



### Revision Request Form

#### SPP STAFF TO COMPLETE THIS SECTION

RR #:	Date: 09/20/2021
RR Title: Surety Bond as a form of Financial Security	
System Changes <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
Process Changes? <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes	
Impact Analysis Required? <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes   If no, but system or process changes are expected please explain why an Impact Analysis will not be performed (e.g. FERC Order, work included in another Impact Analysis for a related RR):	
<b>SUBMITTER INFORMATION</b>	
Name: Jared Barker on behalf of Credit Practices WG	Company: Southwest Power Pool, Inc.
Email: jbarker@spp.org	Phone: 501-614-3234
<i>Only Qualified Entities may submit Revision Requests. Please select at least one applicable option below, as it applies to the named submitter(s).</i>	
<input type="checkbox"/> SPP Staff <input type="checkbox"/> SPP Market Participant <input type="checkbox"/> SPP Member <input checked="" type="checkbox"/> An entity designated by a Qualified Entity to submit a Revision Request "on their behalf"	<input type="checkbox"/> SPP Market Monitor <input type="checkbox"/> Staff of government authority with jurisdiction over SPP/SPP member <input type="checkbox"/> Rostered individual of SPP Committee, Task Force or Working Group <input type="checkbox"/> Transmission Customers or other entities that are parties to transactions under the Tariff
<b>REVISION REQUEST DETAILS</b>	
Requested Resolution Timing: <input checked="" type="checkbox"/> Normal <input type="checkbox"/> Expedited <input type="checkbox"/> Urgent Action	
Reason for Expedited/Urgent Resolution:	
Type of Revision (select all that apply):	
<input type="checkbox"/> Correction (i.e., revising erroneous language or language that needs clean-up for grammatical errors or inconsistency across governing documents - no changes to intent or policy)	<input checked="" type="checkbox"/> New Protocol, Business Practice, Criteria, Tariff (i.e., new language to accommodate new functionality or policy not existing today)
<input type="checkbox"/> Clarification (i.e., revising language to better represent existing intent, no changes to functionality or policy)	<input type="checkbox"/> NERC Standard Impact (Specifically state if revision relates to/or impacts NERC Standards, list standard(s))
<input type="checkbox"/> Enhancement (i.e., revising language to expand upon existing intent or functionality)	<input type="checkbox"/> FERC Mandate (List order number(s))
<b>REVISION REQUEST RISK DRIVERS</b>	

**Are there existing risks to one or more SPP Members or the BES driving the need for this RR?**  Yes  No

If yes, provided details to explain the risk and timelines associated:

Compliance (Tariff, NERC, Other)

Reliability/Operations

Financial: Given that underwriters of surety instruments are not registered as financial institutions and are not subject to the same regulatory requirements, some amount of credit risk is introduced by allowing sureties as a form of Financial Security. While estimated as a potentially small amount of risk undertaken by the aggregate of market participants, it is appropriate to at least identify in this section. The intention of this RR is to allow the use of sureties to secure all forms of market transactions which includes transmission congestion rights ("TCR") and virtual energy.

**SPP Documents Requiring Revision:**

*Please select your primary intended document(s) as well as all others known that could be impacted by the requested revision (e.g. a change to a protocol that would necessitate a criteria or business practice revision).*

<input type="checkbox"/> Market Protocols	Section(s):	Protocol Version:
<input type="checkbox"/> Operating Criteria	Section(s):	Criteria Date:
<input type="checkbox"/> Planning Criteria	Section(s):	Criteria Date:
<input checked="" type="checkbox"/> Tariff (OATT)	Section(s): Attachment X, Articles 1, 2, 3, 4, 6, 7, 8, Appendix "A," Appendix "B," and Appendix "F"	
<input type="checkbox"/> Business Practice	Business Practice Number:	
<input type="checkbox"/> Integrated Transmission Planning (ITP) Manual	Section(s):	
<input type="checkbox"/> Revision Request Process	Section(s):	
<input type="checkbox"/> Minimum Transmission Design Standards for Competitive Upgrades (MTDS)	Section(s):	
<input type="checkbox"/> Reliability Coordinator and Balancing Authority Data Specifications (RDS)	Section(s):	
<input type="checkbox"/> SPP Communications Protocols	Section(s):	

**OBJECTIVE OF REVISION**

**Objectives of Revision Request:**

*Describe the problem/issue this revision request will resolve.*

The purpose of this RR is to include Surety Bonds as a form of “Financial Security” within Attachment X (“Credit Policy”) of the SPP OATT. This would allow sureties to secure all types of financial transactions within SPP’s Integrated Marketplace including TCRs and virtual energy.

Currently, the Credit Policy defines Cash, an Irrevocable Letter of Credit, or a Federal Power Marketing Agency Letter as the only forms of Financial Security. The Credit Policy requirement states a Credit Customer must provide Financial Security to cover: (i) Total Potential Exposure, if the Credit Customer is either denied an Unsecured Credit Allowance or if the allowance granted is less than its Total Potential Exposure, (ii) Total TCR Credit Requirement. Per FERC Order 741, TCR requirements cannot be covered with unsecured credit, (iii) Satisfaction of the alternative criteria for market participation specified in Section 3.1.1.8.2(e), and/or (iv) Credit Customer may also submit Financial Security in lieu of or in addition to the Unsecured Credit Allowance it was granted.

Much like letters of credit, a surety bond is a legally binding contract between three parties. In this case, between SPP as beneficiary, the Credit Customer as principal, and the issuing entity as surety. While similar in underwriting and form, surety bonds may provide a lower cost entry point as compared to a letter of credit for creditworthy customers. In administering this Tariff policy, SPP would require the surety bond that, at a minimum, satisfies all of the following:

- Statement that Southwest Power Pool, Inc. is the sole beneficiary or obligee
- Underwritten by a surety issuer listed in the U.S. Treasury’s List of Certified Companies (evidence of listing is required during submission of surety bond)
- Underwritten by a surety issuer with a corporate debt, issuer default, or insurer financial strength rating of at least an “A-” by S&P, “A3” by Moody’s, “A-” by Fitch, or “A” by A.M. Best (evidence of rating is required during submission of surety bond)
- Statement that surety issuer will pay SPP upon demand
- Statement of any specific language the surety will require of SPP to draw on surety in the event of non-payment, contract default, and underwriter ratings decrease (below ratings listed above)
- Statement that surety issuer will pay the full amount requested by SPP no later than the next business day after a draw request is presented to surety issuer
- Statement that Principal will pay all costs associated with the surety bond including, without limitation, all commissions and fees associated with the surety bond
- Statement that the surety bond has no stated expiration date (evergreen) and that surety issuer will provide notice to SPP no less than 90 days prior to termination

Surety Bonds within the ISO/RTO industry:

- ISO-NE: Acceptance being discussed, but currently not accepted
- PJM: Currently accepted but cannot be used to meet FTR requirements
- NYISO: Currently accepted
- ERCOT: Currently accepted
- CAISO: Previously accepted but board of directors eliminated acceptance in 2012 at request of CFO. However, an entity may submit written permission to CAISO that explains the basis for the use of such non-standardized forms to which CAISO must respond within 10 days.

*Describe the benefits that will be realized from this revision*

Currently, SPP requires Credit Customers to post Letters of Credit or Cash as it relates to Financial Security requirements defined in Attachment X. This RR may reduce the cost to Credit Customers and at the same time not significantly increasing the credit risk to SPP.

<b>REVISIONS TO SPP DOCUMENTS</b>
<i>In the appropriate sections below, please provide the language from the current document(s) for which you are requesting revision(s), with all edits redlined.</i>
<b>Market Protocols</b>

<b>SPP Tariff (OATT)</b>
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**ATTACHMENT X**

**Southwest Power Pool, Inc. Credit Policy**

## ARTICLE ONE

### General Provisions

- 1.1 Policy Statement.** In furtherance of competition and the orderly administration of the Tariff, Southwest Power Pool (“SPP”) shall administer, implement and enforce this Credit Policy. This Credit Policy is intended to encourage the maximum participation of large and small participants in all market sectors while minimizing the likelihood of losses due to default and to establish eligibility requirements for market participation.
- 1.2 Applicability of Credit Policy and Overview.**
- 1.2.1** This Credit Policy is applicable to each Credit Customer. It applies to each Credit Customer regardless of whether SPP previously extended credit to, or established a Total Credit Limit for, the Credit Customer. .
- 1.2.2** As a condition to taking any service subject to this Credit Policy, SPP must determine that the Credit Customer satisfies SPP’s credit requirements and minimum criteria for market participation under this Credit Policy and the terms and conditions for an extension of credit. SPP’s determination is a Credit Assessment. The Credit Assessment is based upon quantitative and qualitative credit scoring under the formulae and procedures set forth in this Credit Policy. This Credit Policy provides for initial and ongoing Credit Assessments. In order to facilitate continuous evaluation of credit, it requires the submission of Credit Information to SPP periodically and, additionally, upon the occurrence of certain events. Based upon the ongoing Credit Assessment, SPP is authorized, at any time, to revise a Credit Customer’s Total Credit Limit and the terms and conditions for the extension of credit.
- 1.2.3** SPP shall conduct initial and ongoing Credit Assessments for each Credit Customer, based, as applicable, upon the Credit Application, Credit Information, and Credit Ratings. Credit Information includes: (a) the information contained in and submitted with the Credit Customer’s duly executed Credit Application; and (b) updated and additional information the Credit Customer is required to submit from time to time under this Credit Policy. Credit Information and Credit Ratings, if any, shall be sufficient to enable SPP to determine under this Credit Policy whether to approve an extension of credit, and the amount, terms, and conditions thereof, including the extent and nature of any Guaranty or Financial Security.
- 1.2.4** Based upon its Credit Assessment, SPP will: (a) determine the Credit Customer’s Total Potential Exposure; (b) determine the amount of credit the Credit Customer requires; (c) determine whether to grant, and the amount of, any Unsecured Credit Allowance; (d) evaluate any Guaranty the Credit Customer offers to provide, including a Credit Assessment for the proposed Guarantor; (e) determine the amount of any required Financial Security; and (f) determine if the Credit Customer meets the minimum criteria for market participation under Sections 3.1.1.8 and 3.1.1.9. Based on these determinations, which shall include consideration of the

Credit Customer's ability to fulfill SPP's requirements to obtain credit, SPP will set the Total Credit Limit for the Credit Customer.

**1.2.5** To facilitate the Credit Assessment, each Credit Customer shall submit a duly executed Credit Application in the form attached as Appendix "A," and the Credit Information required under this Credit Policy. If SPP determines that an extension of credit to a Credit Customer must be supported by Financial Security, the Credit Customer shall, upon SPP's request, duly execute the Credit and Security Agreement in the form attached as Appendix "B," without variation. Any Letter of Credit shall be substantially in the form attached as Appendix "C," ~~and~~ any Guaranty shall be substantially in the form attached as Appendix "D," and any Surety Bond shall be substantially in the form attached as Appendix "F." Any variations in the forms of Letter of Credit, ~~and~~ Guaranty, or Surety Bond must be reasonably acceptable to SPP.

**1.2.6** This Credit Policy also sets forth separately stated Financial Security requirements for Transmission Congestion Rights.

**1.3 Components of Credit Policy.** This Credit Policy includes the following elements:

**1.3.1** Requirements for the establishment and maintenance of credit applicable to Credit Customers.

**1.3.2** The basis for establishing a Total Credit Limit for a Credit Customer in order to extend credit, but diminish the possibility of failure of payment under the Tariff and Agreements.

**1.3.3** Forms of Guaranty and Financial Security acceptable to SPP, to be provided if SPP does not approve an Unsecured Credit Allowance sufficient to cover the Credit Customer's Total Potential Exposure or to cover Transmission Congestion Right activity.

**1.3.4** Requirements to facilitate ongoing Credit Assessments.

**1.3.5** Specification of Defaults under this Credit Policy and remedies.

**1.3.6** Minimum criteria for market participation.

**1.4 Fairness, Objectivity, and Non-Discrimination.** SPP will seek and receive information and explanation from a Credit Customer as appropriate to help ensure that the Credit Assessment is fair and thorough. SPP will base each Credit Assessment upon SPP's evaluation of the Credit Information, Credit Ratings, and other pertinent indicators of financial strength identified under this Credit Policy. SPP shall make each Credit Assessment objectively and without undue discrimination in favor of or against any market sector. Whenever this Credit Policy permits SPP to exercise discretion in the implementation of the provisions of this Credit Policy, SPP shall exercise that discretion

in a fair and impartial manner that treats all Credit Customers in a non-discriminatory manner.

**1.5 Construction and Interpretation.**

**1.5.1** The word “including” shall be understood to mean “including without limitation.” The singular form of a word shall be understood to include the plural form, and vice versa, as appropriate to implement the applicable term or condition.

**1.5.2** Except as otherwise stated, the words “Section” and “Article” refer to sections and articles of this Credit Policy. A Section reference includes all subsections and subparts of the Section.

**1.5.3** All references to amounts of cash, cash deposits, and to monies paid, provided, due or otherwise, shall be construed to refer to United States dollars.

**1.6 Disputes.** Any disputes arising under this Credit Policy will be subject to the dispute resolution procedures set forth in Section 12 of the Tariff.

## ARTICLE TWO

### Definitions

**2.1 Definitions.** The following definitions apply in this Credit Policy. Capitalized terms used herein and not defined herein shall be given the meaning assigned to them under the Tariff.

#### **Affiliate**

A business concern, organization, or individual is an affiliate of another business concern, organization, or individual, including a Credit Customer, that directly or indirectly: (a) has the power to control or is controlled by it; or (b) is under common control of a third party. Elements of control include interlocking management or ownership, shared facilities and equipment, and common use of employees.

#### **Affiliated Credit Customers**

Credit Customers that are Affiliates.

#### **Agreements**

The Tariff, including this Credit Policy, any and all agreements entered into by the Credit Customer under, pursuant to or in connection with the Tariff and/or this Credit Policy, and any and all other Agreements to which SPP and the Credit Customer are parties.

#### **Auction Clearing Price**

This term shall have the meaning given in Attachment AE of the Tariff.

#### **Auction Revenue Right (ARR)**

This term shall have the meaning given in Attachment AE of the Tariff.

#### **Bid**

This term shall have the meaning given in Attachment AE of the Tariff.

#### **Business Day**

A day on which the Federal Reserve System is open for business.

#### **Cash Deposit**

Cash collateral provided to SPP to secure a Credit Customer's performance under the Tariff, this Credit Policy, and/or any other Agreements, and any other cash to which the Credit Customer has title or rights in the possession of SPP (cash SPP has applied to payment of an obligation under the Tariff or Agreements is not cash to which a Credit Customer has title or rights).

