

## **PROPOSED FINAL VERSION OF SC CREDIT REQUIREMENTS**

### **I. SC Credit Requirements:**

This policy establishes the credit policies of RTO West for: (1) the establishment and maintenance of credit by Scheduling Coordinators, Guarantors for Scheduling Coordinators, and applicants to act as Scheduling Coordinators or Guarantors for Scheduling Coordinators (collectively, "Credit Applicants"); and (2) alternative forms of security deemed acceptable for those Credit Applicants that do not satisfy RTO West's financial viability requirements to establish an unsupported extension of credit.

This policy also sets forth the credit limitations that will be imposed on Credit Applicants so as to avoid the possibility of failure of payment for services rendered pursuant to the RTO West Tariff.

In case of a conflict between the provisions of these credit requirements [*add specific appendix and section number when known*] and general provisions of the RTO West Tariff, the provisions of these credit requirements shall control.

#### **A. Credit Review/Applicability**

These standards apply to Credit Applicants that wish to provide (or guarantee the provision of) SC Services to one or more [Eligible Customers]. Each Credit Applicant must qualify on an individual basis. RTO West shall determine whether the Credit Applicant meets RTO West's initial creditworthiness requirements as set forth below. RTO West shall enter into an SC Agreement after the Credit Applicant's credit has been established pursuant to this Section I, collateral has been obtained, and SC certification by RTO West is complete. RTO West shall continue to monitor regularly the Credit Applicant's creditworthiness to determine continuing compliance under the minimum credit requirements.

#### **B. Credit Exposure**

A Credit Applicant must establish and maintain creditworthiness relative to RTO West's Credit Exposure to the SC. Credit Exposure shall include, but not be limited to, the expected net liabilities described in Section I(C)4(a) herein.

#### **C. Establishment of Credit**

A Credit Applicant must establish its creditworthiness as stated in this Section.

**1. Creditworthiness Requirements**

Each Credit Applicant must demonstrate compliance with RTO West's creditworthiness requirements by satisfying all of the criteria in Section I(C)(1). A Credit Applicant that cannot demonstrate the requirements of Section I(C)(1) shall provide a collateral deposit as described in Section I(C)(4) to establish credit. [For any Credit Applicants that are not privately held or publicly traded businesses, RTO West will develop reasonable alternative information requirements comparable to those specified in this Section I(C)(1)]

**a. Credit Evaluation**

A Credit Applicant for an SC seeking to enter into a new SC Agreement with RTO West must complete a credit application to provide the financial information necessary to conduct a credit evaluation and establish the Credit Applicant's initial credit profile. RTO West may require a Credit Applicant to complete a new or revised credit application under this Section if the applicable SC's SC Agreement has been terminated, was not renewed, or in any other manner was caused to lapse.. The credit evaluation will be conducted by RTO West. This evaluation will be completed within a maximum of ten (10) Business Days from RTO West's receipt of a completed credit application and all relevant financial statements. All information required to evaluate credit will be treated in accordance with the confidentiality provisions of the RTO West Tariff. RTO West will notify the Credit Applicant of its credit decision upon completion of RTO West's credit review. All credit evaluations and associated collateral deposit calculations performed by RTO West will be done in a non-discriminatory and consistent manner.

**b. Required Credit Information**

Each Credit Applicant must provide to RTO West, along with its completed credit application, the following information:

Financial Statements and Related Information

Each Credit Applicant must submit audited financial statements for the immediately preceding three (3) fiscal years, or the period of existence, if shorter. Additionally, each Credit Applicant must submit current fiscal year interim unaudited financial statements, if available.

The information should include, but not be limited to, the following:

- a. If publicly traded in U.S. markets:
  - i. Annual reports on Form 10-K and quarterly reports on Form 10-Q

- ii. All reports on Form 8-K, if any
  
- b. If not publicly traded in U.S. markets:
  - i. Management's Discussion & Analysis
  - ii. Report of Independent Accountants
  - iii. Financial Statements, including
    - Balance Sheet
    - Income Statement
    - Statement of Cash Flows
    - Statement of Stockholder's Equity
  - iv. Notes to Financial Statements

If the above information is available on the Internet, the Credit Applicant may instead provide a letter stating where the information may be located and retrieved by RTO West. In the case of certain Credit Applicants, some of the financial submittals specified above may not be applicable, in which case RTO West may specify alternate requirements.

#### Litigation, Commitments, and Contingencies

Each Credit Applicant must also provide information as to any known or anticipated material litigation, commitments, or contingencies, as well as any prior bankruptcy declarations or proceedings or material defaults by the Credit Applicant or its predecessors, if any.

#### Ongoing Financial Review

Each Credit Applicant must submit to RTO West at least annually its current rating agency report promptly upon its issuance. Each Credit Applicant must also submit its most recent financial statements, 10-Ks, 10-Qs, and 8-Ks promptly upon their issuance.

