

BPA's Credit Requirements: Proposed Changes

June 21, 2012



BPA's Existing Credit Requirements

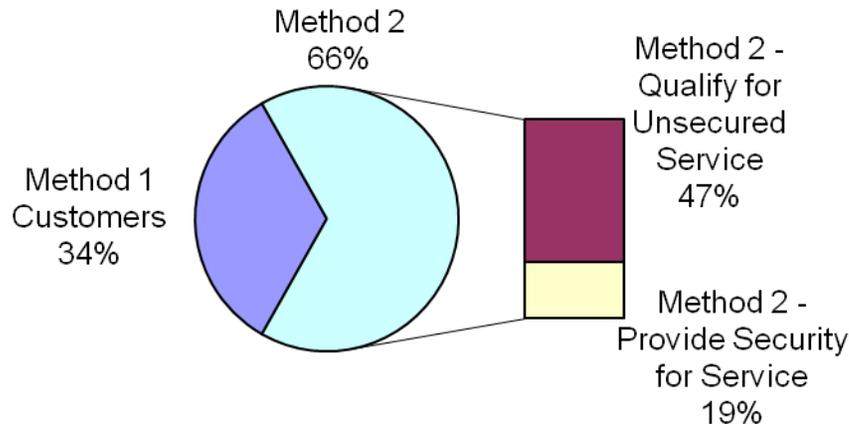
- Customers may qualify for unsecured credit in one of two ways:
 - Method 1 – Regional distribution utilities that have the direct authority to establish and adjust rates to recover costs, including power costs, without seeking regulatory approval, qualify for unsecured credit to purchase up to \$217,000 per month in transmission service
 - Method 2 – Customers who do not qualify for Method 1, or Method 1 customers seeking a higher credit limit, will be evaluated using quantitative and qualitative criteria to determine their unsecured credit limit.
 - The maximum amount of unsecured credit for a customer is the greater of 5% of the customer's tangible net worth or \$10 million, up to a maximum of \$30 million

BPA's Existing Credit Requirements (continued)

- Customers who do not qualify for unsecured credit under Method 1 or 2, or who exceed their unsecured credit limit, must provide security in an amount sufficient to cover their exposure. The following are acceptable forms of security:
 - Corporate Guarantee by a parent who meets the criteria for unsecured service;
 - Irrevocable Letter of Credit;
 - Prepayment provision;
 - Contract amendment to shorten the exposure period *(applicable only to provide additional security in an amount sufficient to cover their exposure in excess of their credit limit)*; Or
 - Other form acceptable to BPA

Customer Breakdown

BPA's Long-Term Firm Transmission Customers



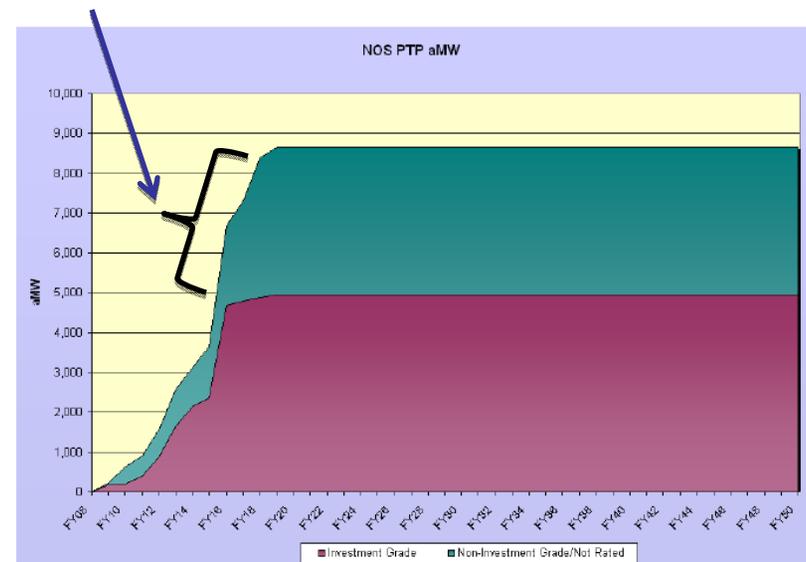
As shown to the left, approximately 34% of long-term firm customers meet the requirements of Method 1.

The remaining 66% are evaluated under Method 2 and either qualify for unsecured service or are required to provide security for their service.

19% of long-term firm transmission customers are required to provide security. Of those, nearly all do so via a prepayment arrangement.