#### **Central Prevailing Time**

As established by national time standards, either Central Standard Time or Central Day-Light Time.

#### **Composite Credit Score or Credit Score**

This term shall have the meaning given in Section 4.2.



**Credit and Security Agreement**

A legal document, outlining certain terms pursuant to which a security interest in certain collateral is granted to SPP, in the form incorporated herein as Appendix “B”.

**Credit Application**

The completed, executed, and submitted Credit Application in the form attached as Appendix “A” hereto, together with the Credit Information required under this Credit Policy.

**Credit Assessment**

This term shall have the meaning given in Article Three.

**Credit Contact**

This term shall have the meaning given in Section 9.1.

**Credit Customer**

Any person that takes or seeks to take service under the Tariff including all Transmission Service or other services under the Tariff, including any market services.

**Credit Information**

This term shall have the meaning given in Section 1.2.3.

**Credit Ratings**

Rating assigned by a Rating Agency based on an obligor’s creditworthiness to pay financial obligations.

**Day-Ahead Market**

This term shall have the meaning given in Attachment AE of the Tariff.

**Day-Ahead Market Marginal Congestion Component (MCC)**

This term shall have the meaning given in Section 8.3.1.2 of Attachment AE of the Tariff.

**Default or Event of Default**

Any default under Article Eight or otherwise under this Credit Policy.

**Estimated TCR Exposure (ETCRE)**

This term shall have the meaning given in Section 5A.1.3.

**Estimated Virtual Exposure (“EVE”)**

This term shall have the meaning given in Section 4A.2.

**ETCRE Bid**

This term shall have the meaning given in Section 5A.4.

**ETCRE Hold**

This term shall have the meaning given in Section 5A.2.

**ETCRE Offer**

This term shall have the meaning given in Section 5A.5.

**Federal Power Marketing Agency**

For purposes of this Credit Policy, this term shall have the same definition that is set forth in the Federal Power Act at 16 U.S.C. § 796(19), which defines a "Federal power marketing agency" as "any agency or instrumentality of the United States (other than the Tennessee Valley Authority) which sells electric energy[.]"

**FERC**

The Federal Energy Regulatory Commission.

**Financial Security**

A Cash Deposit, Irrevocable Letter of Credit, Surety Bond, or Federal Power Marketing Agency Letter in amount and in forms as described in Article Seven of this Credit Policy, provided by a Credit Customer to SPP as security.

**Financial Statements**

This term shall have the meaning given in Section 3.1.1.1.

**Guarantor**

An entity that guarantees the obligation of another entity under a Guaranty.

**Guaranty**

A legal document used by an Affiliate of a Credit Customer pursuant to Article Six to guarantee the obligations of such Credit Customer for the benefit of SPP.

**Incremental Long-Term Congestion Right (ILTCR)**

This term shall have the meaning given in Part I. Section 1 of this Tariff.

**Irrevocable Letter of Credit**

An irrevocable standby letter of credit, with SPP as beneficiary, substantially in the form attached as Appendix "C" to this Credit Policy and reasonably acceptable to SPP.

**Large Company Credit Customers or Large Company**

This term shall have the meaning given in Section 4.2.1.

**Locational Marginal Price**

This term shall have the meaning given in Attachment AE of the Tariff.

**Long-Term Congestion Right (LTCR)**

This term shall have the meaning given in Attachment AE of this Tariff.

**Market Exposure**

This term has the meaning given in Section 5.2.1.

**Material**

The lesser of (i) the materiality standard established by the certified public accounting firm performing the Credit Customer's annual audit, (ii) an amount that equals or exceeds five percent (5%) of the Credit Customer's Tangible Net Worth using the last audited financial statements, calculated in accordance with generally acceptable accounting principles; and (iii) a change, event, proceeding, or other occurrence, that results (or if adversely determined could result) in a change of five percent (5%) or more in the Credit Customer's Tangible Net Worth compared to the Tangible Net Worth of the Credit Customer using the last audited financial statements, calculated in accordance with generally acceptable accounting principles.

**Material Adverse Change**

This term shall have the meaning given in Section 3.2.7.

**Minimum Offer Segment**

This term shall have the meaning given in Section 5A.5.3.

**Minimum Segment Hold**

This term shall have the meaning given in Section 5A.4.3.

**Minimum TCR Collateral Requirement**

This term has the meaning given in Section 5A.3.6.

**Not-For Profit Credit Customers or Not-For-Profit**

This term shall have the meaning given in Section 4.2.3.

**Offer**

This term shall have the meaning given in Attachment AE of the Tariff.

**Operating Day**

This term shall have the meaning given in Attachment AE of the Tariff.

**Operating Hour**

This term shall have the meaning given in Attachment AE of the Tariff.

**Peak Market Activity Day**

The day in which a Credit Customer's calculated charges owed to SPP are the greatest, over a specified period.

**Potential Exposure Window**

The number of days of credit exposure for a Credit Customer equal to the sum of days of service that have been invoiced but not paid, days of service that have been calculated but not invoiced, days of service in the cure period, and days before service can be terminated.

**Qualitative Score**

This term has the meanings applicable under Article Four.

**Quantitative Score**

This term has the meanings applicable under Article Four.

**Rating Agency(ies)**

Any Rating Agency that is a “Nationally Recognized Statistical Rating Organizations” as defined by the US Securities Exchange Commission. Currently there are four — Dominion Bond Rating Service Ltd., Fitch, Inc., Moody's Investors Service, and the Standard & Poor's Division of the McGraw Hill Companies Inc.

**Real-Time**

This term shall have the meaning given in Attachment AE of the Tariff.

**Real-Time Balancing Market**

This term shall have the meaning given in Attachment AE of the Tariff.

**SEC**

The Securities and Exchange Commission.

**Settlement Location**

This term shall have the meaning given in Attachment AE of the Tariff.

**Settlement Statement**

This term shall have the meaning given in Attachment AE of the Tariff.

**Small Company Credit Customers or Small Company**

This term shall have the meaning given in Section 4.2.2.

**Surety Bond**

A surety bond, with SPP as beneficiary, substantially in the form attached as Appendix “F” to this Credit Policy and reasonably acceptable to SPP.

**Tangible Net Worth**

This term shall have the meaning given in Section 4.3.

**TCR Final Reference Price**

This term shall have the meaning given in Section 5A.2.1.

**TCR Mean Price**

This term shall have the meaning given in Section 5A.2.1.

**TCR Portfolio Credit Requirement**

This term shall have the meaning given in Section 5A.3.

**TCR Stress Test Price**

This term shall have the meaning given in Section 5A.2.1.

**Total Credit Limit**

This term shall have the meaning given in Section 4.5.

**Total Potential Exposure or TPE**

SPP's estimate of the Credit Customer's current or anticipated transaction activity and resulting obligations for all services under the Tariff or otherwise, excluding Transmission Congestion Rights activity.

**Total Potential Exposure Violation**

This term shall have the meaning given in Section 5.4.1.

**Total TCR Credit Requirement**

Total TCR Credit Requirement is the amount of Financial Security a Credit Customer must provide in order to support the TCR positions that it holds and/or for which it is submitting Bids and Offers.

**Transmission Congestion Right (TCR)**

This term shall have the meaning given in Attachment AE of the Tariff.

**Transmission Congestion Right Auction (TCR Auction)**

This term shall have the meaning given in Attachment AE of the Tariff.

**Transmission Service Potential Exposure**

This term shall have the meaning give in Section 5.2.2.

**Unsecured Credit Allowance**

This term shall have the meaning given in Section 4.3.

**Virtual Energy Bid,**

This term shall have the meaning given in Attachment AE of the Tariff.

**Virtual Energy Offer**

This term shall have the meaning given in Attachment AE of the Tariff.

## **ARTICLE THREE**

### **Credit Assessment**

#### **3.1 Minimum Criteria for Market Participation and Initial Credit Assessment.**

**3.1.1 Credit Application and Credit Information.** A Credit Customer must submit a completed and duly executed Credit Application. The Credit Application shall be renewed and updated for each successive year and shall be submitted to SPP no later than April 30 of each year. A completed Credit Application includes submission of the Credit Application form (Appendix "A"), all information required under Section 3.1.1, and additional information that SPP may request. The Credit Customer must submit the following information with its Credit Application.

**3.1.1.1 Audited Financial Statements and Related Information.** All annual Financial Statements submitted must be audited. Financial Statements are the following.

- a. If the Credit Customer is subject to SEC reporting requirements, Financial Statements are:
  - i. Annual Reports on Form 10-K for the three fiscal years most recently ended, together with any amendments thereto;
  - ii. Quarterly Reports on Form 10-Q for each completed fiscal quarter of the then current fiscal year, together with any amendments thereto; and
  - iii. Form 8-K reports, if any, filed after the most recent Form 10-K.
- b. If the Credit Customer is not subject to SEC reporting requirements, Financial Statements are:
  - i. For each of the three fiscal years most recently ended, the Report of Independent Accountants (for each of the three fiscal years most recently ended); and audited financial statements, including balance

- sheet, income statement, statement of cash flow, and statement of stockholder's equity;
- ii. For each completed fiscal quarter of the then current fiscal year; financial statements as described in (i) above. Unaudited quarterly financial statements are acceptable.
  - iii. Notes to financial statements; and
  - iv. Management's discussion and analysis, if any.
- c. The Credit Customer may submit Financial Statements by informing SPP, in writing, where the Financial Statements can be retrieved through the internet. Successful retrieval by SPP will satisfy the Financial Statements submission requirements of this Section. If SPP is not satisfied with the retrieval through the internet, it may require the Credit Customer to submit Financial Statements in hard copy form.
- d. In the event any parts of the Financial Statements required under this Section are inapplicable to the Credit Customer, SPP may specify alternate requirements. SPP may request additional Financial Statements and related information at its sole discretion.
- e. For Not-For-Profit Credit Customers, some of the above financial submittals may not be applicable, and alternate requirements may be specified by SPP.
- f. In the credit evaluation of Not-For-Profit Credit Customers, SPP may request additional information as part of the overall financial review process and will consider other relevant factors in determining financial strength and creditworthiness.

**3.1.1.2 References.** The Credit Customer must provide at least one bank reference and at least three references from entities that have significant commercial relationships with the Credit Customer.

**3.1.1.3 Loss Contingencies.** The Credit Customer must fully and accurately identify and describe each of the following, or state that there are no such matters applicable to the Credit Customer:

- a. known pending or, to the Credit Customer's knowledge, threatened, court actions, arbitration proceeding, investigations, commitments, claims, contingencies, or existing or potential liabilities that are or would be Material if determined adversely to the Credit Customer;
- b. ongoing investigations by the SEC, the FERC, or of any other governing, regulatory, or standards body that is Material or would be Material if determined adversely to the Credit Customer;
- c. prior bankruptcy declarations or petitions, voluntary or involuntary, by or against the Credit Customer, its predecessors, subsidiaries or Affiliates; and
- d. Material defalcations or fraud by or involving the Credit Customer, its predecessors, subsidiaries or Affiliates, or any of their respective assets.

**3.1.1.4 Affiliates.** The Credit Customer must identify all Affiliates that are Credit Customers.

**3.1.1.5 Total Potential Exposure Information.** The Credit Customer shall provide an estimate of its current or anticipated transaction activity for all services under the Tariff or otherwise over the succeeding twelve months, excluding Transmission Congestion Rights activity, sufficient to permit SPP to determine the Credit Customer's Total Potential Exposure.

**3.1.1.6 Attestation Minimum Criteria for Market Participation and of Risk Management Capabilities.** Each applying Market Participant



shall submit to SPP a notarized statement signed by an authorized officer in the form attached as “Appendix E” to this Attachment X, attesting that:

- a. The officer has signature authority to make the statement;
- b. Employees or agents transacting in markets and services provided pursuant to the Tariff on behalf of the applying Market Participant have received, or will receive, applicable training with regard to their participation under this Tariff as a condition of being authorized to transact on behalf of the Market Participant;
- c. The applying Market Participant will maintain current written risk management policies and procedures that address those risks that could materially affect the applying Market Participant’s ability to pay its SPP invoices when due;
- d. The applying Market Participant has available appropriate personnel resources, operating procedures, and technical abilities to promptly and effectively respond to SPP communications and directions related to, but not limited to, settlements, billing, credit requirements and other financial matters;
- e. The applying Market Participant will maintain the minimum capitalization or alternate capitalization requirements set forth in Section 3.1.1.8 of this Attachment X; and
- f. Certifying that the Market Participant meets the minimum criteria for market participation set forth in Section 3.1.1.8.

Such attestation shall be renewed and updated for each successive year of market participation, and shall be submitted to SPP no later than April 30 of each year.

The applying Market Participant shall be declined participation in all SPP markets if: (i) the risk management capabilities of the applying Market Participant are deemed insufficient by SPP for the type of service that will be undertaken, (ii) SPP determines that the applying Market Participant does not meet the minimum criteria for market participation, (iii) the attestation is deemed insufficient by SPP to determine the risk management capabilities of the applying Market Participant, or (iv) the attestation is deemed insufficient by SPP to determine whether the applying Market Participant meets the minimum criteria for market participation. An applying Market Participant will have two (2) Business Days from receipt of notice from SPP that its attestation was deemed insufficient to cure any deficiency identified by SPP prior to being declined participation in SPP markets.

**3.1.1.7 Additional Information.** At any time and from time to time, SPP may request such additional information as SPP determines is necessary and appropriate for the Credit Assessment and the Credit Customer shall timely provide such additional information. At any time, the Credit Customer may provide SPP with additional information that the Credit Customer considers relevant to the Credit Assessment.

**3.1.1.8 Minimum Criteria for Market Participation.**

**3.1.1.8.1 Minimum Eligibility Requirements**

In order to be eligible to transact in the Integrated Marketplace, each Market Participant must demonstrate to SPP that it qualifies as one of the following:

- a. An “appropriate person,” as defined under Section 4(c)(3)(A) through (J) of the Commodity Exchange Act (7 U.S.C. § 6(c)(3)(A) through (J)). A Market Participant may qualify as an “appropriate person” by providing either: (i) an unlimited Corporate Guaranty in a form acceptable to SPP as described in Article 6 of this Attachment X and Appendix D of this Attachment X from an entity that demonstrates to SPP that it has in excess of \$1 million of total net worth or in excess of \$5 million of total assets per Market Participant for which that guarantor has issued an unlimited Corporate Guaranty, ~~or~~ (ii) an Irrevocable Letter of Credit letter of credit in excess of \$5 million in a form acceptable to SPP that the Market Participant acknowledges is separate from, and cannot be applied to meet, its credit requirements under this Attachment X, or (iii) a Surety Bond in excess of \$5 million that the Market Participant acknowledges is separate from, and cannot be applied to meet, its credit requirement under this Attachment X.

