

1. NorthWestern's Electric Transmission Creditworthiness Standards

1.1 Credit Evaluation:

This Policy has been developed to determine the ability of the Transmission Customer in meeting its obligations related to services under NorthWestern Corporation, D.B.A. NorthWestern Energy's (NorthWestern) Open Access Transmission Tariff (OATT) and to mitigate NorthWestern's financial exposure against any potential risk of non-payment. These standards will be documented and available for all existing and prospective Electric Transmission Customers. The credit evaluation will take place at a minimum on an annual basis and, at the discretion of NorthWestern, may take place on a semi-annual basis, particularly if NorthWestern has any concern with the financial condition of the customer. The following information will be required to be provided by each Transmission Customer, to enable NorthWestern to conduct its credit review:

- a. Last 2 years of Audited Financial Statements;
- b. Most recent annual report;
- c. Most recent quarterly report;
- d. Upon request by NorthWestern, any other reasonable commercial information that would assist in determining the customer's creditworthiness.

NorthWestern reserves the right to modify these standards at any time.

1.2 Creditworthiness:

The Credit Manager, NorthWestern's Credit Policy and a credit-scoring model will determine the amount of open credit that NorthWestern will grant to any given customer. The following components are used in calculating the overall credit score for a customer;

- a. Traditional Information
- b. Proprietary Information (Including Moody's Expected Default Frequency) (EDF).
- c. Financial Information.

A score is calculated for each of the components above. The score from each component is then taken times a weighted percent to arrive at an overall score. The overall score is used to determine the amount of open credit.

If the overall credit score is not sufficient under NorthWestern's Credit Policy, the customer will be notified in writing of the amount of collateral that will be required.

If the above information in section 1.1 is not made available to NorthWestern, the customer will be required to post collateral with NorthWestern.

If a Federal or State government agency and its financial obligations under the OATT are backed by the full faith and credit of the United States, collateral will not be required.

1.3 Acceptable forms of Security:

- a. Cash deposit
- b. Irrevocable Letter of Credit (Issuing bank must be investment grade)
 - (1) Costs associated with the Letter of Credit will be the obligation of the customer.
 - (2) Form of Letter of Credit will need to be approved by NorthWestern.
- c. Guarantee
 - (1) The guarantor must go thru the same credit review process as the customer.
 - (2) Guarantors must be legally affiliated with the counterparty or able to show an acknowledged beneficial interest in the counterparty.

1.4 Suspension and/or Termination of Transmission Service:

NorthWestern may suspend transmission service if:

- a. The Transmission Customer is required to post security for transmission services in accordance with section 1.3, fails to provide such security, and such failure to post security is not corrected within five (5) business days following NorthWestern's notification to the Transmission Customer of the need to cure such failure. Upon the occurrence of such a default, NorthWestern may initiate a proceeding with the Federal Energy Regulatory Commission (Commission) to terminate service; or
- b. The Transmission Customer fails, for any reason other than a billing dispute, to make payment to NorthWestern on or before the due date, and such failure of payment is not corrected within thirty (30) calendar days after NorthWestern's notification to the Transmission Customer of the need to cure such failure. Upon the occurrence of such a default, NorthWestern may initiate a proceeding with the Commission to terminate service.
- c. In the event of a billing dispute between NorthWestern and the Transmission Customer, NorthWestern will continue to provide service under the Service Agreement as long as the Transmission Customer (1) continues to make all payments not in dispute, and (2) pays into an independent escrow account the portion of the invoice in dispute, pending resolution of such dispute. If the Transmission Customer fails to meet these two requirements for the continuation of service, then NorthWestern may provide notice to the Transmission Customer of its intention to suspend service in sixty (60) days, in accordance with Commission Policy.