

Public Service Company of Colorado
TRANSMISSION CREDIT POLICY
Effective 5-19-08

Section 11 of the Xcel Energy Operating Companies Joint Open Access Transmission Tariff ("Tariff" or "OATT") states a Transmission Provider may require reasonable credit review procedures. The review shall be made in accordance with commercially reasonable practices.

It is the policy of Public Service Company of Colorado ("PSCo" or "Transmission Provider") that prior to an entity ("Applicant" or "Transmission Customer") taking any service under the Transmission Provider's Tariff, or becoming a Transmission Customer, the Applicant must demonstrate its ability to meet the Transmission Provider's credit requirements.

Prior to becoming a Transmission Customer, each Applicant must undergo a credit evaluation in order to determine the level of unsecured credit PSCo is willing to extend ("Unsecured Credit Limit") to Transmission Customer for services under the Tariff. Each Applicant and/or Transmission Customer will be subject to a complete credit evaluation that will include, but not be limited to, a review of financial statements, Rating Agency (Standard & Poor's, Moody's Investors Service, Fitch Ratings) reports (if available), and other pertinent indicators of credit strength. Upon becoming a Transmission Customer, an Applicant/Transmission Customer will be subject to a periodic credit evaluation to verify continuing creditworthiness.

Transmission Service includes, but is not limited to, all services under the Transmission Provider's Tariff, including ancillary services. To the extent provisions of the Tariff establish specific credit requirements mandated by FERC -- such as the Large Generation Interconnection Procedure (LGIP) and Large Generation Interconnection Agreement (LGIA) established by FERC Order No. 2003 -- those credit requirements will apply to those services rather than this Transmission Credit Policy to the extent there is any inconsistency between the LGIP/LGIA credit requirements and this Transmission Credit Policy.

The Transmission Credit Policy requirements are separate from the credit requirements applicable to wholesale power/gas sale or purchase transactions an Applicant/Transmission Customer may have in place with PSCo. The Transmission Provider will apply this Transmission Credit Policy consistent with FERC Order No. 2004, Standards of Conduct for Transmission Providers.

CREDIT EVALUATION:

The Transmission Provider will perform a credit evaluation for each Applicant and/or Transmission Customer approximately every twelve (12) months, or more frequently if the Transmission Provider has commercially reasonable grounds to believe there has been a Material Adverse Change in the Transmission Customer's creditworthiness. If the Applicant and/or Transmission Customer is determined to be creditworthy, an Unsecured Credit Limit will be established which must equal the historical, or estimated highest 60 day credit exposure. If the Unsecured Credit Limit granted is insufficient, or unsecured credit is denied, the Applicant and/or Transmission Customer must provide collateral/security ("Financial Security") required by the Transmission Provider in a form and amount satisfactory to the Transmission Provider. Non-compliance with the Transmission Credit Policy and the request for Financial Security will be considered a default. Upon written notification, the Transmission Customer will have two (2) business days (three (3) business days if notified after 12:00 Noon Mountain Time) to provide the requested Financial Security.

An Applicant will be notified in writing within ten (10) business days of the status of its credit evaluation. Within ten (10) business days after notification of the Transmission Provider's creditworthiness determination, an Applicant may request, in writing, a review of determinations of credit levels or collateral requirements. The Transmission Provider will respond no later than twenty (20) business days after receipt of written request.

A Transmission Customer will be notified in writing of any reduction in unsecured credit or increase in Financial Security requirements, if applicable, as the result of the Transmission Provider's credit evaluation. Within ten (10) business days after receipt of such notification, the Transmission Customer may request, in writing, a review of the credit evaluation. The Transmission Provider will respond no later than twenty (20) business days after receipt of written request. During the review period, all terms of this Transmission Credit Policy regarding providing Financial Security must be complied with.

If a guaranty ("Corporate Guaranty") is being utilized to establish credit for an Applicant and/or Transmission Customer, the party issuing the guaranty ("Guarantor") will be evaluated and the Unsecured Credit Limit granted, if any, based on the financial evaluation and strength of the Guarantor.

Initial Credit Evaluation – Transmission Provider will consider:

Rating Agency Reports:

The Transmission Provider will review the Senior Unsecured (unenhanced by third-party support), Long Term Debt ratings for Applicant/Transmission Customer issued by Standard & Poor's, Moody's

Investors Service, Fitch Ratings, or other agreed upon rating sources. If unsecured, senior, long-term debt ratings are not available, the Transmission Provider may consider Issuer Ratings, or underlying ratings, if applicable.

