

TRANSMISSION CREDIT POLICY

The following is the Transmission Credit Policy for the Los Angeles Department of Water and Power (Department) as of July 18, 2006. This Policy may be updated periodically and is administered by the Finance and Risk Control Division of the Department's Financial Services Organization.

Prior to entering into or renewing a Transmission Service Agreement, Credit must be addressed. This can be accomplished by contacting the Department's Risk Control Group at 213-367-4339. The Risk Control Group will inform the Transmission Group's Contract Manager when credit has been established. After the Transmission Service Agreement is signed, the Risk Control Group will establish the counterparty in its risk reporting system.

The table below lists the current maximum unsecured credit limit structure for the Department's Transmission Business.

Category	Maximum Unsecured Credit Limit ⁽¹⁾
Investment Grade	\$5,000,000
Non-Rated Subsidiary with Parent Guaranty	\$2,000,000
Non-Rated Internal Scored ⁽²⁾	\$1,000,000
Non-Investment Grade	\$0

⁽¹⁾ Limits are not to exceed 1.00% of the counterparty's most recent owner's/stockholder's equity.

⁽²⁾ Internal Scores are derived from assessments of the financial strength and corresponding ability to pay on a timely basis.

Once a credit limit has been reached no additional sales may be made until payment or additional credit assurance is received. Additional credit assurance may be provided in the following forms: (1) an Irrevocable Letter of Credit, (2) prepayment, (3) deposits held in an escrow account, (4) in certain cases an unconditional and irrevocable written payment guarantee.

Exposures are measured as a rolling 60-day notional exposure.

If at any time a Transmission customer fails to pay unsecured amounts owed to the LADWP, the customer's credit limit is reduced to zero.