

Electric Reliability Council of Texas, Inc.

Creditworthiness Standards

Referenced in Section 16.2.5 of the Protocols
Referenced in Section 16.11 of the Nodal Protocols
ERCOT Board Approval Date: 10/18/2011

Creditworthiness Standards for Cooperative and Municipal Systems

IF YOUR ENTITY HAS	<u>AND</u>	<u>AND</u>	<u>AND</u>	<u>THEN</u>
Minimum Equity (Patronage Capital)	Minimum Times Interest Earnings Ratio (TIER)	Minimum Debt Service Coverage (DSC)	Minimum Equity to Assets	Maximum unsecured line as a percentage of Unencumbered Assets
\$25,000,000	1.05	1.00	0.15	0.00% to 5.00%

* Unsecured line not to exceed \$ 50 million.

Unencumbered Assets is defined as Total Assets minus Total Secured Debt.

Note 1: Cooperatives shall apply these standards consistent with RUS [CFR Sec. 1717.656 (3)]. Municipals shall apply these standards annually.

Note 2: A Cooperative or Municipal must use "Rated Entity" standards for qualification if that entity is publicly rated by Fitch, S&P or Moody's and has greater than \$100 million in equity.

Note 3: The amount of unsecured line established within the range above is at the discretion of ERCOT if the above criteria are met.

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Creditworthiness Standards for Rated Entities

IF YOUR ENTITY HAS		AND	THEN		
Long-Term or Issuer Rating		Minimum Tangible Net Worth	Maximum unsecured line as a percentage of Tangible Net Worth		
<u>Fitch or S&P</u>	<u>Moody's</u>				
AAA	Aaa	\$ 100,000,000	0.00%	to	3.00%
AA+	Aa1	\$ 100,000,000	0.00%	to	2.95%
AA	Aa2	\$ 100,000,000	0.00%	to	2.85%
AA-	Aa3	\$ 100,000,000	0.00%	to	2.70%
A+	A1	\$ 100,000,000	0.00%	to	2.55%
A	A2	\$ 100,000,000	0.00%	to	2.35%
A-	A3	\$ 100,000,000	0.00%	to	2.10%
BBB+	Baa1	\$ 100,000,000	0.00%	to	1.80%
BBB	Baa2	\$ 100,000,000	0.00%	to	1.40%
BBB-	Baa3	\$ 100,000,000	0.00%	to	0.70%
Below BBB-	Below Baa3	Requires Security			

* Unsecured line not to exceed \$ 50 million

Tangible Net Worth is defined as Total Shareholder's Equity less Goodwill or other intangible assets.

Note 1: If a Market Participant's or Guarantor's debt is rated by more than one of the rating agencies and all ratings fall within rating categories which are functional equivalents, ERCOT shall assign unsecured credit or allow a guarantee for amounts within the range for that rating.

If a Market Participant's or Guarantor's debt is rated by more than one of the rating agencies and the ratings fall within different rating categories which are not functional equivalents, ERCOT shall assign unsecured credit or allow a guarantee for amounts as follows:

- If there are 3 ratings and 2 of the 3 are functional equivalents, within the range where 2 of the 3 ratings apply
- If there are 3 ratings and all 3 are different, within the range where the average of the 3 ratings apply (rounded down)
- If there are 2 ratings and the two are different, within the range of the lower of the two

Note 2: ERCOT has the discretion to reasonably request any entity to provide updated financial information and may adjust credit limits as required.

Note 3: The amount of unsecured line established within the range above is at the discretion of ERCOT if the above criteria are met.

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Creditworthiness Standards for Privately-Held Entities

IF YOUR ENTITY HAS	<u>AND</u>	<u>AND</u>	<u>AND</u>	<u>THEN</u>
Minimum Tangible Net Worth	Minimum Current Ratio	Maximum Debt to Total Capitalization Ratio	Minimum EBITDA to Interest and CMLTD	Maximum unsecured line as a percentage of Tangible Net Worth
100,000,000	1.0	0.60	2.0	0.00% to 1.80%

*Unsecured line not to exceed \$ 50 million

Tangible Net Worth is defined as Total Shareholders' Equity less Goodwill or other intangible assets.

Debt to Total Capitalization Ratio is defined as Long-Term Debt (including all current borrowings) divided by Total Shareholders' Equity plus Long-Term Debt.

Note 1: An unsecured limit will be set for privately-held entities which do not have a long-term rating based on the above criteria, subject to the entity providing ERCOT with the most recent audited financial statements, and subsequent quarterly unaudited interim financial statements.

Note 2: ERCOT has the discretion to reasonably request any entity to provide updated financial information and may adjust credit limits as required.

Note 3: The amount of unsecured line established within the range above is at the discretion of ERCOT if the above criteria are met.

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Entities not meeting the requirements established by the Protocols must provide one (or a combination) of the following forms of financial security for the benefit of ERCOT, as defined in the Protocols. Acceptance of financial security is subject to the review and approval of ERCOT.

1. **Cash Deposit** - standard form n/a
2. **Letter of Credit**
 - a. Must be issued by a bank with a minimum rating of A- with Fitch or S&P or A3 with Moody's
 - b. Must be issued on the Standard Form document approved by the Board of Directors
3. **Corporate Guarantee**
 - a. Guarantor must meet applicable credit standards as stated in the ERCOT Protocols
 - b. Guarantee must be on the Standard Form document approved by the Board of Directors
4. **Foreign Guarantee**
 - a. Guarantor must meet applicable credit standards as stated in the ERCOT Protocols, as well as the standards listed below
 - b. The country of domicile for the foreign guarantor must:
 - i. Maintain a sovereign rating greater than or equal to AA with Fitch or S&P or Aa2 with Moody's
 - ii. If the ratings are below those in (i) above, but greater than or equal to A with Fitch or S&P or A2 with Moody's, then the sovereign rating would qualify if the country had a ceiling rating of AAA with Fitch or S&P or Aaa with Moody's
 - iii. Must have reciprocity agreements with the U.S. regarding enforcement and collection of guarantee agreements
 - c. The foreign guarantor must:
 - i. Provide to ERCOT annual audited financial statements, prepared in accordance with U.S. generally accepted accounting principles or international accounting standards and quarterly unaudited financial statements
 - ii. If the foreign guarantor does not provide quarterly financial statements, the assigned credit limit will be reduced based on their credit rating by:
 1. A- (Fitch or S&P) or A3 (Moody's) and above: 20%
 2. BBB+ (Fitch or S&P) or Baa1 (Moody's) or below: 50%
 - iii. Provide a guarantee in the form of the ERCOT Board approved standard form guarantee Agreement for foreign Entities
 - iv. Reimburse ERCOT the cost of obtaining an opinion of counsel affirming that the guarantee agreement is enforceable in the U.S. and in the jurisdiction of the corporate guarantor's domicile
 - v. Maintain a registered Texas Registration Agent
5. **Surety Bond**
 - a. Must be issued by an insurance company with a minimum rating of A- with Fitch or S&P or A3 with Moody's
 - b. Subject to a limit of \$10 million per QSE per insurer and an overall limit of \$100 million per insurer for all ERCOT QSEs

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Revisions to the Creditworthiness Standards shall be reviewed by the Credit Work Group and the Finance and Audit Committee and approved by the ERCOT Board.