Need for Changes to Credit Requirements

- Currently reviewing our Transmission credit requirements to ensure they promote equitable treatment of customers, allow open access to our system, and to the extent possible mitigate against risks and undue cost shifts resulting from non-performance or default.
- As shown on previous slides, the number of customers who need to secure service is significant and is expected to grow as a result of NOS (see graph below).
- Over the past year, BPA has experienced between 5% and 18% of customers securing service at least 30 days delinquent on their Transmission bills



Forecast shared at July 2011 NOS/GI Reform Meeting

Industry Benchmarking Efforts

BPA researched other transmission providers' credit policies to see how they address customers who do not qualify for unsecured credit and whether they allow prepayment.

- Transmission providers that are not ISOs and RTOs
 - Some, but not all, transmission providers allow customers who do not qualify for unsecured credit to prepay for service to meet credit requirements (in lieu of a letter of credit or other security). There are no standard prepay provisions.
 - Most transmission providers in the Northwest offer a prepayment option.
 - Among transmission providers that allow prepayment, there are varying levels of deposit requirements for prepay customers.
 - One transmission provider requires a deposit in the amount of 5 months of service, in addition to prepayment each month. One transmission provider requires a deposit in the amount of 4 months of service if the customer fails to prepay on time. Other transmission providers require a deposit but leave the amount to be determined by the provider. Others have no deposit requirement.

- ISOs and RTOs
 - Due to the nature of ISO and RTO markets, their credit requirements are different from non-ISOs and RTOs.
 - ISOs and RTOs do not typically offer prepayment as a way to meet credit requirements.
 - All RTO/ISO markets have a minimum capitalization threshold to be a market participant
 - If market participant fails the min cap requirement, there are varying deposit requirements based on the market participant's requested market involvement

Proposed Changes to Credit Requirements

- Revise the credit requirements to require a standardized deposit in the amount of 5 months of service for customers that secure transmission service
 - A five month deposit would better mitigate potential account receivable exposure that BPA faces during the amount of time before BPA could terminate the contract
 - This requirement would apply to all customers who fail to qualify for unsecured service under Method 2. Customers may provide a Letter of Credit, cash deposit, prepay, or arrangement acceptable to BPA. (Also if a customer provides a guarantor who meets the unsecured requirement, and guarantees payment, they will be viewed as a unsecured customer, because the guarantor becomes the de facto customer)
 - Customers who provide a Letter of Credit or cash deposit will be required to provide it in the amount of 5 months of service
 - Customers who prepay will be required to provide a letter of credit or cash deposit for 4 months of transmission charges and prepay a month in advance (totaling 5 months)
- Increase the Credit Limit for Unsecured Service
 - Current credit limits were established in 2005, and have not been adjusted to reflect inflation or potential rate increases in NT/PTP rates

Example of Proposals to Existing Customer Classes

Customer Class	Current Policy	Proposed Modification
Method 1 Customer	<ul style="list-style-type: none"> -Regional Distribution Utility -Ability to set rates without regulatory approval -Purchases less than \$217,000 of Transmission service per month 	<p>- Increase in maximum unsecured credit limit</p>
Unsecured Method 2 Customer	<ul style="list-style-type: none"> -Customers that do not meet Method 1 criteria, and that pass BPAT's evaluation for unsecured credit -Method 1 Customer seeking higher credit limit 	<p>- Increase in maximum unsecured credit limit</p>
Secured Method 2 Customer	<ul style="list-style-type: none"> -All customers that do not qualify under Method 1, or who fail or otherwise exceed their unsecured limit under Method 2 -Must secure service through: <ul style="list-style-type: none"> - Letter of Credit - Escrow or Cash Deposit - Prepayment Arrangement - Parental Guaranty 	<ul style="list-style-type: none"> - Customers that provide a Letter of Credit or Deposit must provide 5 months worth of Transmission service - Customers that prepay for Transmission service must prepay one month in advance, plus provide a prepay deposit equaling 4 months worth of Transmission service

Additional Considerations

- Apply a minimum capitalization threshold as a criteria for becoming a customer to BPA or as a factor in determining the required amount of security
 - Most new customers that secure transmission service do not provide financial information on their credit applications
 - Such a criteria would provide BPA Transmission with a better view of a potential customer's ability to meet its payment obligations
 - Customers that fail the minimum capitalization threshold would be required to post additional security to take transmission service
- Consider whether there are other potential solutions to mitigate BPA's risk, outside of changes to the credit requirements, and whether changes should apply to all entities, including those that do not have transmission service agreements (but incur ancillary service charges)

Next Steps

- BPA would appreciate customer comments and feedback on the proposed deposit requirement, as well as the other considerations presented above (applicability, minimum capitalization concept and an increased credit limit). Please provide comments to Tech Forum by July 20, 2012
- Likely to have additional customer outreach in implementing any revisions to BPA's credit requirements, based on customer feedback
- Questions?
- Helpful Links:
 - [BPA's Creditworthiness Business Practice](#)
 - [BPA's Basic Credit Standards](#)