#### Notice of Specified Events

To assure continued validity of established unsecured credit, the Credit Applicant shall promptly notify RTO West if (i) the Credit Applicant experiences any Material Adverse Change (as defined under Section I(C)(3)(c) below); (ii) the Credit Applicant's credit rating is downgraded by any of Moody's Investor Service (Moody's), Standard and Poors (S&P), Fitch, or Dominion Bond Rating Service (DBRS); (iii) the Credit Applicant experiences a change in control as a result of merger or other reorganization; (iv) the Credit Applicant sells or transfers a material portion of its assets; [(v) the Credit Applicant incurs net liabilities as described in Section I(E)]; (vi) the Credit Applicant is placed on a credit watch with negative implications by a major rating agency; (vii) the Credit Applicant makes or is the subject of a bankruptcy filing; (viii) the Credit Applicant takes any action or experiences any event requiring the filing of a Form 8-K; (ix) the Credit Applicant becomes insolvent; (x) the Credit

Applicant reports a significant quarterly loss or decline in earnings; (xi) any of Credit Applicant's key officers resign; or (10) the Credit Applicant becomes involved in a lawsuit that could have a material adverse impact on current or future financial results

**c. Rating Agency**

A Credit Applicant must demonstrate a current and maintained long-term, senior unsecured debt rating of Baa3 or higher from Moody's or BBB- or higher from S&P or \_\_\_\_\_ or higher from (DBRS).

**d. Credit History**

A Credit Applicant must not be currently in default under any of its agreements with RTO West and must not be in default with respect to any of its other financial obligations that total, in the aggregate, more than 5% of its Tangible Net Worth. A Credit Applicant must pay all past due amounts owed to RTO West before credit is established.

**2. Unsecured Credit**

Availability of unsecured credit for any Credit Applicant will be a function of the Credit Applicant's Tangible Net Worth and its credit rating (long-term senior unsecured debt rating). The RTO will evaluate other information provided by the Credit Applicant to set a credit limit within the minimum and maximum values as determined below. The minimum and maximum unsecured credit limit for any Credit Applicant will be determined by the formula below.

$$Max = cc_{max}(tnw - \min nw)$$

$$Min = cc_{min}(tnw - \min nw)$$

Where: Max = maximum unsecured credit  
Min = minimum unsecured credit  
cc<sub>max</sub> = credit coefficient from Table x  
cc<sub>min</sub> = credit coefficient from Table x  
tnw = tangible net worth documented by applicant  
minnw = minimum tangible net worth determined by RTO

S&P/Moody's Rating	CC <sub>max</sub>	CC <sub>min</sub>	min <sub>w</sub>
>AA /			
=A+ / A1			
=A / A2			
=A- / A3			
=BBB+ / Baa2			
=BBB / Baa3			
=BBB- / Baa3			
<BBB- /Baa3			

**NTD: Allan Anderson, Rod Ross, Bob Kenison, and any others interested in helping with fill in these number – confer at Sept 5 & 6 meeting in Spokane**

**3. Ineligibility for Unsecured Credit**

The Credit Applicant will be ineligible for unsecured credit under any of the following conditions:

- a. the Credit Applicant does not meet the minimum creditworthiness standards established in Section I(C)(1) above;
- b. the Credit Applicant fails to provide RTO West sufficient relevant credit and financial information on an ongoing basis as required in Sections I(C)(1) and (C)(5) and the SC Agreement;
- c. the Credit Applicant experiences a Material Adverse Change. For purposes of the SC Credit Requirements, “Material Adverse Change” is defined as the occurrence of any of the following events: (1) the SC’s long-term senior, unsecured debt rating is downgraded by more than one notch, with a resulting credit rating of BBB+ (if S&P) or Baa1 (if Moody’s) or lower within a period of 60 Business Days or to any rating below BBB- (if S&P) and Baa3 (if Moody’s); (2) a failure to meet material financial or performance obligations; or (3) a change in condition (financial or otherwise), net worth, assets, net liabilities, or properties that can reasonably be anticipated to impair the Credit Applicant’s ability to fulfill its payment and credit obligations.

**4. Collateral Deposits**

If collateral is required under Section I(C)(3), the Credit Applicant shall submit and maintain a collateral deposit as described in this Section.

**a. Calculation of Credit Exposure**

The amount of the Credit Exposure on which collateral requirements will be based will be the sum of the following amounts as applicable:

- (i) The product of the Potential Short Position multiplied by the greater of (a) RTO West's estimate of the average balancing energy prices expected during the exposure period, or (b) the average balancing energy prices for the prior [sixty (60) days];

The estimated maximum Potential Short Position. This Potential Short Position is equal to (1) the greater of (a) the total amount of energy expected to be scheduled by the SC during the forthcoming exposure period, or (b) the total amount of energy delivered for the SC for the prior exposure period; less (2) purchase commitments or committed generation resources applicable during the period. The SC must provide sufficient documentation of its purchase commitments and generation resources so that RTO West can confirm their viability. The exposure period is equal to the lag time between the time of net energy consumption and the time of settlement. To the extent RTO West determines that its calculations for Potential Short Position do not reflect actual net energy consumption during an exposure period, RTO West may adjust the calculation of Credit Exposure [or may bill parties on an estimated basis for net payment obligations incurred during the interim period].

