

PROPOSED FINAL VERSION OF SC CREDIT REQUIREMENTS
Revised ~~Clean~~Redline Working Draft for from August 15, 2001 Meeting
~~Changes Shown are from July 25, 2001 Meeting~~

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 Applicant~~ions~~ 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~~s~~ 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~~s~~ 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; if the Credit Applicant no longer meets the minimum credit criteria; or is periodically based on RTO West's standard commercial practice.~~ 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 ~~at least~~ 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.

References

~~Each Credit Applicant must provide at least one (1) bank and three (3) utility credit references. If a Credit Applicant does not have the required utility references, it may substitute trade payable vendor references.~~

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 Investor Service~~ (Moody's) or BBB- or higher from ~~Standard and Poors~~ (S&P) or _____ or higher from (DBRS). ~~[New agencies and government agencies should be considered. e.g. government agencies are likely to have different requirements for credit due to a lack of tangible net worth. It may be sufficient to require different credit levels for government agencies. 7/25/2001 BPA/BC Hydro to bring back proposed language by 8/3/2001]~~

ed. 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.

~~[NTD - We need to review the credit qualification provisions to make sure they work for (that is, don't unreasonably exclude) various types of US and Canadian governmental entities]~~

2. Unsecured Credit

~~For a Credit Applicant whose creditworthiness is established by satisfying requirements in Section I(C)(1) above, a maximum unsecured credit limit will be established by RTO West according to the following table. The S&P and Moody's rating is based on the Credit Applicant's long term senior unsecured debt rating. If a Credit Applicant is split rated, the applicable credit limit will be based on the lower debt rating.~~

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_{max} = credit coefficient from Table x

cc_{min} = credit coefficient from Table x

tnw = tangible net worth documented by applicant

minnw = minimum tangible net worth determined by RTO

<u>S&P/Moody's Rating</u>	<u>cc_{max}</u>	<u>cc_{min}</u>	<u>minnw</u>
<u>>AA /</u>			
<u>=A+ / A1</u>			
<u>=A / A2</u>			
<u>=A- / A3</u>			
<u>=BBB+ / Baa2</u>			
<u>=BBB / Baa3</u>			
<u>=BBB- / Baa3</u>			
<u><BBB- /Baa3</u>			

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

~~[NTD: Collateral Deposit will be: your credit exposure minus your unsecured credit limit]~~

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:

~~[NTD: Concept: We start with an assumption that RTO needs assurance that there is a way to cover your exposure over the period of time we might incur that exposure before settlement; but, there can be ways to show that you don’t need collateral to cover all of it]~~

- ~~(i) The estimated maximum sixty (60) day Potential Replacement Cost of scheduled energy. This Potential Replacement Cost is estimated by multiplying the greater of (a) the total amount of energy expected to be scheduled by the SC during the forthcoming [sixty (60) days], or (b) the total amount of energy delivered for the SC for the prior [sixty (60) days], times the greater of (a) RTO West’s estimate of the average balancing energy prices expected during that period, or (b) the average balancing energy prices for the prior [sixty (60) days];~~

~~[The 60-day maximum may be excessive where large SCs are concerned. Two possibilities exist: (1) to set the level of approximate collateral at the reasonable level of exposure, or (2) to set the level of approximate~~

~~collateral at a level that would cover any potential doomsday future event.]~~

- (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; ~~or (3) guarantees, with guarantors [who qualify under the credit standards, and] who have a long-term senior, unsecured debt rating of Baa3 or higher from Moody's or BBB or higher from S&P, unless RTO West determines that a material change in the guarantor's creditworthiness has occurred, or, in other cases, through the credit evaluation process~~

~~described above.~~ [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) ~~two (2)~~ calendar ~~business~~ days of a request from RTO West. ~~Collateral deposits~~Credit Applicants must replace or renew letters of credit must be established, maintained or extended within not less than five (5) days ~~of before~~ ~~expiration of a collateral deposit.~~

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. ~~[FBD]~~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.

~~a. 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. RTO West may increase or decrease the Credit Applicant's collateral deposit as warranted to reflect: (i) changes in Credit Applicant's net liabilities (ii) changes in Credit Applicant's eligibility for unsecured credit under Section I(C)(2); or (iii) any instances in which RTO West has drawn on Credit Applicant's collateral deposit to satisfy Credit Applicant's payment obligations. 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.~~

~~**NOTE FROM 7/25 Meeting:** Intended concept is that if your net liabilities changes; your unsecured limit changes; RTO has drawn on your collateral; all collateral adjustments will be in increments of at least \$250,000; collateral required will be rounded up to the nearest multiple of \$250,000~~

~~b. 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; (ii) the Credit Applicant's long term, senior unsecured debt rating is downgraded by Moody's and/or S&P; (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 fails to any meet material financial or performance obligations; (viii) the Credit Applicant makes or is the subject of a bankruptcy filing; (ix) the Credit Applicant takes any action or experiences any event requiring the filing of a Form 8 K; (x) the Credit Applicant becomes insolvent; (xi) the Credit Applicant reports a significant quarterly loss or decline in earnings; (xii) 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;~~

~~d. The Credit Applicant shall review and maintain its collateral and establish, extend, or increase collateral when required pursuant to this Section.~~

~~**NOTE:** *Where does the language formerly in Section I(C)(3)(e) belong now? (It is currently at the end of the document)*~~

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. ~~Credit Monitoring for RTO West Charges~~Remedies Relating to Credit Requirements

~~Where the SC fails to exactly match its loads and resources, RTO West will automatically provide balancing through its normal AGC process. Subsequently, the loads and resources for each SC will be compared and the resulting Imbalance Energy liabilities will be settled financially in accordance with RTO West's tariffs.~~

~~RTO West will compute the ongoing Imbalance Energy liability for each SC as frequently as data from metering, load profiling, schedule check out, and pricing processes will allow. Weekly, or daily, computations of outstanding and current Imbalance Energy liabilities will be made and compared to the Collateral Deposits collected from each SC. [This section assumes that ongoing monitoring will be financially and otherwise feasible. The infrastructure cost for this type of monitoring needs to be assessed.]~~

~~If the unsettled Imbalance Energy an SC's total liability to RTO West for an SC approaches the combined amount of the SC's unsecured credit limit and Ccollateral Ddeposit amount for an SC 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. [This section assumes that RTO West will have the physical and legal ability to terminate the SCs services. One option is to provide for a Default Scheduler, which may be an incumbent utility. However, the involvement of incumbent utilities raises its own concerns as to~~

~~(1) the incumbent utility's ability to handle the task; (2) the possibility that the incumbent utility and the SC are one and the same; (3) the possibility that the SC has entered agreements making it unattractive to the incumbent utility. Another proposed option was that RTO West set up a "phantom SC" which operates on solely Imbalance Energy, but this possibility raises concerns related to RTO West's potential role as provider of last resort of Imbalance Energy.]~~

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.

~~e. the SC fails to provide RTO West sufficient relevant Imbalance Energy information on an ongoing basis as required in Section I(E) and the SC Agreement. [Ongoing monitoring may be financially infeasible. There is a definite infrastructure cost for this type of monitoring. It may be necessary to link collateral requirements to metering requirements or to make a reasonable estimate of Imbalance Energy and base collateral requirements on that estimate.]~~