

I. CREDITWORTHINESS AND TOTAL CREDIT LIMIT

A. Evaluation of Creditworthiness

A Credit Score will be generated from the Transmission Provider's review and analysis of the information obtained through the initial and ongoing credit evaluation process described in Section I of this Credit Policy. Key factors in the scoring process include, but are not limited to, ratings from Rating Agencies, financial statements and Significant Trade References. The Transmission Provider will consistently apply the credit scoring process described in Section I.A of this Credit Policy in determining Credit Scores.

1) Credit Score – Public Power Sector

The Public Power analysis will be comprised of a Financial and Qualitative analysis. Each analysis is then weighted as shown below to build a total composite score.

Analysis	Weight
Financial Score	40%
Qualitative Score	60%

Financial Score (40%)

The financial score is comprised of the financial measures below. These measures will be calculated for each Public Power Market Participant. The calculated measures are then compared to industry benchmarks to assign a score of one (1) to six (6) for each measure. A score of one (1) indicates that the Market Participant has strong financial health with regards to the relevant measure, while a score of six (6) indicates poor financial health with regards to the relevant measure. These scores are then assigned a weighting to calculate a total financial score.

Measure	Weight
Current Ratio	10%
Working Capital	10%
Tangible Net Worth	10%
EBIT Interest Coverage	10%
EBITDA Interest Coverage	10%
Pre-tax Return on Equity	10%
Long-term Debt / Equity	20%
Total Debt / Total Capitalization	20%

Public Power Ratios

Current Ratio -- Current Assets / Current Liabilities

Working Capital -- Current Assets - Current Liabilities

Tangible Net Worth -- Total Equity – Restricted Cash – Intangible Assets – Goodwill – Investment in High Risk Affiliates – Receivables from High Risk Affiliates – Net Value of Long Term Trading Book – Nuclear Decommissioning Fund.

EBIT Interest Coverage -- (Interest Expense + Income Taxes + Net Income) / Interest Expense

EBITDA Interest Coverage -- (Depreciation & Amortization + Interest Expense + Income Taxes + Net Income) / Interest Expense

Total Debt to Equity -- Total Debt* / Total Equity

Total Debt to Capitalization -- Total Debt* / (Total Debt* + Total Equity)

Pretax Return on Equity -- (Income Taxes + Net Income) / Total Equity

* *Total debt consists of Short-Term Debt, Current Portion of Long-Term Debt, Long-Term Debt, Preferred Stock, and Operating Leases.*

Public Power Financial Benchmarks

M (Thousand) MM (Million)

Current Ratio Working Capital			Working Capital		
Greater than or equal to	Less than	Score	Greater than or equal to	Less than	Score
	0.3x	6		100M	6
0.3x	0.8x	5	\$100M	\$5MM	5
0.8x	1.3x	4	\$5MM	\$10MM	4
1.3x	1.6x	3	\$10MM	\$25MM	3
1.6x	1.9x	2	\$25MM	\$40MM	2
1.9x		1	\$40MM		1
EBITDA Int. Coverage			Debt/Equity		
Greater than or equal to	Less than	Score	Greater than or equal to	Less than	Score
	1.7x	6	12.4x		6
1.7x	2x	5	7.9x	12.4x	5
2.0x	2.3x	4	3.4x	7.9x	4
2.3x	2.5x	3	2.3x	3.4x	3
2.5x	2.7x	2	0.1x	2.3x	2
2.7x		1		0.1x	1
Tangible Net Worth			EBIT Int. Coverage		
Greater than or equal to	Less than	Score	Greater than or equal to	Less than	Score
	\$15MM	6		1.0x	6
\$15MM	\$40MM	5	1.0x	1.1x	5
\$40MM	\$65MM	4	1.1x	1.2x	4
\$65MM	\$75MM	3	1.2x	1.3x	3
\$75MM	\$85MM	2	1.3x	1.4x	2
\$85MM		1	1.4x		1
Total Debt / Total Capital			Pre-Tax ROE		
Greater than or equal to	Less than	Score	Greater than or equal to	Less than	Score
100%		6		1.30%	6
90%	100%	5	1.3%	3.4%	5
80%	90%	4	3.4%	5.5%	4
70%	80%	3	5.5%	12.6%	3
10%	70%	2	12.6%	19.7%	2
	10%	1	19.7%		1

