

## 1. CREDITWORTHINESS

**1.1 Credit Review:** For the purpose of determining the creditworthiness of the Transmission Customer, the Transmission Provider will conduct reasonable credit review procedures. The credit review will consist of an evaluation of the Transmission Customer's ability to meet the creditworthiness criteria set out in Section 1.2 of this document. A credit review will be conducted for each Transmission Customer as warranted or upon reasonable request by the Transmission Customer.

**1.2 Creditworthiness:** A Transmission Customer that meets the following credit requirements will not be required to provide security. These requirements include, but are not limited to the following:

- (i) The Transmission Customer is not in default of its payment obligations under Part I, Section 7.3 of the Transmission Provider's Open Access Transmission Tariff ("OATT"); and
- (ii) It meets one of the following criteria:
  - a. The Transmission Customer has been in business at least one year and has a credit rating of at least Baa2 (Moody's) or BBB (Standard & Poors); or
  - b. The Transmission Customer has been in business at least one year, and provides its most recent audited financial statements to the Transmission Provider which demonstrates that the Transmission Customer meets standards that are at least equivalent to the standards underlying the credit ratings of Baa3 (Moody's) or BBB- (Standard and Poors). Privately held and/or non rated public entities will be reviewed in a manner consistent with producing an equivalent agency rating. In addition, other criteria will be considered such as management discussion, industry trends and analysis, outside litigation, etc. If the Transmission Customer is found to be non creditworthy pursuant to this paragraph b, the Transmission Provider will inform the Transmission Customer of the reasons for that determination; or
  - c. The Transmission Customer is a borrower from the Rural Utilities Service ("RUS") and has a Times Interest Earned Ratio of 1.10x or better and a Debt Service Coverage Ratio of 1.10x or better in the most recent calendar year, or is maintaining the Times Interest Earned Ratio and Debt Service Coverage Ratio as established in the Transmission Customer's RUS Mortgage; or
  - d. The Transmission Customer's parent company meets the criteria set out in (i) and (ii)(a), (b) or (c) above, and the parent company provides a written guarantee (in a form acceptable to the Transmission Provider), that the parent company will be unconditionally responsible for all financial obligations associated with the Transmission Customer's receipt of transmission service.

**1.3 Requirements for Non-Creditworthy Customers:** A Transmission Customer that does not meet the credit standards set out in 1.2 above shall comply with one of the following:

- (i) Not less than five days prior to the commencement of service, the Transmission Customer shall provide in a form acceptable to the Transmission Provider, an unconditional and irrevocable letter of credit issued by a financial institution rated at least A- by S&P with greater than \$10 billion in assets or an alternative form of security that is equal to the lesser of the total charge for service or the charge for 90 days of service; or
- (ii) For service of one month or less, the Transmission Customer shall pay the total charge for service by the later of five business days prior to the commencement of service or the time when it makes the request for transmission service; or
- (iii) For service of greater than one month, the Transmission Customer shall pay for each month's service not less than five business days prior to the beginning of the month. For Network Integration Transmission Service customers, the advance payment for each month shall be based on a reasonable estimate by the Transmission Provider of the charge for that month. The Transmission Provider shall pay interest on any prepayments made pursuant to this Section 1.3 at the rates established pursuant to 18 C.F.R. § 35.19a(a)(2)(iii).

**1.4 Changes in Creditworthiness Status:** If a Transmission Customer that originally meets the credit requirements of Section 1.2 subsequently fails to meet those requirements at any time after it requests transmission service but before the termination of that service, it shall within five business days of notification by the Transmission Provider either prepay for the next 30 days of transmission service or provide an unconditional and irrevocable letter of credit meeting the standards noted in 1.3 (i) above or an alternative form of security acceptable to the Transmission Provider in an amount equal to the charge for the next 30 days of transmission service; and within 30 days of such notification shall meet the requirements of Section 1.3.

**1.5 Suspension of Service:** The Transmission Provider may suspend service to a Transmission Customer who does not meet the creditworthiness standards of Section 1.2 under the following circumstances;

- (i) If the Transmission Customer qualifies for service pursuant to Section 1.3 as a result of providing a letter or credit or alternative form of security, it does not pay its bill within 20 days of receipt as required by Part I, Section 7.1 of the Transmission Provider's OATT, and it has not initiated a billing dispute in accord with Part I, Section 7.3 of the Transmission Provider's OATT, the Transmission Provider may suspend service 30 days after written notice to the Transmission Customer and the Commission that the service will

be suspended unless the Transmission Customer meets its obligations.

- (ii) If the Transmission Customer qualifies for service as a result of committing to prepay for service pursuant to Section 1.3(ii) or Section 1.3(iii), and fails to prepay for service as provided in such section, the Transmission Provider may suspend service immediately upon written notice to the Transmission Customer and the Commission.
- (iii) If the Transmission Customer loses its creditworthy status as a result of circumstances other than a default of its payment obligations and it fails to meet the credit security requirements of Section 1.4, but it either pays its bills within the time period provided in Part I, Section 7.1 of the Transmission Provider's OATT or initiates a billing dispute in accordance with Part I, Section 7.3 of the Transmission Provider's OATT, the Transmission Provider may suspend service 30 days after written notice to the Transmission Customer and the Commission that the service will be suspended unless the Transmission Customer meets the credit security requirements of Section 1.3.
- (iv) If the Transmission Customer loses its creditworthy status because it is in default of its payment obligations under Part I Section 7.3 of the Transmission Provider's OATT and it fails to meet the requirements of Section 1.4, the Transmission Provider may suspend service five business days after written notice to the Transmission Customer and the Commission that service will be suspended if the Transmission Customer does not meet the requirements of Section 1.4. The suspension of service shall continue only for as long as the circumstances that entitle the Transmission Provider to suspend service continue. A Transmission Customer is not obligated to pay for Transmission Service that is not provided as a result of a suspension of service.

