

CREDITWORTHINESS PROCEDURES

FOR WAPA FEDERAL POWER CUSTOMERS

Sept. 1, 2017



**Western Area
Power Administration**

1. APPLICABILITY

- a) These Creditworthiness Procedures apply to all WAPA Federal power customers (Customer) who are billed for power. These procedures do not apply to Federal Agencies or Tribes that have entered into a bill or benefit crediting arrangement.
- b) Certain power systems provide WAPA and/or the generating agency with working capital to mitigate risk associated with a non-payment of a bill by a Customer. Sufficient working capital may negate the application of these Creditworthiness Procedures. Working capital deposit requirements will be established

2. EVALUATION OF INFORMATION

- a) Creditworthiness evaluations shall be conducted by WAPA's Chief Financial Officer (CFO) in consultation and coordination with the appropriate Regional Manager or CRSP Management Center Manager.
- b) Customers not in default of their financial commitments to WAPA under an existing contract within the last 12 months of the date of these procedures shall be deemed creditworthy. Customers determined to be creditworthy are not subject to an initial creditworthiness evaluation as set forth in Section 2.c below.
- c) New Customers and existing Customers that have defaulted on their financial commitments to WAPA under an existing contract within the last 12 months of the date of these procedures, shall be subject to a creditworthiness evaluation.

WAPA will evaluate the following criteria when conducting a creditworthiness evaluation:

- i. Is the Customer on WAPA's subscribed rating service watch list, currently at or below "BB" on Standard & Poor's ratings (for example); or
 - ii. Is the Customer currently in bankruptcy proceedings, or, based on objective and reliable financial reporting, expected to seek bankruptcy protection in the near future; or
 - iii. Is the Customer experiencing significant financial hardship or distress that a reasonable examiner of creditworthiness, applying reasonable creditworthiness standards, would find material to decisions concerning credit?
- d) If WAPA determines, based on any of the criteria above, that a Customer's ability to make payments under a Federal power contract is in substantial doubt, the Customer will be deemed non-creditworthy. Upon deeming a Customer non-creditworthy, WAPA will promptly provide written notice of such determination and the basis for its determination to

the Customer. Customers may contest WAPA's creditworthiness determination as set forth in Section 3 below.

3. CONTESTING CREDITWORTHINESS DETERMINATION

- a) Within five (5) business days of receiving written notice of a non-creditworthiness determination, the Customer may contest WAPA's creditworthiness determination by submitting a written notice to WAPA explaining its reasons for contesting the determination. The notice must include the name of a designated senior representative authorized to represent the Customer. The written notice contesting WAPA's creditworthiness determination shall be referred to WAPA's CFO who will issue a written decision to the designated senior representative of the Customer within three (3) business days of receiving the Customer's notice.
- b) Should the Customer disagree with the CFO's decision, the Customer may appeal the decision by submitting a written notice to WAPA's Administrator within three (3) business days of receiving the CFO's decision. WAPA's Administrator will issue a written decision within three (3) business days of receiving the Customer's notice.
- c) The requirement to provide collateral security shall be stayed during the process of contesting a creditworthiness determination. Any such stay of the requirement to provide collateral security shall expire upon Customer's receipt of the CFO's written decision or, as applicable, the Administrator's written decision upholding a non-creditworthiness determination.

4. ADVERSE MATERIAL ISSUE/CHANGE

- a) An adverse material issue or change is an occurrence or event that results in a Customer experiencing significant financial hardship or distress such that a reasonable examiner of creditworthiness, applying reasonable creditworthiness standards, would find material to decisions concerning credit. Examples of an adverse material issue/change that would be reviewed by WAPA include, but are not limited to, a bankruptcy filing, being placed on a credit watch list, and a criminal indictment of a corporation or corporate officers.

WAPA's CFO will initially review the issue/change to determine if a creditworthiness evaluation is necessary. If so, WAPA will apply the criteria set forth in section 2.c to evaluate the impact of the issue/change. If WAPA determines that, based on an adverse material change, a Customer's ability to make payments under a Federal power contract is in substantial doubt, it will determine the Customer non-creditworthy and document the decision. A Customer deemed non-creditworthy will be required to provide collateral in accordance with the Section 5 of these procedures.



- b) The Customer will provide WAPA a notice of adverse material changes in its financial condition (and, as applicable, the financial condition of its guarantor) within ten (10) calendar days from the time the Customer learns of an adverse material change. In addition, WAPA may, through its own efforts, learn of occurrences or events that it may consider an adverse material change.
- c) In the case of a failure by a Customer to report an event or occurrence that results in a Customer experiencing significant financial hardship or distress, but who is otherwise current on its contractual payments, WAPA will consult with the Customer and consider the circumstances surrounding the failure to report before making any decision on creditworthiness.

5. COLLATERAL SECURITY

- a) In the event WAPA determines a Customer is non-creditworthy in accordance with Section 2.d., WAPA will notify the Customer in writing of its determination as well as the basis for its determination. The Customer must provide collateral within thirty (30) calendar days of receipt of the initial written notice provided by WAPA under Section 2.d (or as otherwise agreed in writing between the Customer and WAPA's CFO).
- b) The required amount of security will be based on the maximum total estimated service charge for outstanding service provided by WAPA under its Federal power contract, but not yet paid by the Customer, plus an advance of sixty (60) calendar days of estimated service under its Federal power contract as collateral. WAPA shall have the right to liquidate or draw upon all or a portion of the Customer's collateral provided in order to satisfy the Customer's total net obligation to WAPA. The Customer shall within five (5) business days, or as agreed in writing between WAPA and the Customer, replace any liquidated or drawn-upon collateral. Upon the completion of twelve consecutive months of timely payments under the FES contract, WAPA shall credit the Customer the advanced collateral. If a Customer provides collateral consisting of advance payments for service, WAPA will not collect nor credit interest on such collateral.
- c) Acceptable collateral includes:
 - Payment in advance for service; or
 - An unconditional and irrevocable standby letter of credit as security to meet the Customer's responsibilities and obligations. If this form of collateral is used, it will comply with the requirements as stated in the Uniform Customs and Practice for Documentary Credits; or
 - An irrevocable and unconditional corporate guaranty from an entity that satisfies the creditworthiness requirements.



6. SUSPENSION OF SERVICE

- a) If a Customer fails to provide collateral as set forth above, WAPA may suspend electric service to the Customer no sooner than fifteen (15) business days after WAPA notifies the Customer of the suspension of electric service. The suspension of service shall continue until the Customer provides collateral.
- b) Such a suspension of service will not relieve the Customer of liability for minimum charges, if applicable, during the time service is so suspended.
- c) The rights reserved to WAPA herein shall be in addition to all other remedies available to WAPA, either by law or in equity, for the breach of any of the terms hereof.

7. NOTICE REQUIREMENTS

Any notice, demand, or request specifically required by these Creditworthiness Provisions to be in writing shall be considered properly given when delivered in person or sent by postage prepaid registered or certified mail, commercial delivery service, facsimile, electronic, prepaid telegram, or by other means with prior agreement of the parties, to each party's authorized representative at the principal offices of the party. The designation of the person to be notified may be changed at any time by similar notice. Where facsimile or electronic means are utilized for any communication covered by this Provision, the sending party shall keep a contemporaneous record of such communications and shall verify receipt by the other party.