

September 10, 2015

The Honorable Kimberly D. Bose
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Re: *Southwest Power Pool, Inc.*, Docket No. ER15-____
Submission of Tariff Revisions to Specify Acceptance Policies for Audited
Financials

Dear Secretary Bose:

Pursuant to Section 205 of the Federal Power Act, 16 U.S.C. 824d ("FPA"), and Section 35.13 of the Federal Energy Regulatory Commission's ("Commission") Regulations, 18 C.F.R. § 35.13, Southwest Power Pool, Inc. ("SPP"), as authorized by its independent Board of Directors, submits revisions to the Credit Policy contained in Attachment X of its Open Access Transmission Tariff ("Tariff")¹ to explicitly state that SPP will accept audited financial statements prepared in either the United States Generally Accepted Accounting Principles ("US GAAP") or the International Financial Reporting Standards ("IFRS") to meet the minimum eligibility requirements for participation in the Integrated Marketplace. SPP requests that the Commission accept the proposed revisions for filing to become effective November 9, 2015.

I. BACKGROUND

A. SPP

SPP is a Commission-approved Regional Transmission Organization ("RTO").² It is an Arkansas non-profit corporation with its principal place of business in Little Rock, Arkansas. SPP has 92 Members, including 16 investor-owned utilities, 13 municipal systems, 18 generation and transmission cooperatives, 8

¹ Southwest Power Pool, Inc., Open Access Transmission Tariff, Sixth Revised Volume No. 1.

² *Sw. Power Pool, Inc.*, 109 FERC ¶ 61,009 (2004), *order on reh'g*, 110 FERC ¶ 61,137 (2005).

state agencies, 13 independent power producers, 12 power marketers, 11 independent transmission companies, and 1 federal agency. As an RTO, SPP administers open access Transmission Service over approximately 48,930 miles of transmission lines covering portions of Arkansas, Kansas, Louisiana, Missouri, Nebraska, New Mexico, Oklahoma, and Texas, across the facilities of SPP's Transmission Owners,³ and administers the Integrated Marketplace, a centralized day ahead and real-time energy and operating reserve market with locational marginal pricing and market-based congestion management.⁴

B. Stakeholder Approval

The proposed revisions were reviewed and unanimously approved⁵ through the SPP stakeholder process, including: (1) a meeting of the Credit Practices Working Group ("CPWG")⁶ on February 19, 2015; (2) a meeting of the Finance Committee⁷ on April 2, 2015; (3) a meeting of the Market Working Group ("MWG")⁸ on April

³ See *Sw. Power Pool, Inc.*, 89 FERC ¶ 61,084 (1999); *Sw. Power Pool, Inc.*, 86 FERC ¶ 61,090 (1999); *Sw. Power Pool, Inc.*, 82 FERC ¶ 61,267, *order on reh'g*, 85 FERC ¶ 61,031 (1998).

⁴ *Sw. Power Pool, Inc.*, 146 FERC ¶ 61,130 (2014) (order approving the start-up and operation of the Integrated Marketplace effective March 1, 2014). All capitalized terms not otherwise defined in this filing shall have the definitions assigned by the Tariff.

⁵ All groups identified in this filing as part of the SPP stakeholder process to approve the Tariff revisions being proposed herein indicated a unanimous vote in the affirmative. The SPP Board of Directors indicates only a pass/fail vote.

⁶ See CPWG Minutes dated February 19, 2015 at Agenda Item 3 posted at: <http://www.spp.org/publications/CPWG%20Minutes%20021915.pdf>. The CPWG is responsible for developing and recommending courses of action to address credit risk issues resulting from administration of the SPP Tariff and operation of the SPP business.

⁷ See Finance Committee Minutes dated April 2, 2015 at page 3 posted at: <http://www.spp.org/publications/Finance%20Minutes%2020150402.pdf>. The Finance Committee is responsible for overseeing all aspects of SPP's financial operations, insuring appropriate controls, policies and procedures are documented and adhered to allowing SPP to report accurate financial reports, access external capital as required, while not exposing the company or its membership to undue risks.