- b. An “eligible contract participant,” as defined in Section 1a(18) of the Commodity Exchange Act (7 U.S.C. § 1a(18)) and in the Commodity Futures Trading Commission’s regulation 1.3(m) (17 C.F.R. § 1.3(m))
- c. A person or entity that is in the business of: (1) generating, transmitting or distributing electric energy or (2) providing electric services that are necessary to support the reliable operation of the transmission system (78 Fed. Reg. 19880, page 19914).

For purposes of meeting the minimum criteria for market participation under this Credit Policy, SPP shall accept annual audited Financial Statements prepared according to either United States Generally Accepted Accounting Principles (US GAAP) or International Financial Reporting Standards (IFRS).

If a Market Participant is unable to meet the minimum eligibility requirements for market participation set forth in this Section 3.1.1.8.1, the Market Participant shall immediately notify SPP and immediately cease conducting transactions in the Integrated Marketplace. When SPP receives such notification from a Market Participant or determines that a Market Participant does not meet the minimum eligibility requirements set forth in this Section 3.1.1.8.1, SPP shall immediately terminate that Market Participant’s transaction rights in the Integrated Marketplace.

In the event that a Market Participant is no longer able to demonstrate that it meets the minimum eligibility requirements set forth in this Section 3.1.1.8.1, and possesses, obtains, or has rights to possess or obtain any open or forward position in the Integrated Marketplace, SPP may take any action it deems necessary with respect to such open or forward positions. Such action may include but is not limited to, liquidation, transfer, assignment, or sale.

The Market Participant will be entitled to any positive market value of such positions, net of any obligations due to SPP, notwithstanding its ineligibility to participate in the Integrated Marketplace. Nothing in this paragraph shall restrict SPP's ability to enforce SPP's rights to pursue and collect any amounts Market Participants may owe to SPP.

### **3.1.1.8.2 Minimum Capitalization Requirements**

Each Market Participant that meets the minimum eligibility requirements in Section 3.1.1.8.1 shall also, at a minimum, possess:

- a. A Tangible Net Worth of One Million Dollars (\$1,000,000) as shown in the most recent fiscal year end audited financial statements as described in Section 3.1.1.1; or
- b. Ten Million Dollars (\$10,000,000) in assets as shown in the most recent fiscal year end audited financial statement as described in Section 3.1.1.1; or
- c. A Credit Rating of, or equivalent to, BBB-; or
- d. A Guaranty as described in Article Six of this Attachment X, and approved by SPP, through which the audited financials or Credit Rating of the Guarantor is used to meet at least one of the alternatives specified in (a) through (c) above; or
- e. In the event a Market Participant cannot meet at least one of the alternatives specified in (a) through (d) above, the Market Participant shall, at a minimum, deposit with SPP Two Hundred Thousand Dollars (\$200,000) in Financial Security to be segregated and unavailable to secure any market or transmission activity. Pursuant to election of this alternative, if the anticipated activity at time of application or actual market activity as determined in Article Five, of the Market Participant exceeds One Hundred Thousand Dollars (\$100,000) in Market Exposure, the Market Participant shall provide SPP twice the amount of Financial Security that would

otherwise be required of the Market Participant pursuant to Section 4.4.

If the applying Market Participant is unable to meet the minimum capitalization requirements in this Section 3.1.1.8.2, the applying Market Participant shall be declined participation in all SPP markets.

Failure at any time of a Market Participant to continue to satisfy these minimum capitalization requirements in this Section 3.1.1.8.2 shall be deemed a Material Adverse Change pursuant to Section 3.2.7.

### **3.1.1.9 Minimum Criteria and Risk Management Verification Process**

Through a periodic compliance verification process, SPP shall review and verify Market Participants' eligibility for market participation based upon SPP's minimum criteria for market participation, risk management policies, practices, and procedures pertaining to the Market Participants' activities in the SPP markets. Such review shall include verification that:

1. The risk management framework is documented in a risk policy addressing market, credit, and liquidity risks;
2. The Market Participant maintains an organizational structure with clearly defined roles and responsibilities that clearly segregates trading and risk management functions;
3. There is clarity of authority specifying the types of transactions into which traders are allowed to enter;
4. The Market Participant has requirements that traders have adequate training or expertise relative to their authority in the systems and SPP markets in which they transact;
5. As appropriate, risk limits are in place to control risk exposures;
6. Reporting is in place to ensure that risks and exceptions are adequately communicated throughout the organization;
7. Processes are in place for qualified independent review of trading activities; and
8. As appropriate, there is periodic valuation or mark-to-market of risk positions.
9. The Market Participant meets the minimum participation criteria, including capitalization requirements, set forth in Section 3.1.1.8.

SPP may select Market Participants for review on a random basis and/or based on identified risk factors such as, but not limited to, the SPP markets in which the Market Participant is transacting, the magnitude of the Market Participant's transactions, or the volume of the Market Participant's open positions. Those Market Participants notified by SPP that they have been selected for review shall, upon fourteen (14) calendar days notice, provide a copy of their current governing risk control policies, procedures, and controls applicable to their SPP market activities and shall also provide such further information or documentation pertaining to the Market Participants' activities in the SPP markets as SPP may reasonably request. Market Participants selected for risk management verification through a random process and satisfactorily verified by SPP shall be excluded from such verification process based on a random selection for the subsequent two years. SPP shall annually randomly select for review no more than twenty percent (20%) of the Market Participants.

Each selected Market Participant's continued eligibility to participate in the SPP markets is conditioned upon SPP notifying the Market Participant of successful completion of SPP's verification, provided, however, that if SPP notifies the Market Participant in writing that it could not successfully complete the verification process, SPP shall allow such Market Participant fourteen (14) calendar days to provide sufficient evidence for verification prior to declaring the Market Participant as ineligible to continue to participate in SPP's markets, which declaration shall be in writing with an explanation of why SPP could not complete the verification. If, prior to the expiration of such fourteen (14) calendar days, the Market Participant demonstrates to SPP that it has filed with the Federal Energy Regulatory Commission an appeal of SPP's risk management verification determination, then the Market Participant shall retain its transaction rights, pending the Commission's determination on the Market Participant's appeal. SPP may retain outside expertise to perform the review and verification function described in this section. SPP and any third party it may retain will treat as confidential the documentation provided by a Market Participant under this section, consistent with the applicable provisions of the Tariff.

**3.1.2 Rating Agency Information.** In the initial Credit Assessment and in subsequent and ongoing assessments, SPP will consider Rating Agency reports applicable to the Credit Customer. This review will be focused on the Credit Customer's

unsecured, senior long-term debt ratings. If these ratings are not available, SPP will consider issuer ratings.

**3.1.3 Power Supply Agent Disclosure Requirements.** A Not-For-Profit Credit Customer may request that its suggested Unsecured Credit Allowance calculation reflect as equity the outstanding balance of revenue bonds issued by the Not-For-Profit Credit Customer when such revenue bonds are issued solely in support of the Not-For-Profit Credit Customer's role as power supply agent for not-for-profit electric distribution utilities. In support of such request, the Not-For-Profit Credit Customer must provide SPP with the following information:

- (a) Management representation letter stating:
  - (i) Principal amount, in dollars, of revenue bonds outstanding;
  - (ii) Prior to default and after default, debt service on the revenue bonds is payable only after operating expenses are paid;
  - (iii) Amounts payable to SPP under this Tariff are operating expenses for purposes of the revenue bonds; and
  - (iv) The trustee for the revenue bonds has a valid and binding security interest in the revenues or net revenues from the power supply contracts to secure payment of the revenue bonds and the Not-For-Profit Customer has not granted any lien thereon prior to the lien of the bond resolution.
  
- (b) Opinion of counsel stating:
  - (i) The power supply contracts are binding obligations of the Not-For-Profit Credit Customer enforceable in accordance with their terms;
  - (ii) The trustee of the revenue bonds has a valid and binding security interest in, or assignment and pledge of, the revenues or net revenues from the power supply contracts to secure payment of the revenue bonds;
  - (iii) The resolution or other document creating the security interest or pledge and providing for the priority of payment is enforceable in accordance with its terms;
  - (iv) Prior to default and after default, debt service on the revenue bonds is payable only after operating expenses are paid; and

- (v) All amounts payable to SPP arising from transactions under this Tariff are operating expenses for purposes of the revenue bonds.
- (c) All Rating Agency ratings on revenue bond(s).

The opinion of counsel referenced above shall be provided to SPP together with copies of the most recent written opinions of counsel, if any, for each member of the Not-For-Profit Credit Customer that relate to the enforceability of the power supply contract(s).

**3.1.4 Guaranties.** If the Credit Customer proposes a Guaranty to establish, contribute to, or maintain an Unsecured Credit Allowance, Credit Information required under Section 3.1.1 must be submitted with respect to both the Credit Customer and the proposed Guarantor.

## **3.2. Annual and Other Ongoing Credit Assessments.**

**3.2.1 Purpose of Annual and Other Ongoing Credit Assessments.** At least once annually, SPP will review and update its Credit Assessment for each Credit Customer. This will include a review of the Credit Customer's creditworthiness and consideration of revisions of the Credit Customer's (a) Unsecured Credit Allowance; (b) Financial Security requirements; and (c) Total Credit Limit. In its sole discretion, SPP may conduct additional reviews and updates, including reviews in response to new facts or occurrences that may bear upon the Credit Customer's creditworthiness. Unless otherwise stated, all annual information required under Section 3.2 shall be provided to SPP no later than 120 days after the end of the Credit Customer's fiscal year.

**3.2.2 Procedures for Posting Additional Financial Security or Taking Other Corrective Measures.** In the event a Credit Customer experiences a Material Adverse Change, SPP may invoke its right to require the Credit Customer to post additional Financial Security, cease one or more transactions, or take other measures to restore confidence in the Credit Customer's ability to transact safely. In addition, based upon the annual or other Credit Assessment, SPP may, at any time, revise any (a) Unsecured Credit Allowance; (b) Financial Security requirements; and (c) Total Credit Limit, applicable to the Credit Customer. If SPP has upwardly revised the required amount of Financial Security, the Credit Customer will have two (2) Business Days from receipt of the notice from SPP to



provide the required Financial Security, in an amount and form acceptable to SPP. Failure to provide additional required Financial Security shall be a Default under this Credit Policy and a default under the Tariff.

**3.2.3 Rating Agency Information.** The Credit Customer will give notice to SPP of any changes to its Credit Ratings within five (5) Business Days of the announcement of the change.

**3.2.4 Financial Statements.** On an annual basis, and except as otherwise stated with respect to quarterly reports, each Credit Customer must provide SPP with updated Financial Statements within ten (10) days after they become available, and in no event later than 120 days after the end of the Credit Customer's fiscal year. Quarterly reports must be provided quarterly, within ten (10) days after they become available. Financial Statements may be submitted in the manner provided under Section 3.1.1.1.

**3.2.5 Power Supply Agent Disclosure Requirements.** A Not-For-Profit Credit Customer that initially qualified to have its suggested Unsecured Credit Allowance calculation reflect as equity the outstanding balance of revenue bonds issued by the Not-For-Profit Credit Customer, and is requesting to continue to have its suggested Unsecured Credit Allowance calculation reflect as equity the outstanding balance of revenue bonds issued by the Not-For-Profit Credit Customer when such revenue bonds are issued solely in support of the Not-For-Profit Credit Customer's role as power supply agent for not-for-profit electric distribution utilities, must at all times comply with the following information reporting requirements:

- (a) The Not-For-Profit Credit Customer must advise SPP of the principal amount of revenue bonds outstanding on an annual basis;
- (b) The Not-For-Profit Credit Customer must advise SPP within ten (10) days if the principal amount of the revenue bonds outstanding is reduced by more than twenty percent (20%) from the amount last certified by the Not-For-Profit Credit Customer;
- (c) The Not-For-Profit Credit Customer must advise SPP immediately if the security interest of the trustee is released or the Not-For-Profit Credit Customer grants any lien prior to the lien of the bond resolution; and

- (d) The Not-For-Profit Credit Customer must advise SPP within ten (10) days of any downgrade of any of the Not-For-Profit Credit Customer's revenue bond ratings issued by a Rating Agency.

**3.2.6 Other Credit Information.** On an annual basis, each Credit Customer must provide SPP with the information specified in Section 3.1.1.3 (Loss Contingencies), 3.1.1.4 (Affiliates), 3.1.1.6 (Additional Information).

**3.2.7 Material Adverse Changes.** Each Credit Customer must give SPP notice of any Material Adverse Change in its financial condition (and, as applicable, the financial condition of its Guarantor) within two (2) Business Days of the occurrence of the Material Adverse Change. If a Credit Customer or Guarantor files a Form 10-K, Form 10-Q, or Form 8-K with the SEC, notice of such filing, timely delivered to SPP in accordance herewith, will suffice on the condition that such notice states that the filing addresses a Material Adverse Change.

A Material Adverse Change in financial condition includes any Material change in operations or financial condition that a reasonable examiner of creditworthiness would deem material to decisions concerning the extension of credit, including but not limited to, any of the following ("Material Adverse Change"):

- a. A downgrade of any debt rating or issuer rating, or change in the outlook of any Credit Rating, including debt rating or issuer rating;
- b. Any placement on a credit watch with negative implication by a Rating Agency;
- c. The filing of a lawsuit or initiation of an arbitration, investigation or other proceeding (including regulatory proceeding) which if decided adversely could have a Material effect on any current or future financial results or financial condition;
- d. The merger, acquisition or any other form of business combination involving the credit customer.
- e. Any adverse changes in financial condition which, individually, or in the aggregate, are Material;
- f. Any adverse changes, events or occurrences which, individually or in the aggregate, could affect the ability of the Credit Customer to pay its debts as

they become due or could have a Material adverse effect on any current or future financial results or financial condition;

- g. Discovery or disclosure of conflict of interest issues;
- h. Resignation or removal of a key officer or director;
- i. Any action requiring the filing of a Form 8-K;
- j. Any report of a quarterly or annual loss or a decline in earnings of ten (10) percent or greater compared to the prior period;
- k. Any restatement of prior financial statements; and
- l. Failure of a Market Participant to continue to satisfy the minimum capitalization criteria for market participation specified in 3.1.1.8.2.