Financial Statements and Related Information:

Each Applicant or Transmission Customer must submit audited financial statements for the three (3) fiscal years most recently ended, or the period of existence of the Applicant/Transmission Customer, if shorter. Upon request, if deemed appropriate by the Transmission Provider, Applicant, or Transmission Customer must also provide their most recently finished fiscal quarter complete set of financial statements. The information reviewed should include, but not be limited to, the following:

If publicly traded -

Annual Reports, or Form 10K for the three (3) fiscal years most recently ended, together with any amendments thereto (Transmission Provider will download information available on the SEC site).

If privately held or Public Power entity-

For the three (3) fiscal years most recently ended, a complete set of audited financial statements, including notes and any management discussions.

References:

Each Applicant/Transmission Customer is to provide their primary bank name and account number and three (3) major industry trade references including fax, phone and, if applicable, email contact information.

Estimated Peak Load Data Requirements:

Each Applicant will present to the Transmission Provider staff its' estimated annual Peak Load. This will be used, among other purposes, to estimate the highest anticipated sixty (60) day credit exposure.

Material Adverse Change:

For the purpose of this policy, a Material Adverse Change to a Transmission Customer/Applicant includes, but is not necessarily limited to, the following:

- * A downgrade of any debt rating or Issuer Rating to below investment grade
- * An adverse change in the outlook of any debt rating or being placed on credit watch with negative implication

- * A bankruptcy filing
- * Insolvency or inability to pay debts as they become due
- * Late payments to Transmission Provider
- * Material deterioration to the financial measures in this Transmission Credit Policy
- * Not providing to Transmission Provider required standard financial statements
- * Expiration, cancellation, or termination of credit support, if applicable, without Transmission Provider's consent.
- * Default on any contractual obligation exceeding 10% of tangible net worth.
- * A judgment in a proceeding adversely affecting creditor's rights
- * The appointment of an administrator, liquidator, factor, receiver, custodian or similar official
- * A secured party takes possession of all or substantially all of its assets

Upon the occurrence of a Material Adverse Change, the creditworthiness of the Transmission Customer/Applicant may be reevaluated by the Transmission Provider. This may result in the need to provide Financial Security or additional Financial Security, consistent with commercially reasonable practices, to protect the Transmission Provider against the risk of non-payment.

In the credit evaluation of cooperatives, government agencies and municipalities, the Transmission Provider may request additional information as part of the overall financial review process and will consider other relevant factors in determining financial strength and creditworthiness.

CREDITWORTHINESS :

Evaluation of Creditworthiness

A Credit Score (using the criteria and weighting found below) 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 this Transmission Credit Policy. Key factors in the scoring process include, but are not limited to, ratings from Rating Agencies, financial statements and trade references. The Transmission Provider will consistently apply the credit scoring process described in this Transmission Credit Policy in determining Credit Scores.

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 Applicant/Transmission Customer. The calculated measures are then used to assign a score of one (1) to six (6) for each measure as indicated in the Public Power Financial Measures table below. These scores are then assigned a weighting to calculate a total financial score as follows:

| 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 Financial Measures

| <u>Current Ratio</u> | | | <u>Working Capital</u> | | |
|-----------------------------------|--------|-------|---------------------------|---------|-------|
| Range | | Score | Range | | Score |
| <0.3 | 0.3 | 6 | <\$100K | \$100K | 6 |
| 0.301 | 0.80 | 5 | \$100K | \$5M | 5 |
| 0.80 | 1.30 | 4 | \$5M | \$10M | 4 |
| 1.30 | 1.60 | 3 | \$10M | \$25M | 3 |
| 1.601 | 1.9 | 2 | \$25M | \$40M | 2 |
| 1.901 | >1.9 | 1 | \$40M | >\$40M | 1 |
| <u>EBITDA Int. Coverage</u> | | | <u>Debt / Equity</u> | | |
| Range | | Score | Range | | Score |
| <1.7x | 1.7x | 6 | >12.4x | 12.4x | 6 |
| 1.701x | 2x | 5 | 12.4x | 7.9x | 5 |
| 2.001x | 2.30x | 4 | 7.9x | 3.4x | 4 |
| 2.30x | 2.50x | 3 | 3.4x | 2.3x | 3 |
| 2.50x | 2.70x | 2 | 2.3x | .1x | 2 |
| 2.701x | >2.7x | 1 | .1x | <.1x | 1 |
| <u>Tangible Net Worth</u> | | | <u>EBIT Int. Coverage</u> | | |
| Range | | Score | Range | | Score |
| <\$15M | \$15M | 6 | <1x | 1x | 6 |
| \$15M | \$40M | 5 | 1.001x | 1.1x | 5 |
| \$40M | \$65M | 4 | 1.101x | 1.20x | 4 |
| \$65M | \$75M | 3 | 1.20x | 1.30x | 3 |
| \$75M | \$85M | 2 | 1.30x | 1.40x | 2 |
| \$85M | >\$85M | 1 | 1.401x | >1.40x | 1 |
| <u>Total Debt / Total Capital</u> | | | <u>Pre-Tax ROE</u> | | |
| Range | | Score | Range | | Score |
| 95% | 100% | 6 | <1.3% | 1.3% | 6 |
| 90% | 95% | 5 | 1.301% | 3.4% | 5 |
| 80% | 90% | 4 | 3.401% | 5.50% | 4 |
| 70% | 80% | 3 | 5.50% | 12.60% | 3 |
| 10% | 70% | 2 | 12.60% | 19.70% | 2 |
| 0% | 10% | 1 | >19.70% | 19.701% | 1 |