⁸ See MWG Minutes No. 241 at Agenda Item 26 posted at: <http://www.spp.org/publications/MWG%20Minutes%20and%20Attachments%2020140421-22.pdf>. The MWG is responsible for the development and coordination of

21, 2015; (4) a meeting of the Regional Tariff Working Group ("RTWG")⁹ on June 26, 2015; and (5) the Markets and Operations Policy Committee on July 14, 2015.¹⁰ The revisions were approved for filing with the Commission at a meeting of the SPP Members Committee¹¹ and Board of Directors on July 28, 2015.¹² While SPP recognizes that stakeholder approval does not by itself cause a filing to be just and reasonable, SPP requests that the Commission extend appropriate deference to the wishes of SPP's stakeholders, consistent with Commission precedent.¹³

the changes necessary to support any SPP administered wholesale market(s), including energy, congestion management, and market monitoring, consistent with direction from the SPP Board of Directors.

⁹ See RTWG Minutes dated June 26, 2015 at Agenda Item 16 posted at: <http://www.spp.org/publications/RTWG%20Minutes%20and%20Attachments%20-%202015-06-25-26.pdf>. The RTWG is responsible for development, recommendation, overall implementation, and oversight of SPP's Tariff. The RTWG also advises SPP staff on regulatory and implementation issues not specifically covered by the Tariff or issues where there may be conflicts or differing interpretations of the Tariff.

¹⁰ See MOPC Minutes dated July 14-15, 2015 at Agenda Item 5 posted at: <http://www.spp.org/publications/MOPC%20Minutes%20and%20Attachments%2020150714-15.pdf> (approved as part of the Consent Agenda). The MOPC consists of a representative officer or employee from each SPP Member and reports to the SPP Board of Directors. Its responsibilities include recommending modifications to the SPP Tariff. See Southwest Power Pool, Inc., Bylaws, First Revised Volume No. 4 ("Bylaws") § 6.1.

¹¹ The Members Committee currently consists of up to 24 representatives of the Transmission Owning Member and Transmission Using Member sectors of SPP's Membership. This committee provides input to and assists the SPP Board of Directors with the management and direction of the general business of SPP. See Bylaws § 5.1.

¹² See Board of Directors/Members Committee Meeting Minutes No. 164 at Agenda Item 3 posted at: http://www.spp.org/publications/BOD-MC%20Minutes%2020150728_v2.pdf (approved as part of the Consent Agenda).

¹³ The Commission has previously recognized that provisions approved through RTO stakeholder processes are due deference. See *Sw. Power Pool, Inc.*, 127 FERC ¶ 61,283, at P 33 (2009) (noting that the Commission "accord[s] an appropriate degree of deference to RTO stakeholder processes"); *New Eng. Power Pool*, 105 FERC ¶ 61,300, at P 34 (2003) (Commission approval of transmission cost allocation proposal based upon an extensive and thorough stakeholder process); *Policy Statement Regarding Regional Transmission Groups*, 1991-1996 FERC Stats. & Regs., Preambles ¶ 30,976, at 30,872 (1993) (the Commission will afford the

II. PURPOSE AND JUSTIFICATION FOR PROPOSED TARIFF REVISIONS

Currently, SPP's Credit Policy, which is contained in Attachment X of the Tariff, does not specify which types of audited financial statements are acceptable to meet the minimum eligibility requirements for participation in the Integrated Marketplace. Prior to implementation of the Integrated Marketplace, SPP had not been asked to consider many prepared statements by foreign entities. Since the registration process began for the Integrated Marketplace, there have been approximately ten credit holders that have asked to use the IFRS; and SPP expects there could be more international entities that utilize the IFRS financial statements that are interested in becoming Market Participants, especially with the integration of the Integrated System¹⁴ joining the footprint on October 1, 2015.¹⁵

