Creditworthiness Procedures

I. Overview

This provision is applicable to any Transmission Customer taking transmission or interconnection service (referred to as “Service” or “Services”) under ISO New England Inc., FERC Electric Tariff No. 3, Section II—Open Access Transmission Tariff Schedule 21-VTransco (the “Tariff”). The creditworthiness of each Transmission Customer must be established before receiving Service from VTransco. A credit review shall be conducted for each Transmission Customer not less than annually or upon reasonable request by the Transmission Customer. VTransco shall make this credit review in accordance with procedures based on specific quantitative and qualitative criteria to determine the level of secured and unsecured credit required from the Transmission Customer. A summary of VTransco’s Creditworthiness Requirements are described in this Attachment L, and posted on its website at http://www.vermonttransco.com.

Upon receipt of a customer’s information, VTransco will review it for completeness and will notify the customer if additional information is required. Upon completion of an evaluation of a customer under this Policy, VTransco will forward a written evaluation if the customer is required to provide Financial Assurance.

Financial Information:

A) Transmission Customers requesting Service may be required to submit, if available, the following information:

1) All current credit rating reports from commercially accepted credit rating agencies including Standard and Poor’s, Moody’s Investors Service, and Fitch Ratings, and

2) Audited financial statements by a registered independent auditor for the two most recent years, or the period of its existence, if shorter than two years.

III. Quantitative and Qualitative Standards for Creditworthiness Determination:
A) Transmission Customers, rated and un-rated, will be required to meet specific quantiative creditworthiness requirements, as detailed below:

1) To qualify for unsecured credit, the Transmission Customer must meet at least one of the following criteria:

   (i) the Transmission Customer must not be in default of any payment obligation under the Tariff; and

   (ii) if rated, the Transmission Customer must meet one of the following criteria:

       (a) the Transmission Customer has been in business at least one year and has a senior secured credit rating of at least Baa1 (Moody’s) or BBB+ (Standard & Poors); or

       (b) The Transmission Customer’s parent company meets the criteria set out in (a) above, and the parent company provides a written guarantee that the parent company will be unconditionally responsible for all financial obligations associated with the Transmission Customer’s receipt of Service.

   (iii) if unrated or if rated below the BBB+/Baa1, as stated in (ii), the Transmission Customer must meet all of the following for the last 4 quarters, or the last 2 years if quarterly information is not available:

       (a) A Current Ratio of at least 2.0 times (current assets divided by all current liabilities);

       (b) A Total Capitalization Ratio of less than 55% debt, defined as total debt (including all capitalized leases and all short-term borrowings) divided by the sum of total shareholders’ equity plus total debt;
(c) EBITDA-to-Fixed Charge Ratio of at least 3.0 times, defined as earnings before interest, taxes, depreciation and amortization divided by fixed charges (interest on debt as defined in Total Capitalization Ratio above plus preferred dividends on any outstanding preferred equity); and

(d) Unqualified audit opinions in audited financial statements provided; or

(e) The Transmission Customer’s parent company meets the criteria set out in (a) through (d) above, and the parent company provides a written guarantee that the parent company will be unconditionally responsible for all financial obligations associated with the Transmission Customer’s receipt of Service.

B) Qualitative Standards for Creditworthiness Determination:

In conjunction with the quantitative standards above, VTransco will consider qualitative standards when determining creditworthiness, such as:

1) Years in business: a company in business fewer than five years will be considered a greater risk.

2) Management’s experience in the industry: a management team with an average of less than five year’s experience will be considered a greater risk.

3) Market risk: consideration of pricing exposure, credit exposures, and operational exposures.

4) Litigation Risk: a pending legal action with potential monetary damages approaching 3% of gross revenues will be considered as significantly increasing company risk.
5) Regulatory Environment (State and Local): a company subject to significant exposure to regulatory decisions, such as key planning decisions, shall be considered as having increased risk.

6) Prior payment history with other Transmission Providers or other vendors: a company with an excellent payment history of greater than or equal to five years shall be considered a lesser risk.

IV. Financial Assurance:

A) If the Transmission Customer does not meet the Creditworthiness Requirements, then VT Transco may require the Transmission Customer to provide additional Financial Assurance by complying with one of the following:

1) for Service for one month or less, the Transmission Customer shall pay to VTransco or place in an escrow account that is accessible to VTransco the total charge for Service by the later of five business days prior to the commencement of Service or the time when it makes the request for Service; or

2) for Service of greater than one month, the Transmission Customer shall pay to VTransco or place in an escrow account that is accessible to VTransco the charge for each month’s Service not less than five business days prior to the beginning of the month. For Network Integration Transmission Service Customers, the advance payment for each month shall be based on a reasonable estimate by VTransco of the charge for that month.

3) not less than five days prior to the commencement of Service, the Transmission Customer shall provide an unconditional and irrevocable Letter of Credit (as defined below) from a financial institution reasonably acceptable to VTransco or an alternative form of security proposed by the Transmission Customer and acceptable to VTransco and consistent with commercial practices established by
the Uniform Commercial Code that is equal to the lesser of the total charge for Service or the charge for 90 days of service.

(i) “Letter of Credit” means one or more irrevocable, transferable standby letters of credit issued by a U.S. commercial bank or a U.S. branch of a foreign bank provided that such Transmission Customer is not an affiliate of such bank, and provided that such bank has an issuer and/or corporate credit rating of at least A2 from Moody’s or A from Standard and Poor’s or Fitch Ratings. In the event of different ratings from the rating agencies, the lowest rating shall apply.

