



Tri-State Generation and Transmission Association, Inc.

Attachment A Transmission Services Creditworthiness Business Practices

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Effective: January 1, 2013

For the purpose of determining the ability of the Transmission Customer to meet its obligations related to service under the Transmission Provider's ("Tri-State") Open Access Transmission Tariff ("OATT"), Tri-State will require reasonable credit review procedures. This review shall be made in accordance with standard commercial practices using quantitative and qualitative criteria to determine the level of secured and unsecured credit. The Creditworthiness Business Practices set forth below are published on Tri-State's Open Access Same-Time Information System (OASIS) under "Business Practices." All terms not otherwise defined herein have the meaning set forth in the Tri-State OATT. If anything within this business practice differs from the posted Tariff, the provisions outlined in the Tariff shall prevail.

A. Summary of Credit Review Procedures

An initial credit analysis will be performed on all customers desiring to purchase service under the Tri-State OATT. The creditworthiness of the Transmission Customer or potential Transmission Customer (collectively, a "Transmission Customer") must be determined through a fundamental analysis of the Transmission Customer's financial and operational condition prior to receiving transmission service. Tri-State's Credit Risk Administrator analyzes the financial strength of credit applicants based on both quantitative and qualitative criteria and makes a subsequent decision that is communicated to the System Operations Department, which is responsible for administering transmission service under the OATT. Any Transmission Customer must satisfy the requirements of Tri-State's Creditworthiness Business Practices prior to receiving transmission service.

Except as required by regulation or law, applicant credit information is not released to outside third parties.

The credit analysis can include applicant supplied and/or independently obtained data from sources such as trade references, bank references, annual audited and quarterly financial statements, SEC filings,

FERC applications or approvals, Dun & Bradstreet reports, Value-Line Investment Surveys, Standard & Poor's "S&P", Moody's, Fitch, trade publications, and industry contacts.

Examples of the criteria used in the credit review process include, but are not limited to, the following:

Quantitative Criteria:

- a. Financial ratios (capitalization metrics, equity and asset metrics, operating and net margin metrics, tangible net worth metrics, debt and interest coverage metrics, cash flow metrics, etc.)
- b. Financial trends (year to year, quarter to quarter, etc.)
- c. Credit Ratings from S&P, Moody's or Fitch

Qualitative Criteria:

- a. Power supply portfolio
- b. Rate policy/ ability to set and maintain rates to recover cost
- c. Management reputation
- d. Risk profile of industry classification
- e. Corporate strategy/reputation
- f. Credit risk management capability

B. Qualification for Unsecured Credit

Transmission Customers may apply for unsecured credit by completing a Tri-State Credit Application and submitting it to Tri-State's System Operations Department or directly to Tri-State's Credit Risk Administrator. Tri-State's Credit Risk Administrator will make reasonable efforts to review the Credit Application or request additional information if required within five (5) business days of receipt. Failure to submit all the required information may result in a delay of the credit review and approval. There are two methods for Transmission Customers to potentially qualify for unsecured credit with Tri-State.

Qualification Method 1:

Following are the criteria that must be satisfied for qualification under Qualification Method 1:

- i. The Transmission Customer is (i) an investor-owned utility ("IOU"), public power district, municipal utility, transmission provider, rural electric cooperative, or distribution utility and (ii) has the direct authority to establish and adjust rates to recover costs, including power costs; and
- ii. The Transmission Customer is not currently in payment default to Tri-State or another known party and has not been in payment default to Tri-State or another known party during the prior 3 years; and
- iii. The Transmission Customer has not experienced a material adverse change in its financial condition or payment practices during the prior year.

Transmission Customers qualifying for credit under Method 1 may alternatively choose to be evaluated

for a higher credit limit under Method 2. Transmission Customers who qualify for unsecured credit under Method 1 will be assigned a \$1 million unsecured credit limit. Transmission Customers who do not meet the Qualification Method 1 criteria may apply for credit under Qualification Method 2 or provide credit support security to Tri-State as set forth in Section C below. Transmission Customers who qualify for unsecured credit under Qualification Method 1, but whose total credit exposure exceeds or is expected to exceed their unsecured credit limit of \$1 million will be required to apply for credit under Qualification Method 2 or provide additional credit support security as set forth in Section C below. All Transmission Customers qualifying under Method 1 will be re-evaluated for creditworthiness at least annually and may be required to provide updated financial information to the Credit Risk Administrator at Tri-State.

Qualification Method 2:

To qualify for credit under Qualification Method 2, Transmission Customers must undergo a comprehensive creditworthiness evaluation. Both quantitative and qualitative criteria will be evaluated. These Transmission Customers are required to provide the following information:

- i. Three years of audited financial statements including income statement, balance sheet, cash flow statements, and accompanying footnotes (Transmission Customers without three years of audited financial statements should provide the maximum number of years available).

Transmission Customers that apply for unsecured credit under Method 2 will be evaluated in part based on their credit ratings by S&P, Moody’s and/or Fitch credit rating agencies. Alternatively, Tri-State will assign an internal credit rating to Transmission Customers based on both quantitative and qualitative criteria, which such rating shall follow the same scale as S&P (e.g. AAA, AA, A, BBB, BB, etc.).