Qualitative (60%)

The qualitative score will assess all non-financial measure information about a Market Participant's financial health. The qualitative analysis will take into account a variety of information, but at a minimum will include the assessment of the following characteristics of each Public Power Market Participant:

- (i) the ability to set rates without seeking regulatory approval;
- (ii) the financial protections afforded unsecured creditors contained in the contracts and other legal documents related to the formation and governance of public power entities;
- (iii) the number and composition of members or customers of the entity;
- (iv) the exposure to energy price risk for load served by the entity;
- (v) rating agency ratings assigned to unsecured debt; and
- (vi) other non-financial measures of creditworthiness.

To illustrate, assume the following:

Public Power Qualitative Score = 3.0

Quantitative Measures:

	Value	Score	Weight
Current Ratio	= 0.63	5	10%
Working Capital	= (\$43,234,000)	6	10%
Tangible Net Worth	= \$253,229,110	1	10%
EBIT Interest Coverage	= 1.88	1	10%
EBITDA Interest Coverage	= 2.98	1	10%
Debt-to-Equity Ratio	= 0.58	2	20%
Total Debt-to-Total Capital	= 1.37	2	20%
Pre-Tax Return on Equity	= 6.11	3	10%

Public Power Quantitative Score = (5 x 10%) + (6 x 10%) + (1 x 10%) + (1 x 10%) + (1 x 10%) + (2 x 20%) + (2 x 20%) + (3 x 10%) = 2.50

Public Power Composite Score = (60% x 3.0) + (40% x 2.5) = 2.80

2) Credit Score – Non-Public Power Sector

A Non-Public Power Composite Score shall be derived for each Participant that does not meet the definition of Public Power as defined in Module A. The Non-Public Power Analysis will be comprised of a Financial and Qualitative analysis. Each analysis is then weighted as shown below to build a total composite score.

Analysis	Weight
Financial Score	60%
Qualitative Score	40%

Financial Score (60%)

The financial score is comprised of the financial measures below. These measures will be calculated for each Non-Public Power Market Participant. The calculated measures are then compared to industry benchmarks to assign a score of one (1) to six (6) for each measure. A score of one (1) indicates that the Market Participant has strong financial health with regards to the relevant measure, while a score of six (6) indicates poor financial health with regards to the relevant measure. These scores are then assigned a weighting to calculate a total financial score. The relative weight of the financial measures is as follows:

Measure	Weight
EBIT Interest Coverage	35%
Total Debt / Total Capitalization	30%
CFFO/Total Debt	25%
Tangible Net Worth	10%

Non-Public Power Ratios

EBIT Interest Coverage -- $(\text{Interest Expense} + \text{Income Taxes} + \text{Net Income}) / \text{Interest Expense}$

Total Debt to Capitalization -- $\text{Total Debt}^* / (\text{Total Debt}^* + \text{Total Equity})$

CFFO/Total Debt -- $\text{Cash Flow from Operations} / \text{Total Debt}^*$

Tangible Net Worth -- $\text{Total Equity} - \text{Restricted Cash} - \text{Intangible Assets} - \text{Goodwill} - \text{Investment in High Risk Affiliates} - \text{Receivables from High Risk Affiliates} - \text{Net Value of}$

$\text{Long Term Trading Book} - \text{Nuclear Decommissioning Fund}.$

** Total debt consists of Short-Term Debt, Current Portion of Long-Term Debt, Long-Term Debt, Preferred Stock, and Operating Leases.*

Non-Public Power Financial Benchmarks

EBIT Interest Coverage			Total Debt/Total Cap.		
Greater than or equal to	Less than	Score	Greater than or equal to	Less than	Score
	0.4x	6	75%		6
0.4x	1.5x	5	61%	75%	5
1.5x	2.6x	4	54%	61%	4
2.6x	3.4x	3	48%	54%	3
3.4x	3.9x	2	20%	48%	2
3.9x		1		20%	1
CFFO/Total Debt			Tangible Net Worth		
Greater than or equal to	Less than	Score	Greater than or equal to	Less than	Score
	8%	6		\$500MM	6
8%	10%	5	\$500MM	\$1.2B	5
11%	18%	4	\$1.2B	\$1.8B	4
18%	23%	3	\$1.8B	\$3.5B	3
23%	28%	2	\$3.5	\$7B	2
28%		1	\$7B		1

