - a credit union licensed by the Financial Services Commission of Ontario with a minimum Standard and Poor's long-term credit rating of "A" or equivalent from an *IESO* acceptable major bond rating agency.

There are two allowed reductions that may be used by *market participants* (if applicable) in order to reduce their *prudential support obligation* (Chapter 2, section 5B.5 of the *market rules*):

- reduction for credit rating; and
- good payment history reduction.

If *market participants* are currently utilizing reductions in the *physical market*, the reductions will be adjusted accordingly to not exceed the maximum allowable under the *market rules*.

Appendix E: Global Adjustment Calculation for Minimum Trading Limit and Default Protection Amount

The *IESO* estimates global adjustment for *market participants* that are not *energy traders*. The global adjustment estimate is included as part of their *physical transaction minimum trading limit* and *default protection amount* calculation for the *IESO-administered markets*.

The *IESO* calculates the global adjustment 'Class B' estimate for a *market participant* that is not an *energy trader* as follows for its *prudential support obligation*:

Global Adjustment (Class B) Minimum Trading Limit and Default Protection Amount calculation = Global Adjustment (Class B) price per MWh provided by the OEB x *Market participant*-provided daily quantity (in MWh) x # of days for Minimum Trading Limit or Default Protection Amount

The global adjustment price for a *market participant* that is not an *energy trader* stays static until the daily quantity of MWh injected or withdrawn for that *market participant* is changed or after conducting the annual review for global adjustment.

The *IESO* calculates the global adjustment 'Class A' estimate for a *market participant* that is not an *energy trader* as follows for its *prudential support obligation*:

Global Adjustment (Class A) Minimum Trading Limit and Default Protection Amount calculation = (PDF⁸ x Total Global Adjustment Dollars Forecasted by the OEB)/(*Market participant* provided Daily Maximum withdrawals in MWh x 365 days)

The Global Adjustment estimate for *market participants* is determined as the sum of the Class A and Class B Global Adjustment calculations.

– End of Section –

⁸ PDF is the Peak Demand Factor assigned to each 'Class A' market participant based on their five coincident peak demands during a predetermined base period.