**3.2.7.1 Notification of a Material Adverse Change by SPP to a Credit Customer.** Upon the occurrence of a Material Adverse Change and prior to SPP compelling a Credit Customer to post additional Financial Security, cease one or more transactions, or take other measures to restore confidence in the Credit Customer's ability to transact business safely as a result of any Material Adverse Change, SPP shall provide, when feasible, reasonable advance notice in writing, by fax, electronic mail, hand delivery, reputable overnight courier, or first-class mail, to the Credit Contact designated by the Credit Customer pursuant to Section 9.1 of this Credit Policy. If delivery to the Credit Contact fails, then SPP may effect delivery to any officer, executive, or manager of the Credit Customer. Such notice shall identify the reasoning behind the invocation of the Material Adverse Change clause and be signed by an authorized representative of SPP.

**3.2.8 Affiliates.** Each Credit Customer must identify all Affiliates that are Credit Customers.

**3.2.9 Additional Information.** At any time and from time to time, SPP may request such additional information as SPP determines is necessary and appropriate for the Credit Assessment and the Credit Customer shall timely provide such additional information. At any time, the Credit Customer may provide SPP with additional information that the Credit Customer considers relevant to the Credit Assessment.

**3.2.10 Guaranties.** If the Credit Customer relies upon a Guaranty to maintain an Unsecured Credit Allowance, Credit Information required under Section 3.2 must be submitted with respect to both the Credit Customer and the Guarantor.

**3.2.11 Alternate Requirements.** For Not-For-Profit Credit Customers, some of the above financial submittals may not be applicable, and alternate requirements may be specified by SPP.

**3.2.12** In the credit evaluation of Not-For-Profit Credit Customers, SPP may request additional information as part of the overall financial review process and will consider other relevant factors in determining financial strength and creditworthiness.

**3.3 SPP Rights to Use Other Information.** Notwithstanding any provision of this Credit Policy, SPP shall have the right to utilize, in a Credit Assessment, any information of which it is aware concerning the Credit Customer.

**3.4 Positive Material Change in Financial Condition of the Credit Customer.** If there is a positive Material change in the financial condition of the Credit Customer, a significant reduction in the Total Potential Exposure of the Credit Customer, or any other change that the Credit Customer believes may warrant an increase in the Credit Customer's Unsecured Credit Allowance and/or a reduction in the Financial Security required of the Credit Customer, the Credit Customer may make a written request to SPP to update the Credit Assessment and include or refer to any supporting information. SPP may request any Credit Information described in Section 3.2 to evaluate the merit of the Credit Customer's request. SPP anticipates that it will respond to the Credit Customer's request within a reasonable period of time, generally within ten (10) Business Days after receiving all information that is required for an ongoing review as required in this Article.

## ARTICLE FOUR

### Creditworthiness and Total Credit Limit

- 4.1 Creditworthiness Overview.** SPP will establish a Total Potential Exposure for each Credit Customer based on the Credit Customer's estimated cumulative financial obligation arising under the Tariff or otherwise to SPP, excluding Transmission Congestion Rights activity, as provided in Article 5. The Total Potential Exposure is the amount that the Credit Customer must support with credit. Transmission Congestion Rights activity must be supported with Financial Security as provided in Article 5A. The credit will consist of a combination of the Unsecured Credit Allowance and Financial Security, or either of them. SPP will determine the Credit Customer's Unsecured Credit Allowance based upon the Composite Credit Score. The Composite Credit Score, as defined herein, is a determination of financial strength and creditworthiness, based upon the Credit Assessment. Where Credit Customers are Affiliates of each other, an aggregate Unsecured Credit Allowance will be established for the Affiliates, as provided below. ~~Financial Security is an Irrevocable Letter of Credit or other collateral in accordance with this Credit Policy.~~ If the Credit Customer's Unsecured Credit Allowance is less than its Total Potential Exposure, the Credit Customer will be required either to establish additional credit in the amount of the difference by posting Financial Security or to decrease its Total Potential Exposure. A Credit Customer's total credit with SPP, consisting of the Unsecured Credit Allowance and any Financial Security, is the Credit Customer's Total Credit Limit. A Credit Customer may provide additional Financial Security at any time to increase or maintain its Total Credit Limit, for example, in order to increase its Total Potential Exposure or to compensate for a reduction in its Unsecured Credit Allowance.
- 4.2 Composite Credit Score.** The "Composite Credit Score" is the numerical result of SPP's scoring process based upon various quantitative and qualitative predictors of creditworthiness as set forth in this Section. The results are scaled from one (1) to six (6) with one (1) being the strongest score and six (6) being the weakest. Key factors in the scoring process include financial ratios, years in business, and Credit Ratings. SPP will apply all measures used to determine Composite Credit Scores in a consistent manner. The respective models SPP will use to determine the Composite Credit Score for Large Company Credit Customers, Small Company Credit Customers, and Not-For-Profit Credit Customers are set forth in this Section.
- 4.2.1 Large Company Credit Scoring.** The Large Company Credit Customer model will be utilized for Credit Customers with net fixed assets equal to or in excess of \$250 million ("Large Company Credit Customers" or "Large Company"). The Large Company Credit Score will be comprised of a Quantitative Score and a Qualitative Score. Each score is then weighted as shown below to build a Composite Credit Score.

<b>Large Company Analysis</b>	<b>Weight</b>
Quantitative Score	70%
Qualitative Score	30%

**4.2.1.1 Quantitative Score.** The Quantitative Score is based on the financial ratios below. These measures will be calculated for each Large-Company Credit Customer and compared with benchmarks to assign a score of one (1) to six (6) for each measure. A score of one (1) indicates that the Credit Customer has a strong financial health with regard to the measure, while a score of six (6) indicates poor financial health with regard to the measure. The following measures are used:

- Current Ratio—Current Assets/Current Liabilities
- EBIT Interest Coverage—(Interest Expense + Income Taxes + Net Income) / Interest Expense
- Total Debt to Total Capitalization (“TD/TC”)—(Long Term Debt + Current Portion + Other Short Term Borrowings) / (Total Debt + Preferred Equity + Common Equity)
- Funds from Operations (“FFO”) to Total Debt—(Cash from Operating Activities - Changes in Operating Assets and Liabilities) / (Long Term Debt + Current Portion + Other Short Term Borrowings)

The measures are then assessed as follows to calculate the total Quantitative Score:

<b>Scale</b>	<b>Current</b>	<b>EBIT Interest</b>	<b>TD/TC</b>	<b>FFO to Total Debt</b>
1	>1.34	>4.99	<.30	>.350
2	1.15 – 1.34	3.50 – 4.99	.30 - .39	.271 - .350
3	1.00 – 1.14	2.50 – 3.49	.40 - .49	.181 - .270
4	0.85 – 0.99	2.00 – 2.49	.50 - .59	.120 - .180
5	0.70 – 0.84	1.25 – 1.99	.60 - .69	.070 - .119
6	<0.70	<1.25	>.69	<.070

The measures are weighted as follows:

<b>Large Company Financial Ratios</b>	<b>Weight</b>
Current Ratio	10%
EBIT Interest Coverage	25%
Total Debt to Total Capitalization	25%
FFO to Total Debt	<u>40%</u>
	100%

If one or more ratios cannot be calculated due to insufficient data to calculate the ratio, the weight that would have been assigned to that ratio or ratios will be allocated equally among the remaining ratios.

**4.2.1.2 Qualitative Score.** The Qualitative Score, also on a scale of one (1) to six (6), will assess non-financial measure information about a Credit Customer's creditworthiness. A score of one (1) indicates that the Credit Customer has strong qualitative measures, while a score of six (6) indicates poor qualitative measures. The qualitative analysis will take into account a variety of information, but at a minimum will include the assessment of the following characteristics:

- Management
- Regional / Commodity Diversity
- Physical Liquidity
- Financial Liquidity
- Quality of Equity
- Volatility of Earnings
- Regulation/Rates
- Senior Unsecured Debt Rating
- SPP Payment Record
- Risk Procedures

**4.2.1.3 Composite Credit Score.** The Composite Credit Score is the weighted average of the Quantitative Score and the Qualitative Score. To illustrate, assume the following:

Large Company Qualitative Score = 4.0

Large Company Financial Measures:

	Value	Score	Weight
Current Ratio	.82	5	10%
EBIT Interest Coverage	2.08	4	25%
Total Debt to Total Capitalization	.63	5	25%
FFO to Total Debt	.17	4	40%

Large Company Quantitative Score =  
 $(5 \times 10\%) + (4 \times 25\%) + (5 \times 25\%) + (4 \times 40\%) = 4.35$

Large Company Credit Score =  $(4.35 \times 70\%) + (4 \times 30\%) = 4.25$

**4.2.2 Small Company Credit Scoring.** The Small Company model will be utilized for Credit Customers with net fixed assets less than \$250 million ("Small Company Credit Customers" or "Small Company"). The Small Company Composite Credit

Score will be comprised of a Quantitative Score and a Qualitative Score. Each score is then weighted as shown below to build a Composite Credit Score.

<b>Small Company Analysis</b>	<b>Weight</b>
Quantitative Score	70%
Qualitative Score	30%

**4.2.2.1 Quantitative Score.** The Quantitative Score is based on the financial ratios below. These measures will be calculated for each Small Company Credit Customer and compared with benchmarks to assign a score of one (1) to six (6) for each measure. A score of one (1) indicates that the Credit Customer has a strong financial health with regard to the measure, while a score of six (6) indicates poor financial health with regard to the measure. The following measures are used:

- a. Current Ratio—Current Assets/Current Liabilities
- b. EBIT Interest Coverage—(Interest Expense + Income Taxes + Net Income) / Interest Expense
- c. Total Liabilities to Total Net Worth (“TL/TNW”)—(Total Liabilities) / (Total Equity-Intangibles-Treasury Stock)
- d. Funds from Operations (“FFO”) to Total Debt—(Cash from Operating Activities - Changes in Operating Assets and Liabilities) / (Long Term Debt + Current Portion + Other Short Term Borrowings)
- e. Return on Assets (“ROA”)—Net Income / Total Assets

The values are then assessed as follows to calculate the total Quantitative Score:

<b>Scale</b>	<b>Current</b>	<b>EBIT Interest</b>	<b>TL/TNW</b>	<b>FFO to Total Debt</b>	<b>ROA</b>
1	>2.50	>4.99	<0.40	>.350	>.120
2	1.75 – 2.50	3.50 – 4.99	0.40 - 0.70	.271-.350	.100 - .120
3	1.40 – 1.74	2.50 – 3.49	0.71 – 1.49	.181 - .270	.075 - .099
4	1.15 – 1.39	2.00 – 2.49	1.50 – 2.25	.120 - .18	.045 - .074
5	1.00 – 1.14	1.25 – 1.99	2.26 – 4.00	.070 - .119	.015 - .044
6	<1.00	<1.25	>4.00	<.070	<.015

The measures are weighted as follows:

<b>Small Company Financial Ratios</b>	<b>Weight</b>
Current Ratio	25%
EBIT Interest Coverage	10%
Total Liabilities / Total Net Worth	25%



FFO to Total Debt	15%
ROA	<u>25%</u>
	100%

If one or more ratios cannot be calculated due to insufficient data to calculate the ratio, the weight that would have been assigned to that ratio or ratios will be allocated equally among the remaining ratios.

**4.2.2.2 Qualitative Score.** The Qualitative Score, also on a scale of one (1) to six (6), will assess non-financial measure information about a Credit Customer's creditworthiness. A score of one (1) indicates that the Credit Customer has strong qualitative measures, while a score of six (6) indicates poor qualitative measures. The qualitative analysis will take into account a variety of information, but at a minimum will include the assessment of the following characteristics:

- Management
- Regional / Commodity Diversity
- Physical Liquidity
- Financial Liquidity
- Quality of Equity
- Volatility of Earnings
- Regulation/Rates
- Peer Comparison using SIC codes
- Senior Unsecured Debt Rating
- SPP Payment Record

**4.2.2.3 Composite Credit Score.** The Composite Credit Score is the weighted average of the Quantitative Score and the Qualitative Score. To illustrate, assume the following:

Small Company Qualitative Score = 4

Small Company Financial Measures:

	Value	Score	Weight
Current Ratio	1.10	5	25%
EBIT Interest Coverage	1855.00	1	10%
Total Liabilities / Total Net Worth	2.47	5	25%
FFO to Total Debt	0.03	6	15%
ROA	0.02	5	25%

Small Company Quantitative Score =  
 $(5 \times 25\%) + (1 \times 10\%) + (5 \times 25\%) + (6 \times 15\%) + (5 \times 25\%) = 4.75$

Small Company Credit Score =

$$(4.75 \times 70\%) + (4 \times 30\%) = 4.53$$

**4.2.3 Not-For-Profit Credit Scoring.** The Not-For-Profit model will be utilized for Credit Customers who are not structured to generate profits for investors (“Not-For-Profit Credit Customers” or “Not-For-Profit”), including electric cooperatives, municipalities, and government agencies. The Not-For-Profit Composite Credit Score will be comprised of a Quantitative Score and a Qualitative Score. The lower of the Composite Credit Score calculated using two alternative weights for the Quantitative Score and the Qualitative Score as shown below shall be used in determining the allocation of the Not-For-Profit Credit Customer’s Unsecured Credit Allowance.

Not For Profit Credit Customer Analysis	Weight	
	Alternative 1	Alternative 2
Quantitative Score	40%	50%
Qualitative Score	60%	50%

**4.2.3.1 Quantitative Score.** The Quantitative Score is based on the financial ratios below. These measures will be calculated for each Not-For-Profit Credit Customer and compared with benchmarks to assign a score of one (1) to six (6) for each measure. A score of one (1) indicates that the Credit Customer has a strong financial health with regard to the measure, while a score of six (6) indicates poor financial health with regard to the measure. The following measures, or their substantive equivalents for not-for-profit entities, are used:

- a. Current Ratio (“CR”)—Current Assets / Current Liabilities
- b. Debt Service Coverage (“DSC”)—(Operating Income + Interest Expense + Depreciation + Interest Income + Cash Portion of Capital Credits - Onetime Charges)/(Interest Expense + Debt Amortization)
- c. Times Interest Earned Ratio (“TIER”)—(Interest Expense + Patronage Capital or Margins or Changes in Net Assets) / (Interest Expense)
- d. Total Debt to Total Capitalization (“TD/TC”)—(Long Term Debt + Current Portion + Other Short Term Borrowings) / (Total Debt + Preferred Equity + Common Equity). Members’ Equity could also be called Net Assets or Patronage Capital.