(ii) Costs of a Letter of Credit shall be borne by the customer.

(iii) If the credit rating of the bank issuing the Letter of Credit falls below the specified rating, the customer shall notify VTransco in writing within five business days of such event and shall have two business days following written notice to provide other appropriate Financial Assurance.

V. Credit Levels:

A) Transmission Customers meeting the Creditworthiness Requirements in Section III will be extended unsecured credit equivalent to 3 months of transmission charges or, for interconnections, the credit equivalent of 3 months of the annual facilities charges and other ongoing charges.

B) Transmission Customers not meeting the Creditworthiness Requirements above in Sections III and IV may not receive unsecured credit from VTransco.

VI. Ongoing Financial Review:

Each Transmission Customer is required to submit to VTransco annually or when issued, as applicable:

A) Current rating agency report;

B) Audited financial statements from a registered independent auditor; and
VII. Contesting Creditworthiness Determination:

The Transmission Customer may contest VTransco’s determination of creditworthiness by submitting a written request for re-evaluation within 20 calendar days. Such request should provide information supporting the basis for a request to re-evaluate a Transmission Customer’s creditworthiness. VTransco will review and respond to the request within 20 calendar days.

VIII. Procedures for Changes in Credit Levels and Collateral Requirements:

VTransco shall issue reasonable advance notice of changes to the credit levels and/or collateral requirements. A Transmission Customer may request that VTransco provide an explanation of the reasons for the change by contacting VTransco at:

Chief Financial Officer
366 Pinnacle Ridge Rd.
Rutland, VT 05701

The specific procedures for changes in credit levels and collateral requirements are as follows:

A) General Notification process

1) VTransco shall provide written notification to ISO-NE and stakeholders of any filing described above, at least 30 days in advance of such filing.

2) Filing notifications shall include a detailed description of the filing, including a redlined document containing revised change(s) to the Creditworthiness Policy.

3) VTransco shall consult with interested stakeholders upon request.

4) Following Commission acceptance of such filing and upon the effective date, VTransco shall revise its Attachment L Creditworthiness Policy and an updated version of Schedule 21-VTransco shall be posted the ISO-NE website.

B) Transmission Customer Responsibility
When there is a change in requirements, it is the responsibility of the Customer to forward updated financial information to VTransco and indicate whether the change affects the customer’s ability to meet the requirements of the Creditworthiness Policy. In such cases where the customer’s status has changed, the Customer must take the steps necessary to comply with the revised requirements of the Creditworthiness Policy by the effective date of the change.

C) Notification for Active Customers

1) “Active Customers” are defined as any current Transmission Customer that has reserved Service within the last 3 months.

2) All Active Customers will be notified via either e-mail or U.S. mail that the above posting has been made and must follow the steps outlined in the procedure.

IX. Posting Requirements

A) Changes in Customer’s Financial Condition

Each customer must inform VTransco, in writing, within five (5) business days of any material change in its financial condition or the financial condition of a parent providing a guarantee. A material change in financial condition may include, but is not limited to, the following:

1) Change in ownership by way of a merger, acquisition, or substantial sale of assets;

2) A downgrade of long- or short-term debt rating by a major rating agency;

3) Being placed on a credit watch with negative implications by a major rating agency;

4) A bankruptcy filing;

5) A declaration of or acknowledgement of insolvency;

6) A report of a significant quarterly loss or decline in earnings;

7) The resignation of key officer(s);
8) The issuance of a regulatory order and/or the filing of a lawsuit that could materially adversely impact current or future financial results

B) Change in Creditworthiness Status:

A customer who has been extended unsecured credit under this policy must comply with the terms of Financial Assurance in item IV if one or more of the following conditions apply:

1) The customer no longer meets the applicable criteria for Creditworthiness in item III;

2) The customer exceeds the amount of unsecured credit extended by VTransco, in which case Financial Assurance equal to the amount of excess must be provided within 5 business days; or

3) The customer has missed two or more payments for any of the Services offered by VTransco in the last 12 months.

X. Suspension of Service:

VTransco may suspend service under this Schedule 21-VTransco to a Transmission Customer under the following circumstances;

A) If a Transmission Customer that qualifies for service as a result of providing a Letter of Credit or alternative form of security does not pay its bill within 20 days of receipt of the invoice as required by this Schedule 21-VTransco, and it has not complied with the billing dispute provisions of this Schedule 21-VTransco, VTransco may suspend service 30 days after notice to the Transmission Customer and the Commission that service will be suspended unless the Transmission Customer makes payment.

B) If a Transmission Customer that qualifies for service as a result of committing to prepay for service to or place the payment in an escrow account pursuant to Section IV A 1 or Section IV A 2 fails to prepay for service or place the amount in escrow as provided in such section, VTransco may suspend service immediately upon notice to the Transmission Customer and the Commission.
C) If a Transmission Customer to whom the provisions of Sections III through XI applies fails to meet any applicable requirements, VTransco may suspend service immediately upon notice to the Transmission Customer and the Commission. The suspension of service shall continue only for as long as the circumstances that entitle VTransco to suspend service continue. A Transmission Customer is not obligated to pay for Transmission Service that is not provided as a result of a suspension of service.