Qualitative (40%)

The qualitative score will assess all non-financial measure information about a Market Participant's financial health. The qualitative analysis will take into account a variety of information, but at a minimum will include the assessment of the following characteristics of each Non-Public Power Market Participant:

- (i) the ability to set rates without seeking regulatory approval;
- (ii) the financial protections afforded unsecured creditors contained in the contracts and other legal documents related to the formation and governance of non-public power entities;
- (iii) the number and composition of members or customers of the entity;
- (iv) the exposure to energy price risk for load served by the entity and/or obligations to provide power to other parties;
- (v) rating agency ratings assigned to unsecured debt; and
- (iv) other non-financial measures of creditworthiness

To illustrate, assume the following:

Non-Public Power Qualitative Score = 3.0

Quantitative Measures:

	Value	Score	Weight
EBIT Interest Coverage	= 3.98	1	30%
Total Debt-to-Total Capital	= 0.52	3	35%
Cash Flow From Operations to Total Debt	= 0.22	3	25%
Tangible Net Worth	= \$4.354 billion	2	10%

Non-Public Power Quantitative Score = $(1 \times 30\%) + (3 \times 35\%) + (3 \times 25\%) + (2 \times 10\%) = 2.20$

Non-Public Power Composite Score = $(40\% \times 3.0) + (60\% \times 2.2) = 2.52$

B. Unsecured Credit Allowance

The suggested Unsecured Credit Allowance for a Participant is the lesser of \$25,000,000 or the value determined by multiplying the Participant's Credit Score by the percentage value in Table 1 applicable to the Credit Score and type of Participant (e.g., Public Power or Non-Public Power).

To illustrate, assume a Public Power Participant with a Credit Score of 2.80 and Tangible Net Worth of \$253,229,111 would have a suggested Unsecured Credit Allowance computed as follows:

Unsecured Credit Allowance = Table 1 Percentage f (Credit Score) x Tangible Net Worth
= 8.0% x \$253,229,111
= \$20,258,329

To further illustrate, a Non-Public Power Participant with a Credit Score of 2.52 and Tangible Net Worth of \$4.354 billion would have a suggested Unsecured Credit

Allowance computed as follows:

Unsecured Credit Allowance = Table 1 Percentage f (Credit Score) x Tangible Net Worth
= 4.5% x \$4,354,000,000
= \$195,930,000 > \$25,000,000

Therefore, maximum Unsecured Credit Allowance in this example is limited to \$25,000,000.

C) Maximum Unsecured Credit Allowance:

The maximum Unsecured Credit Allowance for a Participant shall be the lesser of:

1. The dollar amount determined by multiplying the applicable percentage value from Table 1 based on the Participant's business segment and Credit Score by the Tangible Net Worth for the Participant; or
2. \$25 million, the maximum Unsecured Credit Allowance permitted per Participant.

In the event that the Participant provides a Corporate Guaranty, the Unsecured Credit Allowance is based on the financial review conducted by the Transmission Provider of the entity providing the Corporate Guaranty, with a \$25 million maximum Unsecured Credit Allowance permitted.

Table 1

Percent of Tangible Net Worth

Composite Credit

Score	Non-Public Power	Public Power
1.00 to 1.66	10.0%	12.0%
1.67 to 2.00	9.0%	11.0%
2.01 to 2.33	8.0%	10.0%
2.34 to 2.66	7.0%	9.0%
2.67 to 3.00	6.0%	8.0%
3.01 to 3.33	5.0%	7.0%
3.34 to 3.66	4.0%	6.0%
3.67 to 4.00	3.0%	5.0%
4.01 to 4.33	2.0%	3.5%
4.34 to 4.66	1.0%	2.0%
4.67 to 5.00	0.5%	1.0%
5.01 to 6.00	0.0%	0.0%