The values are then assessed as follows to calculate the total Quantitative Score:

Not-For-Profit Credit Customer Model Ratio Scales

Scale	CR	DSC	TIER	TD/TC
1	>1.34	>1.99	>2.00	<.50
2	1.15 – 1.34	1.50 – 1.99	1.50 – 2.00	.51 - .74
3	1.00 – 1.14	1.00 – 1.49	1.00 – 1.49	.75 - .85
4	0.85 – 0.99	0.80 – 0.99	0.80 – 0.99	.86 - .93
5	0.70 – 0.84	0.60 – 0.79	0.50 – 0.79	.94 - .99
6	<0.70	<0.60	<0.50	>.99

The measures are weighted as follows:

Not-For-Profit Credit Customer Financial Ratios	Weight
Current Ratio	15%
Debt Service Coverage	35%
Times Interest Earned Ratio	20%
Total Debt / Total Capitalization	<u>30%</u>
	100%

If one or more ratios cannot be calculated due to insufficient data to calculate the ratio, the weight that would have been assigned to that ratio or ratios will be allocated equally among the remaining ratios.

**4.2.3.2 Qualitative Score.** The Qualitative Score, also on a scale of one (1) to six (6), will assess non-financial measure information about a Credit Customer’s creditworthiness. A score of one (1) indicates that the Credit Customer has strong qualitative measures, while a score of six (6) indicates poor qualitative measures. The qualitative analysis will take into account a variety of information, but at a minimum will include the assessment of the following characteristics:

- Regulation/Rates
- Terms of wholesale power contracts
- Customer count served
- Power supply portfolio (e.g., contracts, assets, etc)
- Management
- Ability to access short-term capital
- Senior Unsecured Debt Rating
- SPP Payment Record

**4.2.3.3 Composite Credit Score.** The Composite Credit Score is the weighted average of the Quantitative Score and the Qualitative Score. To illustrate, assume the following:

Not-For-Profit Qualitative Score = 2

Not-For-Profit Financial Measures:

	Value	Score	Weight
Current Ratio	1.42	1	15%
Debt Service Coverage	1.17	3	35%
Times Interest Earned Ratio	0.73	5	20%
Total Debt / Total Capitalization	1.50	6	30%

Not-For-Profit Quantitative Score =  
 $(1 \times 15\%) + (3 \times 35\%) + (5 \times 20\%) + (6 \times 30\%) = 4.00$

Not-For-Profit Credit Score =  
 $(4.00 \times 40\%) + (2.0 \times 60\%) = 2.80$  using Alternative 1, or;

$(4.00 \times 50\%) + (2.0 \times 50\%) = 3.00$  using Alternative 2.

The lower Composite Credit Score resulting from utilizing the two alternatives is 2.80, so it will be the Composite Credit Score used in allocating this Not-For-Profit Credit Customer's Unsecured Credit Allowance as described in Section 4.3 below.

#### 4.3 Unsecured Credit Allowance.

The Composite Credit Score is converted into an "Unsecured Credit Allowance," which is a percentage of Tangible Net Worth. (Tangible Net Worth = Total Equity – Intangibles – Treasury Stock). The Composite Credit Score is a numeric value on a scale of one (1) to six (6) with one (1) indicating stronger creditworthiness and six (6) indicating weaker creditworthiness. The conversion into an Unsecured Credit Allowance is based on the percentage values stated in Table 1.

**Table 1**

Composite Credit Score	% Tangible Net Worth Small Company Model	% Tangible Net Worth Large Company Model	% Tangible Net Worth Not For Profit Model
1.00 - 1.99	5.00%	5.00%	7.500%
2.00 - 2.99	3.00%	3.00%	4.500%
3.00 - 3.59	2.00%	2.00%	3.000%
3.60 - 4.39	0.75%	0.75%	1.125%
4.40 - 4.99	0.25%	0.25%	0.375%
5.00 - 6.00	0%	0%	0.000%

To illustrate, a Large Company Credit Customer with a Composite Credit Score of 4.36 and Tangible Net Worth of \$501,468,000 would have a suggested Unsecured Credit Allowance calculated as follows:

$$\begin{aligned}\text{Unsecured Credit Allowance} &= \text{Table 1 Percentage} \times \text{Tangible Net Worth} \\ &= 0.75\% \times \$501,468,000 \\ &= \$3,761,010\end{aligned}$$

**4.3.1 Revenue Bond Adjustment to Tangible Net Worth Value for Power Supply Agents.** For Not-For-Profit Credit Customers that issue revenue bonds solely in support of their role as power supply agent for not-for-profit electric distribution utilities and meet: (a) the disclosure requirements in: (i) Section 3.1.3 of this Credit Policy and (ii) Section 3.2.5 of this Credit Policy; and (b) have a revenue bond rating or revenue bond ratings equal to or better than Baa1 issued by Moody's Investor Services or BBB+ issued by Standard & Poor's, the calculation of the suggested Unsecured Credit Allowance shall be based on an adjusted value for Tangible Net Worth. The adjusted value for Tangible Net Worth shall include the outstanding balance of revenue bonds as of the date of the calculation.

To illustrate, if the Not-For-Profit Credit Customer met all of the disclosure requirements for power supply agents, had a Tangible Net Worth of \$2,000,000, and had \$8,000,000 principal amount of revenue bonds outstanding, the adjusted Tangible Net Worth to be used in computing the suggested Unsecured Credit Allowance would be \$10,000,000 (the sum of the adjusted Tangible Net Worth and the principal amount of revenue bonds outstanding as of the date of the calculation).

**4.3.2 Maximum and Minimum Unsecured Credit Allowances.** Notwithstanding the calculation under Section 4.3:

**4.3.2.1** No Credit Customer shall have an Unsecured Credit Allowance in excess of \$50 million; and

**4.3.2.2** On the condition that a Not-For-Profit provides all required Credit Information and executes all documents required under this Credit Policy, and subject to the Default provisions of this Credit Policy, a Not-For-Profit Credit Customer shall have a minimum Unsecured Credit Allowance in the amount of \$250 thousand.

**4.3.3 Guaranty.** In the event that the Credit Customer has a Guaranty, the Unsecured Credit Allowance will be based on the Credit Assessments of the Credit Customer and the Guarantor.

**4.3.4 Unsecured Credit Allowance for Affiliates.**

**4.3.4.1 Determination of Creditworthiness of Combined Affiliates.** If two or more Credit Customers are Affiliates, and each is granted an Unsecured Credit Allowance and a corresponding Total Credit Limit, SPP will consider the overall creditworthiness of the Affiliated Credit Customers when determining the Unsecured Credit Allowances in order not to grant more unsecured credit than the

overall group of affiliated entities could support. SPP will work with Affiliated Credit Customers to allocate the total Unsecured Credit Allowance among the Affiliates while assuring that no individual Credit Customer, nor common guarantor, exceeds the Unsecured Credit Allowance appropriate for its credit strength. A \$50 million maximum Unsecured Credit Allowance shall apply to all Affiliates as though the Affiliates are a single Credit Customer.

**Example:** Credit Customers A and B each have a \$10.0 million Guaranty from their common parent, a holding company with an Unsecured Credit Allowance calculation of \$12.0 million. SPP may limit the Unsecured Credit Allowance for each Credit Customer to \$6.0 million, so the total Unsecured Credit Allowance does not exceed the corporate total of \$12.0 million.

**4.3.4.2 Guaranty.** If the Guaranty is applicable to Affiliates (i.e., more than one Credit Customer), then the Unsecured Credit Allowance of the Guarantor shall be allocated among such Affiliates and the applicable allocation shall be utilized in determining each Affiliated Credit Customer's Unsecured Credit Allowance.

**4.3.5 Continuous Right to Modify.** SPP has the right at any time to modify any Unsecured Credit Allowance and/or require additional Financial Security as may be reasonably necessary to support the Credit Customer's ability to pay for Transmission Service and any market services SPP may provide. If the modification results in a reduction or revocation of Unsecured Credit Allowance and the reduction or revocation results in the need to provide Financial Security, then the rights and duties of SPP and the Credit Customer shall be as set forth in Section 3.2.2.

**4.4 Financial Security Requirement.** If a Credit Customer (i) is denied an Unsecured Credit Allowance, or (ii) is granted an Unsecured Credit Allowance that is below its Total Potential Exposure calculated pursuant to Article 5, then the Credit Customer may submit Financial Security to cover or exceed the difference in the amount of the Unsecured Credit Allowance granted to the Credit Customer and the amount of its Total Potential Exposure. A Credit Customer electing to satisfy the alternative criteria for market participation specified in Section 3.1.1.8.2(e) and whose anticipated or actual market activity exceeds One Hundred Thousand Dollars (\$100,000) in Market Exposure shall provide Financial Security that is twice the amount calculated to satisfy its Financial Security Requirement pursuant to this Section 4.4. Any Credit Customer may provide Financial Security in lieu of or in addition to the Unsecured Credit Allowance it was granted. Upon the Credit Customer's request, SPP shall provide a written explanation of how it determined the amount of required Financial Security for that Credit Customer. A Credit Customer also is required to submit Financial Security to cover or exceed its Total TCR Credit Requirement pursuant to Section 5A.8.

**4.5 Total Credit Limit.** The “Total Credit Limit” is the amount of any Unsecured Credit Allowance approved by SPP for the Credit Customer, plus the amount of any Financial Security the Credit Customer has provided to SPP. SPP shall determine the Total Credit Limit for each Credit Customer. Upon the Credit Customer’s request, SPP shall provide a written explanation of how it determined the Unsecured Credit Allowance and the amount of required Financial Security for that Credit Customer. SPP will respond to the Credit Customer’s request within five (5) Business Days.

## ARTICLE SIX

### Guarantees

- 6.1 Guaranty.** A Guaranty approved by SPP transfers to the Credit Customer a portion of the Guarantor's creditworthiness and thereby increases the Credit Customer's Total Credit Limit. Unlike ~~an bank guaranty or~~ Irrevocable Letter of Credit or Surety Bond, a Guaranty is not Financial Security. A Guaranty that is backed by Financial Security will have the same impact upon the Total Credit Limit as Financial Security. A Guaranty that is not backed by Financial Security is unsecured and will be considered unsecured credit in the determination of the Unsecured Credit Allowance.
- 6.2 Approval Process.** SPP will determine whether to approve a Guaranty based upon the creditworthiness of the proposed Guarantor as though it were a Credit Customer under this Credit Policy. All Credit Information required under this Credit Policy with respect to a Credit Customer must be submitted initially for the proposed Guarantor and regularly thereafter. SPP will evaluate the Credit Information and determine any Unsecured Credit Allowance and the Total Credit Limit for the Credit Customer beneficiary of the proposed Guaranty. SPP shall have the right to revise the Unsecured Credit Allowance and Total Credit Limit from time to time based upon continued assessment of the Credit Information of the Guarantor.
- 6.3 Requirements for Guaranty.** A Credit Customer can utilize a Guaranty if all of the following conditions are satisfied:
- 6.3.1 Guarantor's Satisfaction of Financial Standards under this Credit Policy.** A Guarantor is subject to the same financial review procedures as a Credit Customer. A Guarantor will be eligible to provide a Guaranty to the extent, if any, of the Guarantor's creditworthiness under this Credit Policy.
- 6.3.2 The Form and Substance of the Guaranty Acceptable to SPP.** Appendix "D" of this Credit Policy is a form of Guaranty. The Guaranty must:
- 6.3.2.1** Be duly authorized by the Guarantor and signed by an officer of the Guarantor
- 6.3.2.2** State an effective period, or provide for automatic renewal or other basis for periodicity subject to cancellation on no less than sixty (60) days notice and provided that in all events the Guaranty is effective for all obligations of the Credit Customer undertaken prior to cancellation.
- 6.3.2.3** Include certification of the corporate secretary that the execution, delivery, and performance of the Guaranty have been duly authorized;



- 6.3.2.4 Certify that the Corporate Guaranty is not in violation of other undertakings or requirements applicable to the Guarantor, and enforceable against the Guarantor in accordance with its terms;
- 6.3.2.5 Obligate the Guarantor to submit Credit Information on an ongoing basis as required under this Credit Policy;
- 6.3.2.6 Incorporate default provisions, including default provisions referred to in Section 6.3.4;
- 6.3.2.7 Secure, in combination with other forms of ~~F~~inancial ~~S~~ecurity, all obligations of the Credit Customer under or in connection with this Tariff and/or other Agreements; and
- 6.3.2.8 Be supported by adequate consideration and be otherwise binding as a matter of law.
- 6.3.2.9 Include as an attachment thereto the resolution(s) of the board of directors or other governing body of the Guarantor authorizing the Corporate Guaranty.

6.3.3 Reserved for Future Use

6.3.4 **Default.** Any breach of the Guaranty by the Guarantor or the requirements of the Guarantor under this Credit Policy shall be deemed a Default of this Credit Policy and a default under the Tariff by the Guarantor and the Affiliates whose obligations are supported by the Guaranty. The following also shall be a Default of this Credit Policy and a default under the Tariff: (i) the Guaranty expires or terminates (other than in accordance with its terms or upon the written consent of SPP); (ii) the Guarantor disaffirms, disclaims, repudiates, rejects or challenges the validity of all or any part of the Guaranty; or (iii) the Guaranty or any material provision of the Guaranty ceases to be in full force and effect (other than in accordance with its terms or upon the written consent of SPP).

6.4 **Guaranty for Affiliates.** A single Guaranty may support the Total Credit Limits of Affiliates. With respect to such a Guaranty, the sum value of the Unsecured Credit Allowance of all such Affiliates and the Guarantor shall not exceed the lesser of:

- (i) the approved Unsecured Credit Allowance for the Guarantor based on SPP's financial review of Guarantor; or
- (ii) \$50 million.

If a Guaranty is utilized to establish an Unsecured Credit Allowance for a Credit Customer, the value of the Guaranty shall be no greater than the lesser of:

- (i) The credit limit imposed in the Guaranty; or

(ii) The portion of the Unsecured Credit Allowance calculated for the Guarantor that is allocated to such Credit Customer in SPP's sole discretion; provided that the Unsecured Credit Allowance calculated for the Guarantor may not exceed \$50 million; or

(iii) \$50 million.

**6.5 Guarantees for Not for Profit Credit Customers.** SPP shall allow other guarantees for Not for Profit Credit Customers so long as any guarantees for such customer satisfy the requirements of Section 6.3. The form in Attachment D shall be used (subject to modifications to reflect the not for profit nature of the customer and the structure of the guarantee). An example of a permissible guarantee would be individual cities guaranteeing the payments by a municipal energy entity.

**6.6 Costs.** The Credit Customer shall bear all costs of obtaining and maintaining the Guaranty.

**6.7 Withdrawal.** A Credit Customer or the Guarantor may request the withdrawal of the Guaranty by written request to SPP. A Guaranty may be withdrawn and/or terminated only upon SPP's written approval. SPP will not approve withdrawal or termination of a Guaranty unless and until:

(i) alternate Financial Security acceptable to SPP has been provided; or

(ii) all financial obligations of a Credit Customer under the Agreements have been irrevocably satisfied in full, all Service Agreements have been terminated, and the Credit Customer is no longer a Credit Customer.