## Appendix

DESCRIPTION OF RISK RATINGS			
Internal Rating/Credit Reserve Score	Agency Equivalent		INVESTMENT GRADE DESCRIPTION
	S&P	Moody's	
1	AAA	Aaa	<ul style="list-style-type: none"> <li>• Exceptional degree of stability and substance</li> <li>• Significant balance sheet and cash flow demonstrated throughout business or industry cycle with positive trends and long-term outlook</li> <li>• Significant size and strength in industry</li> <li>• Very high quality assets</li> <li>• Capacity to pay interest and principal very strong</li> <li>• Low financial leverage with substantial debt capacity</li> <li>• Unquestionable access to global markets</li> </ul>
2	AA+/AA/AA-	Aa1/Aa2/Aa3	<ul style="list-style-type: none"> <li>• High degree of stability and diversity</li> <li>• Balance sheet and operations slightly more susceptible to adversity with the business or industry cycle</li> <li>• High quality assets</li> <li>• History of strong earnings and cash flow with excess interest coverage levels</li> <li>• Modest financial leverage with ample debt capacity</li> <li>• Ready access to capital markets under normal market conditions</li> </ul>
3	A+/A/A-	A1/A2/A3	<ul style="list-style-type: none"> <li>• Strong market and financial position with a history of successful performance, but more susceptible to economic changes</li> <li>• Assets are good quality with little reliance on intangibles. CAPEX is reasonable</li> <li>• Strong cash flow and interest coverage levels with trends generally consistent</li> <li>• Financial leverage is satisfactory with sufficient debt capacity</li> <li>• Access to capital markets under normal market conditions</li> </ul>
4 4	BBB+ BBB	Baa1 Baa2	<ul style="list-style-type: none"> <li>• Satisfactory earnings, cash flow and interest coverage, although trends are occasionally inconsistent</li> <li>• More concentration of business risk, by product or market, may be present. Susceptible to cyclical changes</li> <li>• Assets are average quality, which may require significant CAPEX; intangibles may be material in nature</li> <li>• Highly experienced/qualified management</li> <li>• Access to capital markets will generally be available under normal conditions</li> </ul>

4	BBB-	Baa3	<ul style="list-style-type: none"> <li>• Higher degrees of susceptibility to cyclical trends due to industry position, less diversification, etc.</li> <li>• Assets and cash flows are reasonably sound with adequate coverage levels</li> <li>• Financial leverage is slightly above average and assets may require significant CAPEX</li> <li>• Access to capital markets may be available under normal conditions</li> </ul>
5	BB+	Ba1	<ul style="list-style-type: none"> <li>• Higher degree of volatility of earnings, cash flow, interest and overall performance</li> <li>• More long-term uncertainty, but with less near-term vulnerability than other speculative grades</li> <li>• Financial leverage is high with some debt capacity remaining</li> <li>• Adequate coverage</li> <li>• May have "above average" risk elements relative to industry</li> <li>• Less access to public markets, reliant on bank financing</li> </ul>
5	BB	Ba2	<ul style="list-style-type: none"> <li>• Earnings, cash flow and interest coverage may be volatile with trends subject to erratic swings</li> <li>• Outlook contains factors which may lead to unstable conditions</li> <li>• Assets are below average quality but are expected to maintain value</li> <li>• CAPEX requirements could be significant due to assets quality/possible material reliance on intangibles</li> <li>• Financial leverage is high with some debt capacity remaining</li> <li>• Adequate financial controls</li> <li>• Experienced management, but depth of management is less certain</li> <li>• Access to financing primarily available from banks or other private sources; less access to public markets</li> </ul>
5	BB-	Ba3	<ul style="list-style-type: none"> <li>• Pronounced risk elements with uncertainty of future performance</li> <li>• Earnings and cash flows are volatile</li> <li>• Assets are below average quality; CAPEX spending requirements could be significant</li> <li>• Marginal interest coverage levels</li> <li>• Less access to public markets</li> </ul>
6	B+/B	B1/B2	<ul style="list-style-type: none"> <li>• Earnings and cash flow will generally be strained</li> <li>• Trends are unfavorable and the outlook is difficult</li> <li>• Adverse economic market or other event may affect the company's financial performance in the future</li> <li>• Assets are significant value to provide a "second way out"; significant intangibles exist</li> <li>• Financially over leveraged, with minimal sources of financing available</li> <li>• Management turnover or lack of experience or stability may result in deterioration of financial performance</li> </ul>
6	B-	B3	<ul style="list-style-type: none"> <li>• Adverse business, financial or economic conditions will likely impair capacity to repay interest and principal</li> <li>• Assets are insufficient value to provide a "second way out"; warrants additional levels of supervision</li> <li>• Financially over leveraged</li> <li>• Weak interest coverage levels; management turnover or lack of experience or stability may result in deterioration of financial performance market conditions</li> </ul>
7	CCC+,CCC/CCC-	Caa1,Caa2/Caa3	<ul style="list-style-type: none"> <li>• Poor quality in most respects</li> <li>• Interest likely to be in arrears with principal payments in danger</li> <li>• This rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments continue</li> </ul>
8	≤ CC+	C/Ca	<ul style="list-style-type: none"> <li>• Payment default, interest and/or principal payments have not been made on due date, even if applicable grace period has not expired</li> <li>• This category is also used when the Company has filed bankruptcy petition and debt service payments are jeopardized</li> <li>• Repayment in full is highly questionable</li> </ul>