

Western Area Power Administration
Creditworthiness Business Process
12/01/09

Background

Historically, Western has had minimal risk associated with collections from transmission customers. As power markets change and purchasers of transmission experience difficulty in making payment, the risk to Western is increasing. Western's revised Open Access Transmission Service Tariff Attachment Q, effective December 1, 2009, outlines formal Creditworthiness Procedures for point-to-point transmission customers on a firm and non-firm basis. These procedures ensure that Western's risk related to transmission services provided to customers is reduced to a reasonable level. This document establishes a Creditworthiness Business Process for implementation of the Creditworthiness Procedures outlined in the OATT.

References

This business process was established utilizing the following references:

- OATT, Section 7, Billing and Payment
- OATT Attachment Q, Creditworthiness Procedures
- FERC Order 890

Effective Date

This Creditworthiness Business Process is effective December 1, 2009.

General Provisions

1. This Creditworthiness Business Process applies to all Western firm and non-firm point-to-point transmission customers (customers).
2. Customers new to Western must satisfy the requirements of the Creditworthiness Procedures prior to receiving transmission service.
3. Current customers are monitored for creditworthiness by reviewing the WAPA AR Aged Receivables Report and the WAPA Billing and Receipt History Report.
4. The non-discriminatory procedures are implemented for the purpose of mitigating Western's financial exposure to the risk of customer non-payment of transmission services rendered and to formalize the credit assessment process for Western customers.
5. The credit assessment will be centralized at the Corporate Services Office (CSO) Chief Financial Officer's Compliance and Audit Liaison Office (C&AL).
6. Western's Energy Management and Marketing Office Creditworthiness website <http://www.crsp.wapa.gov/divisions/L6300/creditworthiness/index.php> will be used to store results of creditworthy assessments.
7. This process shall be utilized by C&AL and all Western Regional Offices. Regional Offices shall implement the process, making minor adjustments to adhere to local policies, procedures, and conditions.

Qualifying for Credit

A customer (public or non-public) may qualify for secured or unsecured credit. Customers will answer questions specific to their financial viability on the Credit Application (Attachment A).

1. All new **Public** customers may apply for unsecured credit by completing the Credit Application.
2. All new **Non-Public** customers may apply for unsecured credit by submitting the following information for consideration with their completed Credit Application:
 - Agency Ratings, if available (Standard & Poor's and/or Moody's Investor Service or any other similar rating agency). If an organization has more than one rating, the lowest rating will be used during the analysis.
 - Financial Statements – the two most recent quarters of financial statements signed by the company controller or other authorized officer AND the two most recent audited annual financial statements.
 - Material Issues/Changes
 - Additional information deemed necessary for the evaluation will need to be provided as requested.

Customers may qualify for secured credit if the criteria for unsecured credit are not met. When a customer's credit worthiness does not meet Western's criteria, Regional Operations and Financial Management and C&AL shall work with the customer to determine the method of assurance required to establish the requestor as a Western customer. These assurances may include:

- Prepayment for five months of service.
- An unconditional and irrevocable letter of credit (in compliance with the requirements as stated in the Uniform Customs and Practice for Documentary Credits) for five months of estimated service.
- A cash deposit for five months of estimated service or
- An irrevocable and unconditional corporate guaranty for five months of estimated service from an entity that satisfies the creditworthiness requirements.

CSO's General Counsel will review letters of credit and corporate guarantees for adequacy prior to the start of transmission service. Documents will be secured by the CSO Security Office.

Creditworthiness Process

1. Upon receipt of a request for new service (no current contract), Regional Operations will check the listing of creditworthy assessments provided at: (<http://www.crsp.wapa.gov/divisions/L6300/creditworthiness/index.php>). If there is a current assessment (within one year), the customer was deemed creditworthy and there is no delinquency noted the customer can receive service (customers without collateral posted). If collateral was previously posted, contact the Regional Financial Manager and C&AL (email: Westerncreditapplications@wapa.gov) to adjust collateral requirement prior to the customer receiving new service.