## ARTICLE SEVEN

### Financial Security

**7.1 Acceptable Forms of Financial Security.** Financial Security may be a Cash Deposit, ~~an~~ Irrevocable Letter of Credit, a Surety Bond or, for a Credit Customer that is a Federal Power Marketing Agency, a letter as specified in Section 7.1.4 of this Article. These forms of Financial Security may be submitted separately or in combination to equal the full amount of any required or provided Financial Security. In addition, SPP requires the execution of a Credit and Security Agreement (with respect to Cash Deposit, ~~and/or~~ Irrevocable Letter of Credit, and/or Surety Bond).

**7.1.2 Cash Deposits.** A Cash Deposit will be Financial Security in accordance with this Section.

**7.1.2.1 Deposit and Related Agreements.** The initial Cash Deposit must be accompanied by execution and delivery of a Credit and Security Agreement in the form attached to this Credit Policy as Appendix "B." Under the Credit and Security Agreement, the Credit Customer shall grant to SPP a first priority security interest in and to any and all Cash Deposits, cash collateral, and deposit accounts held or controlled by SPP then existing or thereafter opened, and any and all proceeds of such collateral, including, without limitation, the cash and interest deposited therein. This security interest secures the prompt payment when due of any and all obligations of the Credit Customer under or in connection with the Tariff, and/or any and all other Agreements. SPP may amend the Credit and Security Agreement from time to time, either for general applicability or on an individual basis. The Credit Customer will accept such amendment and, upon request, execute an amendatory document.

**7.1.2.2 Segregated Account.** The Cash Deposit will be placed in a segregated, interest bearing account in SPP's name and held within the sole control of SPP solely to secure the payment of the Credit Customer's obligations to SPP and subject to the terms and conditions of the Credit and Security Agreement. All interest earned will accrue to the benefit of the Credit Customer, will be added to the segregated account, and will be deemed additional Cash Deposit; provided, that all such accrued and unpaid interest that has not been applied to satisfy the Credit Customer's obligations will be released and paid to the Credit Customer quarterly, and further provided, that SPP shall not be obligated to pay any interest to the Credit Customer or release any amount from the segregated account during any uncured Default. Interest will be calculated per section 7.3 of the Tariff.

**7.1.2.3 Use of Cash Deposit.** In the event a Credit Customer fails to make a payment timely to SPP, SPP may apply the Cash Deposit as necessary to satisfy the deficit. In such event, within three (3) Business Days, the Credit Customer must replenish the Cash Deposit in an amount equal to SPP's draw or in such other amount as SPP may require under this Credit Policy and failure to replenish shall be a Default under this Credit Policy. SPP's application of the Cash Deposit hereunder shall not cure the Default due to the Credit Customer's failure to make timely payment until and unless the Cash Deposit is timely replenished or other Financial Security is provided under Section 7.1.2.4.

**7.1.2.4 Replacement of Cash Deposit.** A Credit Customer may replace any part of a Cash Deposit with other Financial Security acceptable to SPP under this Credit Policy.

**7.1.3 Irrevocable Letter of Credit.** An Irrevocable Letter of Credit will be Financial Security in accordance with this Section.

**7.1.3.1 Form, Requirements, and Related Agreement.** Appendix "C" of this Credit Policy is an acceptable form of an Irrevocable Letter of Credit. SPP may amend the form of Irrevocable Letter of Credit from time to time, either for general applicability or on a case-by-case basis, and the Credit Customer will accept such amendment and, upon request, execute an amendatory document. SPP may accept an Irrevocable Letter of Credit, in its sole discretion, in revised form. Upon the Credit Customer's request, SPP shall provide a written explanation of why SPP did not accept that Credit Customer's proposed variation to the form of Irrevocable Letter of Credit set forth in Appendix "C" of this Credit Policy. The Credit Customer must execute the Credit and Security Agreement with respect to the Irrevocable Letter of Credit. Under the Credit and Security Agreement, the Credit Customer grants SPP a first priority security interest in and to any and all proceeds of any and all Irrevocable Letters of Credit then existing or thereafter issued with SPP as Beneficiary and the Credit Customer as Account Party under the Irrevocable Letter of Credit, including, without limitation, the cash issued upon a draw thereon. This security interest secures the prompt payment when due of any and all obligations of the Credit Customer to SPP, provided that the grant of a security interest shall not diminish SPP's rights to apply draws on the Irrevocable Letter of Credit to pay any and all amounts due. SPP may amend the Credit and Security Agreement from time to time, either for general applicability or on an individual basis. The Credit Customer will accept such amendment and, upon request, execute an amendatory document.

- 7.1.3.2 Ratings of Issuing Financial Institution.** At the time of issuance and at all times the Irrevocable Letter of Credit is outstanding, the issuer must be a financial institution organized under the laws of the United States or any state of the United States or the District of Columbia or a branch or agency of a foreign commercial bank located in the United States, with a minimum corporate debt rating of an “A-” by S&P, “A3” by Moody’s, “A-” by Fitch or an equivalent short-term debt rating by any of these agencies. SPP may accept an Irrevocable Letter of Credit from a financial institution that does not meet the debt rating requirements, provided that the Irrevocable Letter of Credit has a confirmation of third-party support (as governed by the Uniform Customs and Practice for Documentary Credits – International Chamber of Commerce Publication No. 500, Effective January 1, 1994 “UCP500” as stated in Article 9 Section B), in a form acceptable to SPP, from a financial institution that does meet or exceed the debt rating requirements stated in this Section. If after the Irrevocable Letter of Credit has been issued, the rating for the corporate debt of the financial institution is less than “A-” by S&P, “A3” by Moody’s or “A-” by Fitch, SPP may give the Credit Customer notice to submit substitute Financial Security no later than three (3) Business Days after the notice.
- 7.1.3.3 Costs.** The applicable Credit Customer shall bear all costs of providing and maintaining the Irrevocable Letter of Credit.
- 7.1.3.4 Substitution of Irrevocable Letter of Credit.** The Credit Customer may replace an Irrevocable Letter of Credit with a substitute Irrevocable Letter of Credit, or other Financial Security in form and amount acceptable to SPP. SPP will return the initial Irrevocable Letter of Credit upon receipt of an effective and acceptable substitute.
- 7.1.3.5 Term and Renewal.** The Irrevocable Letter of Credit must automatically renew unless the issuing financial institution provides a notice to SPP at least ninety (90) days prior to its expiration date stating its decision not to renew the Irrevocable Letter of Credit. If the Irrevocable Letter of Credit is not renewed, at least ninety (90) days prior to its stated expiration date (a “Non-Renewal Event”), the Credit Customer must submit substitute Financial Security acceptable to SPP, in SPP’s sole discretion, no later than eighty-seven (87) days prior to the stated expiration date.
- 7.1.3.6 Use of Irrevocable Letter of Credit.** In the event a Credit Customer fails to make any timely payment to SPP, SPP may draw

upon the Irrevocable Letter of Credit as necessary to satisfy any and all amounts due from the Credit Customer pursuant to the Agreements. In such event, within three (3) Business Days, the Credit Customer must replenish the Irrevocable Letter of Credit or provide SPP with other Financial Security in an amount equal to the draw or in such other amount as SPP may require under this Credit Policy, and failure to satisfy this requirement shall be a Default under this Credit Policy. In the event of such failure to make timely payment, and in addition to any other remedies available to SPP, SPP may draw down the entire Irrevocable Letter of Credit and hold the proceeds in an unsegregated account and apply such proceeds to amounts owed by the Credit Customer to SPP pursuant to the Agreements. The foregoing sentence notwithstanding, upon the Credit Customer's written notice of request, SPP will treat as a Cash Deposit the proceeds of a draw over and above amounts currently due and unpaid and transfer same to a segregated account in accordance with such treatment, provided that the Credit Customer has executed a Credit and Security Agreement.

**7.1.4 Federal Power Marketing Agency Letter.** A form of letter as described in this Section will be Financial Security for a Federal Power Marketing Agency as that type of entity is defined in Article Two of this Attachment X.

Credit Customers that are Federal Power Marketing Agencies may provide Financial Security in the form of a letter, executed by an officer of the Federal Power Marketing Agency, that: (1) attests that the Federal Power Marketing Agency is lawfully authorized to participate in the SPP TCR market and that any debt the Federal Power Marketing Agency incurs due to its participation in the TCR market is a debt of the United States; (2) identifies the current year's appropriations for the Federal Power Marketing Agency from the United States Congress; and (3) verifies that the amount of the current year's appropriations for the Federal Power Marketing Agency from the United States Congress meets or exceeds the amount required to satisfy the credit requirements set forth in this Credit Policy.

**7.1.5 Surety Bond.** A Surety Bond will be Financial Security in accordance with this Section.

**7.1.5.1 Form, Requirements, and Related Agreement.** Appendix "F" of this Credit Policy is an acceptable form of a Surety Bond. SPP may amend the form of Surety Bond from time to time, either for general applicability or on a case-by-case basis, and the Credit Customer will accept such amendment and, upon request, execute an amendatory document. SPP may accept a Surety Bond, in its sole

discretion, in revised form. Upon the Credit Customer's request, SPP shall provide a written explanation of why SPP did not accept that Credit Customer's proposed variation to the form of Surety Bond set forth in Appendix "F" of this Credit Policy. The Credit Customer must execute the Credit and Security Agreement with respect to the Surety Bond. Under the Credit and Security Agreement, the Credit Customer grants SPP a first priority security interest in and to any and all proceeds of any and all Surety Bond then existing or thereafter issued with SPP as Beneficiary and the Credit Customer as Account Party under the Surety Bond, including, without limitation, the cash issued upon a draw thereon. This security interest secures the prompt payment when due of any and all obligations of the Credit Customer to SPP, provided that the grant of a security interest shall not diminish SPP's rights to apply draws on the Surety Bond to pay any and all amounts due. SPP may amend the Credit and Security Agreement from time to time, either for general applicability or on an individual basis. The Credit Customer will accept such amendment and, upon request, execute an amendatory document.

- 7.1.5.2 Ratings of Issuing Surety.** At the time of issuance and at all times the Surety Bond is outstanding, the issuer must be a US Treasury-listed surety with a certificate of authority from the insurance commissioner in each state in which the issuer conducts surety business, with a minimum financial strength rating of an "A-" by A.M. Best. If after the Surety Bond has been issued, the financial strength rating of the surety is less than "A-" by A.M. Best, SPP may give the Credit Customer notice to submit substitute Financial Security no later than three (3) Business Days after the notice.
- 7.1.5.3 Costs.** The applicable Credit Customer shall bear all costs of providing and maintaining the Surety Bond.
- 7.1.5.4 Substitution of Irrevocable Surety Bond.** The Credit Customer may replace a Surety Bond with a substitute Surety Bond or other Financial Assurance, both in form and amount acceptable to SPP. SPP will return the initial Surety Bond upon receipt of an effective and acceptable substitute.
- 7.1.5.5 Term and Renewal.** The Surety Bond will be a continuing and ongoing obligation of the surety, subject to the termination provisions described in the form of surety bond attached as Appendix E.
- 7.1.5.6 Use of Surety Bond.** In the event a Credit Customer fails to make any timely payment to SPP, SPP may draw upon the Surety Bond as

necessary to satisfy any and all amounts due from the Credit Customer pursuant to the Agreements. In such event, within three (3) Business Days, the Credit Customer must replenish the Surety Bond or provide SPP with other Financial Security in an amount equal to the draw or in such other amount as SPP may require under this Credit Policy, and failure to satisfy this requirement shall be a Default under this Credit Policy. In the event of such failure to make timely payment, and in addition to any other remedies available to SPP, SPP may draw down the entire Surety Bond and hold the proceeds in an unsegregated account and apply such proceeds to amounts owed by the Credit Customer to SPP pursuant to the Agreements. The foregoing sentence notwithstanding, upon the Credit Customer's written notice of request, SPP will treat as a Cash Deposit the proceeds of a draw over and above amounts currently due and unpaid and transfer same to a segregated account in accordance with such treatment, provided that the Credit Customer has executed a Credit and Security Agreement.

**7.2 Financial Security Defaults.** In addition to the breaches with respect to Financial Security identified in Section 7.1.2.3 (failure to replenish Cash Deposit), ~~and~~ 7.1.3.6 (failure to replenish Irrevocable Letter of Credit), and 7.1.5.6 (failure to replenish a Surety Bond), any failure by an issuer of an Irrevocable Letter of Credit, or Surety Bond, or any breach of a Credit and Security Agreement shall be a Default under this Credit Policy and a default under the Tariff. A Default under this Credit Policy and a default under the Tariff shall also occur if: (i) the Financial Security expires or terminates (other than in accordance with its terms or upon the written consent of SPP); (ii) the person issuing the Financial Security disaffirms, disclaims, repudiates or rejects or challenges the validity of all or any part of the Financial Security; or (iii) the Financial Security or any material provision of the Financial Security ceases to be in full force and effect (other than in accordance with its terms or upon the written consent of SPP).



## ARTICLE EIGHT

### Default and Remedies

- 8.1 Default.** Any of the following shall constitute an “Event of Default” under this Credit Policy by a Credit Customer:
- 8.1.1** Failure to post any required Financial Security required under this Credit Policy in the time period specified;
  - 8.1.2** Reserved for Future Use;
  - 8.1.3** Failure to pay in full any amount payable under the Tariff, unless cured in accordance with Section 8.3 of this Credit Policy;
  - 8.1.4** A Credit Customer’s involvement in financial difficulties as evidenced by: (i) its commencement of a voluntary case under Title 11 of the United States Code as from time to time in effect, or by its authorizing, by appropriate proceedings of its board of directors, general partners or other governing body, the commencement of such a voluntary case; (ii) its filing an answer or other pleading admitting or failing to deny the material allegations of a petition filed against it commencing an involuntary case under said Title 11, or seeking, consenting to or acquiescing in the relief therein provided, or by its failing to controvert timely the material allegations of any such petition; (iii) the entry of an order for relief in any involuntary case commenced under said Title 11; (iv) its seeking relief as a debtor under any applicable law, other than said Title 11, of any jurisdiction relating to the liquidation or reorganization of debtors or to modification or alteration of the rights of creditors, or by its consenting to or acquiescing in such relief; (v) the entry of an order by a court of competent jurisdiction (a) finding it to be bankrupt or insolvent, (b) ordering or approving its liquidation, reorganization or any modification or alteration of the rights of its creditors, or (c) assuming custody of, or appointing a receiver or other custodian for all or a substantial part of its property, and such entry or order shall not be vacated or stayed within ninety (90) days; (vi) the filing of a petition under Title 11 which shall not be vacated within ninety (90) days; or (vii) its making an assignment for the benefit of, or entering into a composition with, its creditors, or appointing or consenting to the appointment of a receiver or other custodian for all or a substantial part of its property.
  - 8.1.5** Commission of any other Default specified under this Credit Policy, including Defaults specified in Sections 3.2.2, 5.3.3, 6.3.4, 7.1.2.3., 7.1.3.6, 7.1.5.6, and 7.2.
  - 8.1.6** Except with respect to an event described in Sections 8.1.1 through 8.1.5, the failure to provide any of the Credit Information required under this Credit Policy in the time periods specified, and the failure to observe or perform any of the material terms or conditions or provisions set forth in this Agreement, and such failure is not cured within two (2) Business Days after notice thereof from SPP. If such failure

is a failure to provide any of the Credit Information required under this Credit Policy in the time periods specified, and the failure cannot reasonably be cured within such period, and if the Credit Customer has commenced and is diligently pursuing such cure and provides SPP with adequate assurance of due performance to protect SPP against loss arising from the failure to perform, the Credit Customer may request in writing stating the reasons for the delay and obtain an additional five (5) Business Days if the Credit Customer is a Large Company or a Small Company and ten (10) Business Days if the Credit Customer is a Not-For-Profit after the written notice of Default, as shall be necessary for the Credit Customer to cure the failure with all due diligence.