- (ii) all other charges from RTO West to an SC as estimated over a [ninety- (90)-day] period; and
- (iii) all invoiced and non-invoiced receivables due from the SC.

In all cases where a collateral deposit is required under this Section 4, the SC's collateral deposit shall not be less than [\$500,000].

**b. Form of Collateral Deposit**

Collateral deposits shall be in the form of (1) cash deposits [**or cash equivalents**]; or (2) Letters of Credit, defined as irrevocable and renewable issued by a major financial institution acceptable to RTO West. [**Note: Payment in any other method than cash will mean a lag between the time Imbalance Energy arises and the time RTO West will have real access to the collateral.**]

**c. Collateral Deposit Payment Timetable**

Credit Applicants are obligated to post collateral deposits with RTO West before entering into an SC Agreement. Collateral deposit increases and/or adjustments must be received within three (3) business days of a request from RTO West. Credit Applicants must replace or renew letters of credit not less than five (5) days before expiration.

**d. Interest on Cash Deposit**

RTO West shall pay interest on cash collateral deposits. Interest shall be calculated according to the interest rate prescribed in [Schedule X].

**e. Collateral Adjustments**

RTO West may review the Credit Applicant's creditworthiness, credit limits and RTO West's Credit Exposure on a daily basis according to the criteria described in this Section I, and may increase or decrease Credit Applicant's collateral requirements accordingly. All collateral adjustments shall be in increments of at least \$250,000, and the amount of collateral Credit Applicant is required to post shall be rounded up to the nearest multiple of \$250,000.

**5. RTO West Rights to Draw on Collateral**

RTO West has the right to draw on Credit Applicant's collateral to satisfy overdue payment obligations of any SC for which the Credit Applicant has provided collateral at any time after RTO West has provided notice to the SC of amounts overdue and request for payment.

Whenever RTO West exercises its right under this Section I(C)5 to draw on a Credit Applicant's collateral, Credit Applicants shall, within three (3) business days of RTO West's action drawing on the collateral, provide additional or replacement collateral sufficient to make available to RTO West the full amount of collateral required from Credit Applicant in accordance with Section I(C)4 above.

**6. Re-establishment of Credit**

The Credit Applicant for an SC whose SC Agreement has been suspended due to inadequate credit may re-establish its creditworthiness in the manner prescribed in Section I(C)(1) or by the provision of a collateral deposit, or by other manner described in this Section I.

[Add that you can get back to some level of unsecured credit after a double downgrade if you stabilize about the minimum credit rating]

**D. Additional Documents**

The Credit Applicant shall execute and deliver all documents and instruments (including, without limitation, security agreements and RTO financing statements) reasonably required from time to time to implement the provisions set forth above and to perfect any security interest granted to RTO West.

**E. Remedies Relating to Credit Requirements**

If an SC's total liability to RTO West approaches the combined amount of the SC's unsecured credit limit and collateral deposit or the trend or recent events show that it is likely to occur, RTO West will contact the SC to provide notification of this situation. RTO West and the SC will quickly seek a remedy for any liability that is forecasted to outstrip the SC's combined unsecured credit limit and Collateral Deposit before normal settlement can be made. Remedies may include: (i) additional Collateral Deposit; (ii) interim payments of liabilities; (iii) adjustments to scheduling practices; (iv) disqualification as an SC; and (v) any other action RTO West deems appropriate.

**ADDITIONAL COMMENTS AND OBSERVATIONS (6/6/01 MEETING):**

**1) The Credit Standards as a whole are based on two assumptions:**

**A. That enough meters will be available and read frequently enough; and**

**B. That RTO West will have the ability to "pull the plug" on the SC if necessary.**

**2) The standards should contain a dispute resolution component.**

**3) Concerns regarding the use of Imbalance Energy:**

**A. A more succinct penalty system needs to be built into the document for an SC's use of Imbalance Energy. In addition to the penalty system, it may be wise to include incentives for maintaining a balanced schedule.**

**B. We should be aware of the interplay between RTO West's role as a provider of last resort of Ancillary Services versus RTO West's role as a provider of last resort of Imbalance Energy. Currently, a memorandum is being prepared to the Ancillary Services Content Group to (1) ensure that this key issue is addressed in both groups; (2) ensure that the definition of Imbalance Energy is consistent between the groups; (3) determine how the Imbalance Energy issue intersects with the FERC requirement that RTO West will serve as a provider of last resort of Ancillary Services; and (4) address the concern that FERC will require RTO West to act as a provider of last resort with respect to Imbalance Energy.**

**4) The RTO West Tariff may need to include a provision that disallows a schedule that uses Imbalance Energy as supply. The Tariff Group should be approached regarding the best approach.**