2. If there is not a current contract or a current assessment Regional Operations will notify the Regional Financial Manager and C&AL (email to Westerncreditapplications@wapa.gov) that a creditworthiness assessment needs to be completed.
3. Regional Operations will direct the customer to complete a Credit Application and to submit the required company financial information (Non-Public entities) along with their Federal Tax ID to C&AL. The customer should be informed that this information can be submitted via mail (on application) or email to “Westerncreditapplications@wapa.gov”.
4. Upon receipt of the credit application form, C&AL will send a standard email informing the customer of receipt and bcc the Regional Operations Manager and the Regional Financial Manager. Upon receipt of all requested information, C&AL shall complete an analysis to determine the creditworthiness of the transmission customer within five (5) workdays. Should analysis be requested in a more expedient manner, C&AL shall make every effort to complete the analysis in the requested time frame.
5. The C&AL routine methodology to determine the creditworthiness of customers is as described below. Attachment B, Standard Creditworthiness Checklists (**Non-Public or Public Entity**), will be used for routine procedures.
 - a. Access the Western Energy Management and Marketing Credit Worthiness Website to determine if the customer is on any watch lists (the website is located at <http://www.crsp.wapa.gov/divisions/L6300/creditworthiness/index.php>; “View Standard & Poor’s Ratings (ALL)”.
 - b. Perform comparative financial statement analysis for **Non-Public Entities** using the ratios below:
 - Calculate Debt to Capital Ratio : $\text{Total Debt/Total Capital} = \text{Percent}$ Total Capital is determined by looking at the Stockholder’s Equity Section of the Balance Sheet and including all classes of Stock (Common Stock, Preferred Stock, etc) and Minority Interest. In determining Total Debt, Capital Leases should be included. This percentage should be equal to or less than 70 percent.
 - EBIT coverage: Earnings before Interest and Income Taxes/Interest Expense. This ratio should be greater than 1.5 times.
 - Current Ratio: $\text{Current Assets/Current Liabilities}$ Result should be a ratio greater than 1.0. Current Assets are assets that a company has at its disposal that can be easily converted into cash within one operating cycle (e.g. Cash or Cash Equivalents, Short-Term Investments, Accounts Receivable, Inventory, and Prepaid Assets,). Current Liabilities are what a company currently owes to its suppliers and creditors. These are short-term debts that normally require that the company convert some of its current assets into cash in order to pay them off (e.g. Accounts Payable, Unearned Revenue, and Current Portion of Long Term Debt). These are all payables that are due in less than a year.

- Cash Flow from Operations to Total Debt should be greater than 10 percent. Total Debt should include short-term debt, long-term debt, current portion of long-term debt, and off-balance sheet operating lease obligations.
 - c. Review agency ratings. Ratings should be investor grade or higher (S&P of BBB- and/or Moody's Baa3). If rated by multiple agencies, the lower of the ratings will be used.
 - d. If the entity is a previous or current Western customer, run a Western Billing and Receipt History report from BIDSS to assess their payment history. This history report should be reviewed to determine the accounts receivable payment history and aged receivables of the company in question. Retain the BIDSS report, documenting the payment history. Any delinquent invoices should be documented and include the number of days delinquent as well as the reason for delinquency, if known.
6. Record the results of the analysis completed in step 5 on the creditworthiness checklist and attach all supporting documents. Points are awarded in accordance with Western's Creditworthiness Procedures with total points tallied on the checklist. A score of four (4) or higher is required for unsecured credit. The preparer signs and dates the checklist and obtains approval from the C&AL Manager.

Retention and Distribution

C&AL shall retain the original determination (with applicable documentation) and communicate the results of the assessment to the Regional Operations Manager and the Regional Financial Manager.

Regional Operations shall notify the transmission customer of the determination. If a transmission customer is found to be not creditworthy, Regional Operations advises the customer of the option of secured credit, and works with the customer, Regional Financial Manager and C&AL to implement the agreed upon assurance per the Creditworthiness Procedures.

C&AL will provide updates to the appropriate personnel so that the common intranet website (<http://www.crsp.wapa.gov/divisions/L6300/creditworthiness/index.php>) will reflect a summary of all transmission customer assessments, along with the results and date of the review.

On-Going and Follow-up

Companies and the power and transmission environment are dynamic. In order to protect the interests of Western, on-going follow-up and evaluation shall be performed by C&AL.

At a minimum, C&AL will review the WAPA AR Aged Receivables Report and WAPA Billing and Receipt History Report monthly for delinquent receivables. WAPA AR Delinquent Invoice Status report will also be reviewed to ensure follow-up action is being taken in accordance with Western policy and is being documented on this report.

**WESTERN AREA POWER ADMINISTRATION
CREDIT APPLICATION**

Complete all sections of this form and submit to:
Western Area Power Administration
ATTN:
P.O. Box 281213
Lakewood, CO 80228-8213

Date: _____

Applicant Name (Customer): _____

Address: _____

Type of Service Requested: _____

Expected Monthly Business: _____

DUNS Number: _____

Credit Rating (if applicable): _____

Credit Manager or Point of Contact: _____

Phone: _____ Fax: _____ Email: _____

Is your company a subsidiary or affiliate of another company? Yes___ No ___

If Yes, please provide information on the related company:

Company Name: _____

Address: _____

DUNS Number: _____

Does your company plan to establish credit with a guarantee from the related company listed above? Yes ___ No ___

If Yes, all required information necessary for credit qualification is needed from the company guaranteeing credit.