All Transmission Customers qualifying under Method 2 will be re-evaluated for creditworthiness at a minimum annually and may be required to provide updated financial information to the Credit Risk Administrator at Tri-State. Transmission Customers with S&P, Moody’s, Fitch or Tri-State internal Credit Ratings of investment grade or higher will qualify for unsecured credit under Qualification Method 2. If a Transmission Customer is rated by more than two credit rating agencies, the lower of the highest two ratings will be used. The unsecured credit limit assigned is defined in the table below. Transmission Customers rated below investment grade will need to provide an acceptable form of credit support security as set forth in Section C below.

<u>S&P/Fitch/Tri-State</u>	<u>Moody’s</u>	<u>Credit Limit (in \$Million)</u>	<u>Adjustments (\$Million)</u>
A to AAA	A2 to Aaa	\$10	+/- \$2.5
A-	A3	\$7.5	+/- \$2.5
BBB+	Baa1	\$5.0	+/- \$2.5
BBB	Baa2	\$2.5	+/- \$2.5
BBB-	Baa3	TBD	+/- \$2.5

Adjustment Criteria to the table above includes:

- a. Positive adjustments in the Adjustments column of the table above will be applied to IOU/public power/municipal/ rural electric cooperative /distribution utility, which have the ability to set rates.
- b. Negative adjustments in the Adjustment column of the table above will be applied

- c. to Transmission Customers that have negative financial trends.
- c. Negative adjustments will also be applied to Transmission Customers that have had a material adverse change or have had a change in financial condition or payment practices.

Notwithstanding any other statement in this Creditworthiness Business Practices, if a Transmission Customer, its affiliate, or Credit Provider is in default of a payment obligation with Tri-State or another known party, Tri-State may, without notice to Transmission Customer, set the Transmission Customer's credit limit at \$0.

C. List of Acceptable Forms of Credit Support Security

Acceptable Credit Support Security could include one or a combination of the following:

- a. Parental guaranty, in a form acceptable to Tri-State, from an entity meeting the criteria under Qualification Method 2 above
- b. Unconditional and irrevocable letter of credit, in a form provided by Tri-State, from an issuer satisfying the following requirements:
 - i. Issuer must be a U.S. commercial bank or a licensed U.S. branch of a foreign bank;
 - ii. Issuer must maintain an unsecured or issuer rating equivalent to A- or better as determined by at least two (2) rating agencies, one of which must be either Standard & Poor's or Moody's; and
 - iii. Issuer must have total asset value of at least thirty billion dollars (\$30,000,000,000.00)
- c. Prepayment arrangement
- d. Other form of Credit Support Security acceptable to Tri-State

To the extent any of the credit support security expires prior to the Transmission Service Agreement expiration date, the credit support security is required to be extended (with proof provided to Tri-State) not less than thirty (30) days prior to that expiration date of the credit support security for a period of at least three hundred and sixty (360) days. If a Transmission Customer fails to maintain or renew a letter of credit in accordance with the Transmission Service Agreement, Tri-State shall have the right to draw upon the entire undrawn portion of the letter of credit, without notice, and hold such cash as security. If the credit support security currently being used by a Transmission Customer is determined to no longer be considered acceptable after an annual or periodic credit review process, Tri-State will notify the Transmission Customer, who will be required to provide another form of credit support security within ten (10) days. The failure to maintain, renew, or provide substitute or additional credit support security when required will be considered a material breach of the Transmission Service Agreement and may result in the forfeiture of any deposits made under the Transmission Service Agreement.

If a Transmission Customer qualifies for credit based on the credit standing of a guarantor, letter of credit provider, or other form of credit support security with an explicit dollar limit set forth in such document, the credit limit assigned to the Transmission Customer will be limited by the dollar limit in credit support security provided, but not surpassing the dollar limits stated in Section B above.

All costs associated with meeting Tri-State's credit risk requirements, including any costs of obtaining and posting credit support security, are the responsibility of the Transmission Customer.

D. Notification of Changes in Creditworthiness and Ability to Post Additional Credit Support Security

If Tri-State determines there is a change in the creditworthiness of a Transmission Customer or a Transmission Customer's guarantor and such change would affect the level of credit support security required by Tri-State; Tri-State will notify the Transmission Customer in writing within thirty (30) days of such determination. In its notification to the Transmission Customer, Tri-State will identify any changes to the Transmission Customer's credit support security requirements. Should Tri-State require the Transmission Customer to post new or additional credit support security, the Transmission Customer must post credit support security in an amount determined by Tri-State within five (5) business days of receipt of a written notification from Tri-State of a change in the creditworthiness of the Transmission Customer or Transmission Customer's guarantor.

E. Contesting Credit Determinations

The Transmission Customer has the opportunity to contest Tri-State's determination of Transmission Customer's creditworthiness or Credit Support Security requirements in accordance with the dispute resolution procedure outlined within the Tariff.