**8.2 Notice of Financial Difficulties.** Immediately upon the occurrence of an Event of Default as set forth in Section 8.1.4, the Credit Customer shall provide notice to SPP and a copy of any pleadings, orders, petitions, agreements or other document initiating or filed in connection with such Event of Default.

**8.3 Remedies for Default.** Upon the first occurrence of a customer default as described in Section 7.4 of the Tariff or an Event of Default (except as defined in Section 8.1.4 of this Credit Policy) within a twelve month period, SPP will take no action to suspend any Unsecured Credit Allowance as long as the default is remedied within the specified cure period. Should the first occurrence not be remedied within the specified cure period SPP will suspend any Unsecured Credit Allowance for ninety (90) calendar days. Upon the second customer default or Event of Default within a twelve (12) month period, SPP will suspend any Unsecured Credit Allowance for ninety (90) calendar days. The suspension will occur even if one or both occurrences were remedied within the specified cure period. SPP may, except to the extent such remedy is limited in this Credit Policy, exercise any rights or remedies it may have at law or in equity, including but not limited to bringing suit or otherwise initiating proceedings for monetary damages, injunctive relief, specific performance, and relief available under the Federal Power Act. If the Event of Default has not been cured by the Credit Customer within two (2) Business Days or as otherwise outlined under Section 8.1.6 after the Credit Customer's receipt of notice thereof, or, in the case of failure to pay in full amounts payable under Section 7 of the Tariff, within two (2) Business Days after the Transmission Customer's receipt of notice thereof, except as may be precluded under applicable law, SPP may terminate all of the Credit Customer's rights under this Credit Policy. Such termination shall not affect any liability of the Credit Customer incurred before and existing as of such termination. In addition, and without prejudice to any other remedies, SPP reserves all rights to terminate service in accordance with the Tariff and applicable law.

Upon the first occurrence of an Event of Default as defined in Section 8.1.4 of this Credit Policy, SPP will immediately suspend the Credit Customer's Unsecured Credit Allowance and may, at SPP's sole discretion, terminate all of the Credit Customer's rights under this Credit Policy and/or terminate service in accordance with the Tariff and applicable law. Any such termination shall not affect any liability that the Credit Customer incurred prior to and as of such termination. Upon the first occurrence of an Event of Default as defined in Section 8.1.4 of this Credit Policy, SPP also may order the Credit Customer to post additional collateral, cease one or more market transactions, or take other measures to protect SPP and other Market Participants from the Credit Customer's Default.

**Appendix “A”**  
**Credit Application Form**

**Credit Customer Identification**

1.1 Name of the Company as identified in its certificate of formation / incorporation

\_\_\_\_\_

1.2 Date of formation / incorporation of the Company

\_\_\_\_\_

1.3 Registration / file number with the applicable Secretary of State’s Office

\_\_\_\_\_

1.4 Please indicate all unique Company identifiers.

Company Ticker Symbol	
Market Cap	
Federal Tax ID Number	
NERC Acronym	
SIC Code	
DUNS Number	

1.5 Address of the registered office of the Company

Country	
Address	
Post Code	
City	
Phone	
Website	

1.6 Address of the trading office(s) of the Company

Country	
Address	
Post Code	
City	
Phone	
Website	

1.7 Please list any affiliated companies, including subsidiary companies of which your Company owns greater than 10%, that participate in SPP's markets or any other Independent System Operator or Regional Transmission Operator (ISO/RTO) markets.

Subsidiaries and Affiliates	ISO / RTO

1.8 What is the main business of your Company (as stated in the Company's certificate of incorporation, limited liability company agreement, partnership agreement or other applicable corporate governing documents)?

\_\_\_\_\_

1.9 Please include a copy of your Company's Articles of Incorporation, Articles of Organization or similar documents.

**Board, Shareholder, and Management Information**

2.1 Please list board members (if applicable).

Full Name	Business Mailing Address

2.2 Please list any legal representatives (executive officers such as CEO, CFO, CRO, etc.) authorized to sign an agreement with SPP on behalf of the Company.

Full name	Authorized to sign?	Business Mailing Address	Tenure with Company
	<input type="checkbox"/> alone <input type="checkbox"/> jointly		
	<input type="checkbox"/> alone <input type="checkbox"/> jointly		
	<input type="checkbox"/> alone <input type="checkbox"/> jointly		

2.3 Please state your Company's shareholders/owners and indicate their respective share or ownership percentage (>10%).

Full name	Percentage	Business Mailing Address

- 2.4 Please provide the following information for each individual, if any, who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, owns 25% or more of the equity interests of the Company.

Full name	Business Mailing Address

- 2.5 Please list the persons responsible, respectively, for payment of invoices, compliance, credit, trading activity and questions about this form.

Full name	Business Mailing Address	Contact details (business e-mail address and business phone number)
Payments:		
Compliance:		
Credit:		
Trading:		
Questions about this form:		

**SPP Market Participation**

- 3.1 Please indicate which of SPP’s products your Company transacts or intends to transact and include an estimate of the annual volumes by product (in MWh).

Real-Time Energy	
Day-Ahead Energy	
Virtual Energy	
Transmission Congestion Rights	
Transmission Service	

- 3.2 Please list forms of credit your Company intends to utilize to support trading exposure.

Cash (See Section 7.1.2 and Appendix B)	
Irrevocable Letter of Credit (See Section 7.1.3 and Appendices B and C)	List Bank Counterparty
Corporate Guarantee (See Section 3.1.3, Article Six, and Appendix D)	List Potential Guarantor
<u>Surety Bond (See Section 7.1.5 and Appendices B and F)</u>	<u>List Issuing Surety</u>

- 3.3 List your Company’s financial auditors and their addresses.  
\_\_\_\_\_

- 3.4 Please provide audited financial statements for the Company for the last three years, including any current third-party credit ratings.  
\_\_\_\_\_

- 3.5 List all amounts held for collateral with any ISO/RTO as recorded in total assets of your Company’s latest audited financial statements.  
\_\_\_\_\_

## Loss Contingencies and Judgments

- 4.1 Has your Company (or an Affiliate), in the last five years: a) consented to the appointment of, or was taken in possession by, a receiver, trustee, custodian or liquidator of a substantial part of its assets, b) filed a bankruptcy petition in any bankruptcy court proceeding, c) answered, consented, or sought relief under any bankruptcy or similar law or failed to obtain a dismissal of an involuntary petition, d) admitted in writing its inability to pay its debts when due, e) made a general assignment for the benefit of creditors, f) been the subject of an involuntary proceeding seeking to adjudicate the Company (or affiliate) bankrupt or insolvent, g) sought reorganization, arrangement, adjustment, or composition of it or its debt under any law relating to bankruptcy, insolvency, or reorganization or relief of debtors?
- 

- 4.2 If yes to any question in 4.1, please provide a description of proceedings including applicable docket or case numbers.
- 

- 4.3 Has your Company (or one or more of its affiliates), in the last five years, been found in violation of SEC, OCC, FERC, or CFTC requirements or any other federal or state regulation or law regarding energy commodities? Additionally, if not found in violation of such regulations and/or laws, has your Company (or its affiliates) settled allegations of violation with the applicable regulatory authority and/or paid fines related to activity in energy commodities?

If yes to any question in 4.3, please provide a description of proceedings including applicable docket or case numbers.

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- 4.4 Has your Company ever failed to cure an unpaid invoice from any RTO/ISO in the last 5 years, or been found to be in default by an RTO/ISO, or been either suspended or expelled (i.e., had its participation revoked) from an ISO/RTO?

If yes to any question in 4.4, please provide an explanation of the situation, its outcome, and all other relevant factors associated with the event (including applicable docket or case numbers).

---



**Signatures**

The undersigned is duly authorized to declare and does hereby declare in good faith that all information, answers and documents provided with this Questionnaire are true, correct and authentic and that no relevant information is omitted.

Place	Date	Print Name: Title:
Signature		

Subscribed and sworn before me \_\_\_\_\_, a notary public of the State of \_\_\_\_\_, in and for the County of \_\_\_\_\_, this \_\_ day of \_\_\_\_\_, 20\_\_\_\_\_.

\_\_\_\_\_

(Notary Public Signature)

My commission expires: \_\_\_ / \_\_\_ / \_\_\_

## Appendix "B" Credit and Security Agreement

This Credit and Security Agreement is effective as of the \_\_\_\_ day of \_\_\_\_\_, 20\_\_, by and between \_\_\_\_\_ ("Company") and Southwest Power Pool, Inc. ("SPP").

### Recitals

WHEREAS, SPP offers certain services, including certain transmission services, market services and other services as set out in the \_\_\_\_\_ Tariff of SPP, as may be amended and supplemented from time to time and together with all replacements and substitutes thereto (collectively, the "Tariff");

WHEREAS, SPP maintains a Credit Policy (which is Attachment X to the Tariff, as the same may be amended from time to time) in order to determine, on a case by case basis, the level of unsecured credit available to each customer who takes services under the Tariff and the form and amount of financial assurance to be required by each customer, if any;

WHEREAS, in the event Company provides financial assurance to SPP in the form of ~~Cash collateral Deposit, or an Irrevocable Letter of Credit~~ letter of credit, a Surety Bond or, for a Credit Customer that is a Federal Power Marketing Agency, a letter as specified in Section 7.1.4 of Attachment X, SPP requires Company, in accordance with the terms of its Credit Policy as filed and accepted by FERC, to execute this Credit and Security Agreement in order to assure the strength of SPP's security interest in such ~~Cash collateral Deposit, or Irrevocable Letter of Credit~~ letter of credit, or Surety Bond;

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NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by each of the parties hereto, Company and SPP hereby agree as follows:

(1) The "Liabilities" as used in this Credit and Security Agreement means all of the financial obligations of the Company under the Tariff and/or any and all agreements entered into, under, pursuant to, or in connection with the Tariff (including, without limitation, the SPP Credit Policy) and any and all other agreements to which SPP and the Company are parties (collectively, the "Agreements").

(2) As security for the payment and performance of the Liabilities, SPP shall have, and the Company hereby grants to SPP, a continuing security interest in the following collateral (as indicated below) (the "Collateral"): all of the Company's right, title, and interest in any and all cash, cash collateral, ~~Ce~~ash ~~De~~posits and deposit accounts of the Company held or controlled by SPP, including accounts designated "for the benefit of" Company, that either (i) are or contain proceeds from any draw upon any Irrevocable Letter of Credit~~Letters of Credit or Surety Bond~~ naming SPP as beneficiary to the extent that SPP determines in its sole discretion to treat such payments as cash collateral, and without prejudice to SPP's right to treat draws as payments to SPP of any and all amounts due to SPP from the Company, or (ii) are or contain cash submitted by the Company as collateral or security, however created or evidenced, whether now existing or hereafter owned, acquired, created, used or arising, including all products and proceeds of the foregoing, any and all renewals, extensions, replacements, modifications, additions, and substitutions of the foregoing and all rights, remedies, claims and demands under or in connection with each of the foregoing.

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(3) All Collateral held or controlled by SPP after the date of this Credit and Security Agreement shall be free of any lien, security interest or encumbrance, except for liens, security interests or encumbrances in favor of SPP, and the Company agrees not to grant any security interest or permit any lien or encumbrance to arise in any of the Collateral except for security interests, liens and encumbrances in favor of SPP without the prior written consent of SPP.

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(4) The Company agrees to do such reasonable acts and things and deliver or cause to be delivered such other documents as SPP may reasonably deem necessary to establish and maintain a valid perfected security interest in the Collateral (free of all other liens and claims except those of SPP) to secure the payment and performance of the Liabilities and to defend title to the Collateral against any person claiming any interest therein adverse to SPP. The Company authorizes SPP to file a financing statement or statements on its behalf in those public offices deemed advisable or necessary by SPP to protect the security interest of the Company herein granted. If permitted by law, the Company agrees that a carbon, photographic or other reproduction of this Credit and Security Agreement or of a financing statement may be filed as a financing statement.

(5) Subject to the Tariff, upon the occurrence of any Default and at any time thereafter, SPP shall have all rights and remedies available at law or in equity including, without limitation, the rights and remedies of a secured party under the Arkansas Uniform Commercial Code, as in effect from time to time, including, without limitation, the right to retain and/or take possession of the Collateral. SPP may in its discretion transfer any property constituting Collateral into its own name or that of its nominee and receive the income thereon and hold the same as security for the Liabilities or apply it on amounts due on Liabilities.

(6) Until such time as SPP exercises its remedies upon a Default, all income, earnings and profits with respect to the Collateral shall be reported for state and federal income tax purposes as attributable to the Company and not SPP. Company hereby instructs SPP (and any other person authorized to report taxable income distributions) to issue, or cause to be issued, IRS Form 1099 indicating the Company as the recipient of such income, earnings and profits.

(7) Whenever possible each provision of this Credit and Security Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Credit and Security Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition without invalidating the remainder of such provision or the remaining provisions of this Credit and Security Agreement. The Company recognizes that SPP has relied on this Credit and Security Agreement in extending credit to the Company and agrees that such reliance by SPP shall be sufficient consideration for this Credit and Security Agreement.

(8) The Company maintains any and all rights under Section 206 of the Federal Power Act it may have with regard to this Credit and Security Agreement or its implementation.

This Credit and Security Agreement shall be construed and enforced in accordance with, and governed by, the laws of the State of Arkansas (without giving effect to the principles of conflicts of laws thereof).