Qualitative (60%)

The qualitative score will assess non-financial measures. Qualitative criteria do not have specific requirements, only a positive or negative assessment. The qualitative analysis will take into account a variety of information, including the assessment of the following characteristics (when applicable) of each Applicant/Transmission Customer: *(1) the ability to set rates without seeking regulatory approval (a positive attribute); (2) the financial protections afforded unsecured creditors contained in the contracts and other legal documents related to the formation and governance of public power entities (financial protections are positive); (3) availability of current information, financial, economic, or otherwise, relevant to the creditworthiness analysis of the Applicant /Transmission Customer, on publicly accessible internet sites (a positive factor) ; (4) rating agency ratings assigned to unsecured debt (a minimum rating is not required, investment grade is positive, non-investment grade is negative, negative outlook or credit watch is negative); (5) relative size, composition of assets, type of entity (a generation and transmission entity with fixed assets is positive, a marketing entity with little or no fixed assets is negative); (6) length of time in business (ten years or more is positive, five or less is negative) ; (7) trade references and payment history (positive or negative); (8) Overall quality of financial information (complete and audited statements including all notes are positive).* The overall Qualitative Score will range from 1 (positive) to 6 (negative) according to the overall assessment of all qualitative characteristics.

1) Credit Score – Non-Public Power Sector

A Non-Public Power Composite Score shall be derived for each Applicant/Transmission Customer that does not qualify for the Public Power sector. The Non-Public Power analysis will also be comprised of financial and qualitative components. 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. The calculated measures are then used to assign a score of one (1) to six (6) for each measure as indicated in the Non-Public Power Financial Measures table below. 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 Financial Measures

| <u>EBIT Interest Coverage</u> | | | <u>Total Debt / Total Cap.</u> | | |
|-------------------------------|------|-------|--------------------------------|-----|-------|
| Range | | Score | Range | | Score |
| N/A | 0.4x | 6 | 75% | N/A | 6 |
| 0.41x | 1.5x | 5 | 61% | 75% | 5 |
| 1.51x | 2.6x | 4 | 54% | 61% | 4 |
| 2.61x | 3.4x | 3 | 48% | 54% | 3 |
| 3.41x | 3.9x | 2 | 20% | 48% | 2 |
| 3.91x | N/A | 1 | N/A | 20% | 1 |

| <u>CFFO / Total Debt</u> | | | <u>Tangible Net Worth</u> | | |
|--------------------------|-----|-------|---------------------------|--------|-------|
| Range | | Score | Range | | Score |
| N/A | 8% | 6 | N/A | \$500M | 6 |
| 8% | 10% | 5 | \$500M | \$1.2B | 5 |
| 11% | 18% | 4 | \$1.2B | \$1.8B | 4 |
| 18% | 23% | 3 | \$1.8B | \$3.5B | 3 |
| 23% | 28% | 2 | \$3.5B | \$7B | 2 |
| 28% | N/A | 1 | \$7B | N/A | 1 |

Qualitative (40%)

