






<p><b>Stakeholder Meeting AESO Credit Policy</b></p> <p>July 6, 2009</p>	<p>Reliable <b>Power</b></p> <p>Reliable <b>Markets</b></p> <p>Reliable <b>People</b></p>
 	

<p><b>Background - AESO Credit Risk</b></p>	
<ul style="list-style-type: none"><li>• Credit Risk is that a debtor is not able to honour its obligations resulting in a default by the debtor.<ul style="list-style-type: none"><li>– In the Real Time Energy Market, credit risk is the risk that a net load participant will fail to pay for energy received (receivable risk).</li><li>– Under the Transmission Tariff, credit risk is the risk that a customer will fail to pay for services it has received (receivable risk).</li></ul></li><li>• The AESO manages credit risk for its participants/customers in accordance with the ISO rules and the Transmission Tariff.<ul style="list-style-type: none"><li>– The AESO is not subject to credit losses as a result of any defaults as losses flow through to participants/customers.</li></ul></li></ul>	
<p>2</p>	


## The AESO's Credit Exposures



- **A customer's operating requirement is a participant's cumulative obligations owing to the AESO**  
 Operating Requirement is the aggregate of the following components:
  - Energy Market Transaction Costs (net load purchases from the AESO)
  - Plus:**
    - Transmission Services Costs (DTS or STS charges plus any security required for CCAs)
  - Plus/Minus:**
    - Other items
- **A customer's security requirements are calculated as follows:**
  - Operating Requirements
  - Less:**
    - Unsecured Credit Allocated to Customer
  - Equals:**
    - Required Customer Security

3

## AESO Credit Policy – Transmission Tariff and Energy Market Rules



*The AESO Tariff:*


- *Article 6.2: Security for new Transmission Facilities and related Article 9.2 Payment of Contributions*
  - *Security as determine by the AESO, not to exceed estimated construction costs (covers cancellation costs)*
- *Article 15.1 Credit Requirements (Financial Security, Billing and payment terms)*
  - *Customer must comply with the AESO's security requirements - up to 3 three months payments (covers receivables)*

*ISO rules:*

- *ISO Rule 2.1, Appendix 3 – Prudential Requirements (market participants)*

4

## Credit Policy - Unsecured Credit Limits for Rated Companies




- Organization (or Guarantor) are required to have a long-term unsecured debt rating provided by an AESO Recognized Ratings Agency (DBRS, Moody's, S&P).
- Unsecured credit is granted to Organization's based on their credit rating (or S&P equivalent) as follows:

<u>Rating</u>	<u>Unsecured Credit Limit</u>
AAA	\$ 25,000,000
AA	20,000,000
A	15,000,000
BBB	10,000,000
<BBB	0

5

## Credit Policy - Unsecured Credit Limits for Non-Rated Companies



- The AESO may grant up to the following Unsecured Credit Limits to a Non-Rated organization (or Guarantor) based on the following Credit Ratings scale:

<u>Proxy Credit Rating</u>	<u>Unsecured Credit Limit</u>
AAA	\$ 10,000,000
AA	5,000,000
A	2,500,000
BBB	1,250,000
<BBB	0

- The amount of the Unsecured Credit Limit provided to a Non-Rated Organization (or Guarantor) cannot exceed 0.5% of the Organization's Tangible Net Worth ("TNW").

6

### Credit Policy - Unsecured Credit Limits for Non-Rated Companies Con't



- A Non-Rated Organization (or a Guarantor) may apply for an Unsecured Credit Limit based on a Proxy Credit Rating to be determined by the AESO.
- Requirements from the non-rated organization include:
  - Annual Audited Financial Statements, and
  - Quarterly Financial Statements

7

### Credit Policy - Types of Security Accepted by the AESO



- Letter of Credit
- Cash Collateral
- Guarantee
- Asset Securitization

8