Background - AESO Credit Risk

- Credit Risk is that a debtor is not able to honour its obligations resulting in a default by the debtor.
  - 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).
  - Under the Transmission Tariff, credit risk is the risk that a customer will fail to pay for services it has received (receivable risk).

- The AESO manages credit risk for its participants/customers in accordance with the ISO rules and the Transmission Tariff.
  - The AESO is not subject to credit losses as a result of any defaults as losses flow through to participants/customers.
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

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)
# 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:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Unsecured Credit Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>$ 25,000,000</td>
</tr>
<tr>
<td>AA</td>
<td>20,000,000</td>
</tr>
<tr>
<td>A</td>
<td>15,000,000</td>
</tr>
<tr>
<td>BBB</td>
<td>10,000,000</td>
</tr>
<tr>
<td>&lt;BBB</td>
<td>0</td>
</tr>
</tbody>
</table>

# 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:

<table>
<thead>
<tr>
<th>Proxy Credit Rating</th>
<th>Unsecured Credit Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>$ 10,000,000</td>
</tr>
<tr>
<td>AA</td>
<td>5,000,000</td>
</tr>
<tr>
<td>A</td>
<td>2,500,000</td>
</tr>
<tr>
<td>BBB</td>
<td>1,250,000</td>
</tr>
<tr>
<td>&lt;BBB</td>
<td>0</td>
</tr>
</tbody>
</table>

- 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").
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

Credit Policy - Types of Security Accepted by the AESO

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