The qualitative score will assess non-financial measures. Qualitative criteria do not have specific requirements, only a positive or negative assessment. The qualitative analysis will take into account a variety of information, including the assessment of the following characteristics (when applicable) of each Applicant/Transmission Customer: (1) *the ability to set rates without*

seeking regulatory approval (a positive attribute); (2) 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 (financial protections are positive); (3) availability of current information, financial, economic, or otherwise, relevant to the creditworthiness analysis of the Applicant /Transmission Customer, on publicly accessible internet sites (a positive factor); (4) rating agency ratings assigned to unsecured debt (a minimum rating is not required, investment grade is positive, non-investment grade is negative, negative outlook or credit watch is negative); (5) relative size, composition of assets, type of entity (a generation and transmission entity with fixed assets is positive, a marketing entity with little or no fixed assets is negative); (6) length of time in business (ten years or more is positive, five or less is negative); (7) trade references and payment history (positive or negative); (8) Overall quality of financial information (complete and audited statements including all notes are positive). The overall Qualitative Score will range from 1 (positive) to 6 (negative) according to the overall assessment of all qualitative characteristics.

Maximum Unsecured Credit Limit

The Unsecured Credit Limit for an Applicant/Transmission Customer is not to exceed the value determined by multiplying the Applicant and/or Transmission Customer's percentage value in Table 1 based on their Credit Score and industry sector (e.g. Public Power vs. Non-Public Power) times their tangible net worth; however, at no time will the Unsecured Credit Allowance be greater than the Maximum Unsecured Credit Limit for each Credit Score in Table 2.

Minimum Unsecured Credit Limit

For Public Power entities, the Unsecured Credit Limit floor for creditworthy entities is \$250,000.

Revisions to Unsecured Credit Limit

Based on the occurrence of a Material Adverse Change to a Transmission Customer/Applicant, the Transmission Provider has the right to modify the Unsecured Credit Limit and/or require additional Financial Security as may be reasonably necessary to support the Applicant/Transmission Customer's ability to pay for services provided under this Tariff and other related transmission service agreements. Within three (3) business days the Transmission Provider will notify the Applicant/Transmission Customer in writing of the requirement to provide Financial Security as a result of the reduction or revocation of the previously granted amount of Unsecured Credit Limit. The

Applicant/Transmission Customer shall have two (2) business days from receipt of written notification (three (3) business days if notification occurs after 12:00 Noon Mountain Time) to provide the Financial Security required in an amount and form acceptable to the Transmission Provider.

Total Credit Limit and Allocation Requirement

The Total Credit Limit for a Participant is the sum of its Unsecured Credit Limit and the Financial Security provided, if any.

Total Potential Exposure

In general, the calculation of potential exposure to non-payment is based on three (3) exposure components:

- * Invoiced but not paid
- * Measured but not invoiced, where measured means the systems have computed the charges and credits for all transactions for a given period of time.
- * Estimated for future days (up to the next payment due date) based on known and/or potential activity.

Total Potential Exposure Exceedance

An Applicant/Transmission Customer will be required to make payments of invoiced but unpaid amounts to reduce its Total Potential Exposure and/or provide additional Financial Security to increase its Total Credit Limit when its Total Potential Exposure equals or exceeds its Total Credit Limit.

An Applicant/Transmission Customer will have two (2) business days from receipt of written notification of a Total Potential Exposure Exceedance (three (3) business days if notification occurs after 12:00 Noon Mountain Time) to remedy the situation in a manner deemed acceptable by the Transmission Provider.

Transmission Service

An Applicant/Transmission Customer that fails to cure a Total Potential Exposure Exceedance within the required cure period may have service suspended (in conformity with FERC requirements) from participating in the Transmission Provider's system and from requesting any future Transmission Service unless and until the Applicant/Transmission Customer's Total Potential Exposure Exceedance is cured.

Corporate Guaranty:

In those cases where an Applicant/Transmission Customer is an affiliate of another entity and would like to utilize the consolidated financial statements and other relevant information of its affiliate/parent for obtaining credit, a signed Corporate Guaranty satisfactory to the Transmission Provider is required. Guarantor will be subject to the same financial review procedures as the Applicant and/or Transmission Customer. The form and substance of the Corporate Guaranty must be reasonably acceptable to the Transmission Provider.

A certificate may be required in support of the Corporate Guaranty that includes a seal of the corporation with the signature of the corporate secretary certifying that the execution, delivery, and performance of the Corporate Guaranty has been duly authorized. Adequate documentation regarding the signature authority of the person signing the Corporate Guaranty may also be required.

The Guarantor will be subject to periodic financial review for the purpose of monitoring its creditworthiness, and the Corporate Guaranty will obligate the Guarantor to submit all information and documents required of the Applicant and/or Transmission Customers under this Transmission Credit Policy.