\_\_\_\_\_  
Company Name

\_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

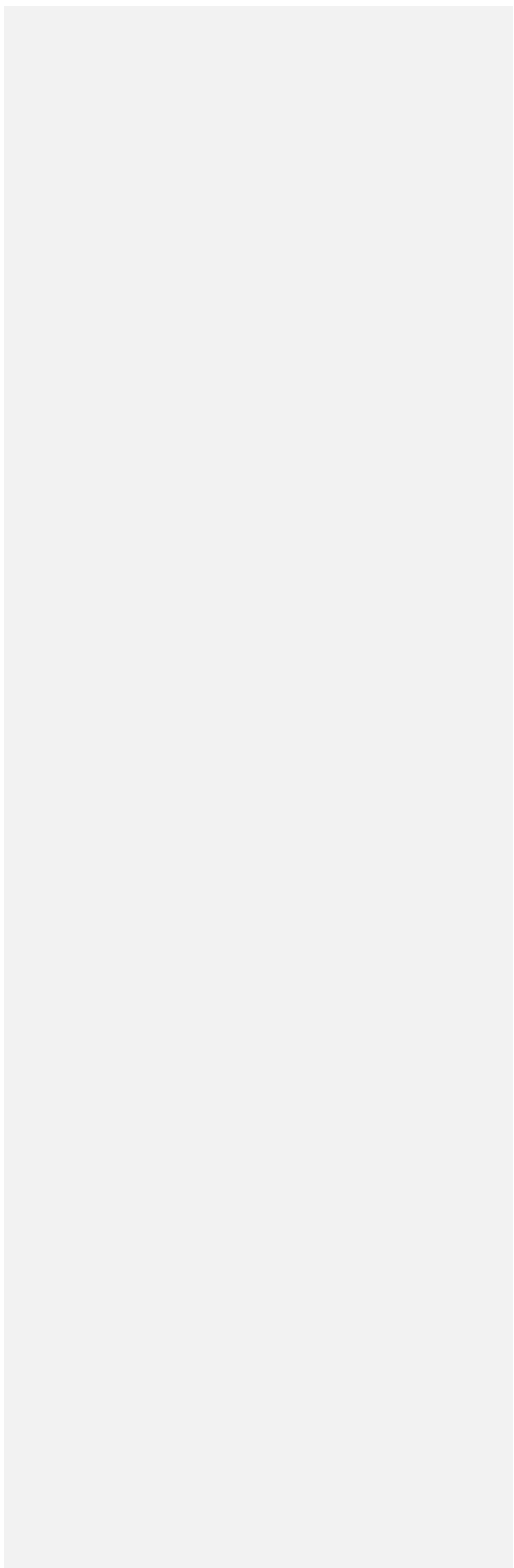
**SOUTHWEST POWER POOL, INC.**

By:

\_\_\_\_\_  
Authorized Signature

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title



**Appendix "F" FORM OF SURETY BOND**

Surety Bond No. \_\_\_\_\_

THIS SURETY BOND is issued on [date] by [full legal name of surety] ("Surety") on behalf of [full legal name of SPP customer] ("Principal"), and in favor of Southwest Power Pool, Inc. ("SPP"). Capitalized terms used and not otherwise defined herein shall have the meaning ascribed to those terms in SPP's Open Access Transmission Tariff ("OATT").

WHEREAS, Principal seeks to participate in the markets administered by SPP and/or schedule transmission service in SPP; and

WHEREAS, Principal must satisfy the credit requirements established in the OATT to participate in the markets administered by SPP or to schedule transmission service in SPP; and

WHEREAS, Surety is U.S. Treasury-listed with a minimum "A" rating from A.M. Best and has agreed, in exchange for compensation provided by Principal, to provide this Surety Bond on behalf of Principal in accordance with SPP's credit requirements;

NOW, THEREFORE, in consideration of the mutual promises and covenants herein contained, Surety hereby agrees and covenants as follows:

Amount of Bond. Surety unconditionally and irrevocably agrees to pay SPP amounts not to exceed an aggregate of [amount], in accordance with the terms of this Surety Bond.

Payment Upon Demand. Surety shall pay such amount as specified by SPP upon receipt of a demand for payment notice ("Demand for Payment Notice"). Such Demand for Payment Notice shall be: (i) signed by an officer or authorized agent of SPP, (ii) dated the date of presentation, and (iii) be in the form as set forth in Exhibit A, Exhibit B, or Exhibit C, as applicable.

Validation. SPP may demand payment pursuant to this Surety Bond without prior demonstration of the validity of the demand.

Multiple Draws. SPP may demand multiple payments pursuant to this Surety Bond; provided, however, that the total amount of Surety's obligation hereunder shall not exceed an aggregate of [amount].

Time and Form of Payment. Surety shall pay amounts owed pursuant to this Surety Bond in full not later than the first business day following receipt of SPP's written demand for payment to the account designated therein.

Obligations Unconditional. This Surety Bond is not conditioned upon SPP first attempting to collect payment, resorting to any other means of security or collateral, or pursuing any other remedies it may have. The obligations of Surety hereunder are independent of the obligations of Principal, and SPP may bring an action against Surety without bringing an action against Principal. SPP may from time to time, without notice or demand, and without affecting Surety's liability hereunder, take and hold other security for Principal's obligations to SPP and exchange, waive, release, or apply such security as SPP deems appropriate in its sole discretion. Surety's liability under this Surety Bond is not conditioned upon the validity or enforceability of Principal's obligations to SPP.

Term of Surety Bond. The term of this Surety Bond shall begin on the date of its issuance, as set forth above, and shall continue in full force and effect until Principal ceases to be an SPP customer and all amounts owed by Principal pursuant to SPP's OATT, SPP's Service Agreements Tariff, SPP's Governing Documents Tariff, all agreements entered into by Principal in connection with one or more of the SPP tariffs, and any and all agreements to which Principal and SPP are parties are paid in full, including any amounts owed as a result of true-ups or other corrections to previous settlements; provided, however, that Surety may terminate this Surety Bond as provided in Paragraph 8, below.

Termination. Surety may terminate this Surety Bond upon ninety (90) days written notice to SPP; provided, however, that: (i) Surety's liability hereunder shall survive such termination and remain in full force and effect as to obligations incurred by Principal during the term of this Surety Bond; and (ii) in the event that Principal fails to provide an acceptable form of replacement security to SPP at least eighty seven (87) days prior to the termination of this Surety Bond, Surety shall, upon demand, without any notice other than such demand, and without any further action by SPP deliver cash collateral to SPP not later than the next business day in the amount of the full remaining value of this Surety Bond as security for Principal's obligations to SPP. Cash collateral provided to SPP by Surety and not applied by SPP to satisfy unpaid obligations of Principal shall be returned to Surety at such time as: (i) Principal provides adequate replacement security to SPP or (ii) Principal ceases to be an SPP customer and all amounts owed by Principal to SPP are paid in full, including amounts owed as a result of true-ups or other corrections to previous settlements.

Principal Pays Bond Costs. Principal shall pay all commissions and charges for this Surety Bond. Principal's failure to pay any such charges shall not be grounds for termination of this Surety Bond, except as provided in Paragraph 08, above.

Expenses. Surety shall pay all reasonable costs incurred by SPP in the enforcement of this Surety Bond, including attorney fees and expenses. Surety's obligation to pay such costs shall be in addition to other amounts owed pursuant to this Surety Bond and shall not be limited by the maximum stated amount of this Surety Bond.

Communications. Demands, notices, and other communications shall be deemed effective when received, shall be in writing, and shall be delivered by courier with receipt of delivery or by registered mail, certified mail, or facsimile to the following addresses:

a. If to Surety: \_\_\_\_\_

\_\_\_\_\_ [Surety notice address]

b.           If to SPP:

Attn: Credit and Risk Management Department  
Southwest Power Pool, Inc.  
201 Worthen Drive  
Little Rock, AR 72223-4936

c.           If to Principal:

          [Principal notice address]

**Surety, SPP, or Principal may change the address provided for receipt of communications pursuant to this Surety Bond by providing written notice to the other parties.**

**Representations and Warranties. Surety represents and warrants to SPP that:**

          a. Surety has the legal power to execute and deliver this Surety Bond and to perform in accordance with its terms. All necessary actions have been taken to authorize the execution and delivery of this Surety Bond and performance in accordance with its terms. This Surety Bond is a legal, valid, and binding obligation of Surety.

          b. There is no action or proceeding pending or, to Surety's knowledge, threatened before any court, arbitrator, or governmental agency that may materially adversely affect Surety's ability to perform its obligations under this Surety Bond.

          c. There is no fact that Surety has not disclosed in writing to SPP of which Surety is aware or which Surety can reasonably foresee that would materially adversely affect Surety or the ability of Surety to perform its obligations hereunder.

**Assignment. SPP may assign its rights under this Surety Bond without in any way diminishing Surety's obligations hereunder. Surety shall not be permitted to assign or transfer its rights under this Surety Bond without prior written consent of SPP.**

**Amendment and Waiver. The terms and provisions of this Surety Bond may not be amended or waived except in a writing signed by SPP and Surety. Election not to exercise, failure to exercise, or delay in exercising any rights under this Surety Bond shall in no way operate as a waiver of any rights of SPP under this Surety Bond.**

**Entire Agreement. This Surety Bond embodies the entire agreement between Surety and SPP with respect to the matters set forth herein and supersedes all prior such agreements.**

**Severability. Should any provision of this Surety Bond be determined by a court of competent jurisdiction to be unenforceable, all of the other provisions shall remain effective.**

**Choice of Law; Jurisdiction; Venue; and Service of Process. This Surety Bond shall be governed by the laws of the State of Arkansas without regard to conflict of laws principles.**

**Surety irrevocably submits to the jurisdiction of any Arkansas court or any United States court sitting in Arkansas over any action or proceeding arising out of or relating to this Surety Bond and irrevocably agrees that all claims in such action or proceeding may be heard and determined by such court. Surety agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Surety waives any objection to venue on**



the basis of forum non conveniens. Surety irrevocably consents to the service of process in any action or proceeding by the mailing of copies of such process to Surety at its address set forth herein. Nothing herein shall affect the right of SPP to bring any action or proceeding against Surety or its property in the courts of any other jurisdictions.

Waiver of Jury Trial. SURETY IRREVOCABLY, VOLUNTARILY, AND WITH ADVICE OF COUNSEL WAIVES ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION ARISING IN CONNECTION WITH THIS SURETY BOND.

IN WITNESS WHEREOF, Surety has executed and delivered this Surety Bond this [date].

[Full Legal Name of Surety]

By: \_\_\_\_\_

Name:

Title:

**EXHIBIT A**

(Form of Demand for Payment Notice – Principal Failure to Make Payment)

**[Date]**<sup>1</sup>

**[Name and Address of Surety]**<sup>2</sup>

*Re: Surety Bond No. \_\_\_\_\_  
Demand for Payment*

To the above named Surety:

The undersigned hereby certifies to [full legal name of surety] (“Surety”), with reference to its Surety Bond No. [bond number], dated [execution date of Surety Bond], issued on behalf of [full legal name of SPP customer] (“Principal”) and in favor of Southwest Power Pool, Inc. (“SPP”) that Principal has failed to make payment in accordance with the terms of SPP’s OATT, SPP’s Service Agreements Tariff, SPP’s Governing Documents Tariff, any other agreement entered into by Principal in connection with one or more of the SPP tariffs, or

<sup>1</sup> The date of the Demand for Payment Notice must be the date for which presentation of the Notice is made.

<sup>2</sup> This will be the address of the Surety as set forth in the Surety Bond.

any agreement to which Principal and SPP are parties. SPP hereby demands payment in the amount of \$ [amount] in accordance with the following instructions.

**[Wiring Instructions]**

Southwest Power Pool, Inc.

By: \_\_\_\_\_<sup>3</sup>

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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<sup>3</sup> The undersigned must be an officer or authorized agent of SPP.

**EXHIBIT B**

(Form of Demand for Payment Notice – Principal Failure to Provide Acceptable Security)

**[Date]**<sup>4</sup>

**[Name and Address of Surety]**<sup>5</sup>

*Re: Surety Bond No. \_\_\_\_\_  
Demand for Payment*

To the above named Surety:

\_\_\_\_\_ The undersigned hereby certifies to **[full legal name of surety]** (“Surety”), with reference to its Surety Bond No. **[bond number]**, dated **[execution date of Surety Bond]**, issued on behalf of **[full legal name of SPP customer]** (“Principal”) and in favor of Southwest Power Pool, Inc. (“SPP”) that as of the close of business on **[date] [date less than eighty-seven (87) days before the expiration of the Surety Bond]**,<sup>6</sup> Principal has failed to renew, replace, or amend this Surety Bond in satisfaction of the credit requirements established pursuant to SPP

\_\_\_\_\_  
<sup>4</sup> The date of the Demand for Payment Notice must be the date for which presentation of the Notice is made.

<sup>5</sup> This will be the address of the Surety as set forth in the Surety Bond.

<sup>6</sup> Insert date less than eighty-seven (87) days prior to expiration of the Surety Bond.

tariffs. The SPP hereby demands payment in the amount of \$ [amount] in accordance with the following instructions.

**[Wiring Instructions]**

Southwest Power Pool, Inc.

By: \_\_\_\_\_<sup>7</sup>

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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<sup>7</sup> The undersigned must be an officer or authorized agent of SPP.

**EXHIBIT C**

(Form of Demand for Payment Notice – Surety Rating Downgrade)

**[Date]**<sup>8</sup>

**[Name and Address of Surety]**<sup>9</sup>

*Re: Surety Bond No.* \_\_\_\_\_

*Demand for Payment*

To the above named Surety:

The undersigned hereby certifies to **[full legal name of surety]** (“Surety”), with reference to its Surety Bond No. **[bond number]**, dated **[execution date of Surety Bond]**, issued on behalf of **[full legal name of SPP customer]** (“Principal”) and in favor of Southwest Power Pool, Inc. (“SPP”) that as of the close of business on **[date] [date more than three (3) business days after SPP has requested that Principal replace the Surety Bond because the Surety’s rating by A.M Best is less than “A”]**, Principal has failed to replace

<sup>8</sup> The date of the Demand for Payment Notice must be the date for which presentation of the Notice is made.

<sup>9</sup> This will be the address of the Surety as set forth in the Surety Bond.

this Surety Bond in a manner acceptable to SPP. The SPP hereby demands payment in the amount of \$ [amount] in accordance with the following instructions.

**[Wiring Instructions]**

Southwest Power Pool, Inc.

By: \_\_\_\_\_<sup>10</sup>

Name: \_\_\_\_\_

Title: \_\_\_\_\_

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<sup>10</sup> The undersigned must be an officer or authorized agent of SPP.