Public Power Entities (not-for-profit):

Is your company a not-for-profit entity (governmental entity)? Yes ____ No ____

If your company is a not-for-profit entity, is it backed by the full faith and credit of a governmental entity (United States, state government or other government, as applicable)?

Yes ____ No ____ If Yes, state type of governmental entity and provide evidence.

If your company is a not-for-profit entity, do you have the ability to raise rates to cover outstanding obligations? Yes ____ No ____

Provide any material issues/changes that could impact the viability of the Transmission Customer and/or the credit decision including, but not limited to, litigation, investigations, arbitrations, contingencies, liabilities and affiliate relationships which have occurred within the past year.

Non-Public Power Entities:

To enable the Transmission Provider to conduct the proper analysis required to determine creditworthiness, the information below must be submitted with the Credit Application.

1. Rating agency reports (if applicable).
2. The most recent two quarters of financial statements signed by the company controller or other authorized company officer and the most recent two years of audited financial statements. Financial statements should include, but not be limited to:
 - a. Annual report
 - b. Balance sheet
 - c. Income statement
 - d. Statement of cash flows
 - e. Management's discussion and analysis
 - f. Report of independent auditor and accompanying notes for the Annual report, 10K, 10Q or 8K, as applicable
3. Material issues that could impact the viability of the Transmission Customer and/or the credit decision including, but not limited to, litigation, investigations, arbitrations, contingencies, liabilities and affiliate relationships which have occurred since the last audited financial statements.

Note: The Transmission Provider may request additional information as it determines is necessary and appropriate for the credit evaluation.

**WESTERN AREA POWER ADMINISTRATION
CREDITWORTHINESS CHECKLIST FOR NON-PUBLIC ENTITIES**

Customer: _____
Address: _____
Phone: _____
Contact: _____

| Standards | Yes/No | Results/Comments |
|---|---------------|-------------------------|
| Is customer on Western's subscribed rating service watch list? | | |
| Is customer in default of any payment obligation to Western (if previous or current Transmission Customer)? | | |
| Is customer in bankruptcy proceedings? | | |
| All applicable standards must be met for the customer to be deemed creditworthy. | | |
| If standards are not met there is additional risk to Western and additional assurances are required. | | |
| | | |
| Credit Score Requirements (1 point each) | Points | Results/Comments |
| Debt to Capital Ratio (Total Debt including Capital Leases/Total Capital) less than 70% | | |
| EBIT Coverage (Earnings Before Interest and Income Taxes/Interest Expense) greater than 1.5 times | | |
| Current Ratio (Current Assets/Current Liabilities) greater than 1.0 | | |
| Cash Flow from Operations to Total Debt (includes short-term debt, long-term debt, current portion of long-term debt, and off-balance sheet operating lease obligations) greater than 10% | | |
| Agency Ratings of investor grade or higher (e.g. S&P of BBB- and/or Moody's Baa3) Use lower of the ratings | | |
| Positive payment record with Western (if previous or existing Transmission Customer) | | |
| Total Points | | |
| If credit score requirements total 4 or higher, Western's risk is low and customer is creditworthy. | | |
| If credit score requirements total below 4 there is additional risk to Western and the customer is not creditworthy. Additional assurances are required. | | |

Agreed upon assurances:

Preparer Signature and Date

Approval Signature and Date

**WESTERN AREA POWER ADMINISTRATION
CREDITWORTHINESS CHECKLIST FOR PUBLIC ENTITIES**

Customer: _____
Address: _____
Phone: _____
Contact: _____

| Standards | Yes/No | Results/Comments |
|---|--------|------------------|
| Is customer on Western's subscribed rating service watch list? | | |
| Is customer in default of any payment obligation to Western (if previous or current Transmission Customer)? | | |
| Is customer in bankruptcy proceedings? | | |
| Are financial obligations backed by the full faith and credit of the United States, state or other governmental entity and/or does the customer have the ability to raise rates to cover outstanding obligations? | | |
| All applicable standards must be met for the customer to be deemed creditworthy. | | |
| If standards are not met there is additional risk to Western and additional assurances are required. | | |

Agreed upon assurances:

Preparer Signature and Date

Approval Signature and Date