Any breach of the Corporate Guaranty by the Guarantor or the requirements of the Guarantor under this Transmission Credit Policy shall be deemed a default under the Tariff by the Transmission Customer. A breach of this Transmission Credit Policy and a default under the Tariff shall also occur if the Corporate Guaranty (when applicable) expires or terminates or the Guarantor disaffirms, disclaims, repudiates, rejects or challenges the validity of all or any part of the Corporate Guaranty.

Acceptable Forms of Financial Security:

Applicants and/or Transmission Customers who provide Financial Security under the terms of this Transmission Credit Policy may submit Financial Security in the form of cash deposit or Irrevocable Standby Letter of Credit. All of the above instruments may be submitted separately or in combination to constitute the full amount of any required Financial Security.

Any failure of the Applicant/Transmission Customer to provide and/or maintain the required Financial Security under this Transmission Credit Policy shall be deemed a breach of the Transmission Credit Policy and subject to applicable cure periods prior to becoming a default.

Cash Deposit:

The amount of any cash deposit will be determined by the Transmission Provider in conformity with the Transmission Credit Policy. Transmission Provider may require Applicant/Transmission Customer to provide a cash collateral agreement and/or any other necessary documentation needed for Transmission Provider to perfect their security interest in the collateral.

Irrevocable Standby Letter of Credit:

An Irrevocable Standby Letter of Credit for the value of Financial Security required by the Transmission Provider may be submitted as a form of satisfactory Financial Security. The financial institution issuing the Letter of Credit must have a minimum senior unsecured long-term debt (not supported by third party enhancement) rating of A- by S&P, and A3 by Moody's (if both are available). Additionally, the form of the Letter of Credit must also be satisfactory to Transmission Provider. All costs associated with obtaining the Letter of Credit will be the sole responsibility of the Applicant and/or Transmission Customer. The Letter of Credit must automatically renew each year unless the issuing financial institution provides a notice to the Transmission Provider at least one hundred twenty (120) days prior to its expiration date stating its decision not to renew the Letter of Credit. If it is not renewed, but still required, other acceptable Financial Security must be provided.

Positive Material Change in Financial Condition:

If there is a positive Material Change in the financial condition of the Applicant/Transmission Customer, a significant reduction in the Total Potential Exposure, or any other change that the Applicant/Transmission Customer believes may warrant an increase in the Applicant/Transmission Customer's Unsecured Credit Limit and/or a reduction in the Financial Security provided by the Applicant/Transmission Customer, they may request a reevaluation of their Unsecured Credit Limit and/or the level of their Financial Security. The Transmission Provider will make every effort to respond within ten (10) business days of such a written request.

Defaults:

Any violation of any provision of this Transmission Credit Policy as it may be amended from time to time, unless cured within any applicable cure period, shall be a default under this Transmission Credit Policy.

| Table 1 | | |
|-------------------------------|--------------------------------------|---------------------|
| | Percent of Tangible Net Worth | |
| Composite Credit Score | Non-Public Power | Public Power |
| 1.00 to 1.66 | 6.0% | 12.0% |
| 1.67 to 2.00 | 5.5% | 11.0% |
| 2.01 to 2.33 | 5.0% | 10.0% |
| 2.34 to 2.66 | 4.5% | 9.0% |
| 2.67 to 3.00 | 4.0% | 8.0% |
| 3.01 to 3.33 | 3.5% | 7.0% |
| 3.34 to 3.66 | 3.0% | 6.0% |
| 3.67 to 4.00 | 2.5% | 5.0% |
| 4.01 to 4.33 | 1.8% | 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% |

| Table 2 | | |
|-------------------------------|--|---------------------|
| | Maximum Unsecured Credit Limit (Million \$) | |
| Composite Credit Score | Non-Public Power | Public Power |
| 1.00 to 1.66 | \$20 | \$20 |
| 1.67 to 2.00 | \$18 | \$18 |
| 2.01 to 2.33 | \$16 | \$16 |
| 2.34 to 2.66 | \$14 | \$14 |
| 2.67 to 3.00 | \$12 | \$12 |
| 3.01 to 3.33 | \$10 | \$10 |
| 3.34 to 3.66 | \$8 | \$8 |
| 3.67 to 4.00 | \$6 | \$6 |
| 4.01 to 4.33 | \$4 | \$4 |
| 4.34 to 4.66 | \$2 | \$2 |
| 4.67 to 5.00 | \$1 | \$1 |
| 5.01 to 6.00 | \$0 | \$0 |