The proposed revisions to Attachment X specifically state that in order to meet the minimum criteria for market participation, SPP will accept either US GAAP or IFRS. SPP respectfully requests that the Commission find this to be a just and reasonable means whereby SPP can determine the credit worthiness of foreign entities wishing to transact in the Integrated Marketplace that may not utilize the US GAAP model for its financial statement reporting. The Tariff revisions result in additional clarification and transparency both for SPP staff and current/potential credit holders of what model of financial statement is acceptable under SPP's Credit Policy. Additionally, including the IFRS could also result in less collateral held for those Market Participants who use IFRS, namely foreign entities. Although the main beneficiaries of accepting the IFRS financial statements are foreign entities wishing to transact in the Integrated Marketplace (when compared to SPP's exclusive use of

appropriate degree of deference to the stakeholder approval process). The Commission's deference to RTO stakeholder processes has been upheld by the courts. *See Pub. Serv. Comm'n of Wis. v. FERC*, 545 F.3d 1058, 1062-63 (D.C. Cir. 2008) (noting the Commission often gives weight to RTO proposals that reflect the position of the majority of the RTO's stakeholders) (quoting *Am.Elec. Power Serv. Corp. v. Midwest Indep. Transmission Sys. Operator, Inc.*, 122 FERC ¶ 61,083, at P 172 (2008)).

¹⁴ The Integrated System consists of roughly 9,500 miles of high-voltage transmission lines that form the bulk electric transmission system across seven states in the Upper Great Plains region. The Integrated System parties include the Western Area Power Administration – Upper Great Plains Region, Basin Electric Power Cooperative, and Heartland Consumers Power District.

¹⁵ *See generally* Docket Nos. ER14-2850 and ER14-2851. In November 2014, the Commission approved the integration of the Integrated System Parties into SPP. *Sw. Power Pool, Inc.*, 149 FERC ¶ 61,113 (2014).

US GAAP), SPP stakeholders and staff agree that this is a minimal risk overall to the current exposure calculations and does not adversely raise market-based credit risk. Moreover, acceptance of the US GAAP or IFRS for a foreign guarantor would be consistent with treatment afforded foreign guarantors by other RTOs/Independent System Operators (“ISOs”). For example, the Midcontinent Independent System Operator, Inc. (“MISO”) currently accepts both the US GAAP and IFRS.¹⁶ Also, PJM Interconnection, L.L.C. (“PJM”) requires that “A Foreign Guarantor...must provide financials in GAAP format or other format acceptable to PJMSettlement[.]”¹⁷

For these reasons SPP respectfully requests the Commission to accept SPP’s proposal to modify to Tariff to specify that SPP will accept financial statements modeled either after the US GAAP or the IFRS.

III. DESCRIPTION OF TARIFF REVISIONS

In order to specify that SPP will accept either the US GAAP or IFRS modeled financial statements to determine a Market Participant’s credit worthiness, SPP respectfully proposes to add the following language to Section 3.1.1.8.1 (Minimum Eligibility Requirements) of Attachment X of the Tariff:

“For purposes of meeting the minimum criteria for market participation under this Credit Policy, SPP shall accept annual audited Financial Statements prepared according to either United States Generally Accepted Accounting Principles (US GAAP) or International Financial Reporting Standards (IFRS).”

The proposed revision clarifies that SPP will now accept these two types of financial statements as part of a Market Participant’s eligibility requirements. As stated previously, SPP’s proposal is consistent with the practice of other RTOs and ISOs.

As a matter of clean-up of Article 3 of Attachment X, in Section 3.1.1.6(b), SPP proposes to replace the misspelled “behald” with the word “behalf”. Also in Article 3, Section 3.1.1.9, the word “Participants” is repeated in error. Therefore,

¹⁶ See Midcontinent Independent System Operator, Inc., Open Access Transmission, Energy and Operating Reserve Markets Tariff at Attachment L Section VI.A.2.b.ii.

¹⁷ See PJM Interconnection, L.L.C., Open Access Transmission Tariff at Attachment Q, PJM Credit Policy, I(C)(1)(b)(vi). PJM’s process allows some flexibility to consider financials other than the US GAAP format, such as the IFRS, if acceptable to PJM.

SPP proposed to remove the second iteration of “Participants”. These two Tariff revisions are ministerial in nature and are non-substantive grammatical corrections.

For all these stated reasons, SPP requests that the Commission accept the revisions to the Credit Policy as in the public interest without modification.

IV. ADDITIONAL INFORMATION

A. Information Provided Per Commission Regulations¹⁸

1. Documents submitted with this filing:

In addition to this Transmittal Letter, Clean and Redlined Tariff revisions under the Sixth Revised Volume No. 1.

2. Effective date:

SPP requests that the Commission allow the proposed revisions to the Tariff to become effective November 9, 2015.

3. Service:

SPP has electronically served a copy of this filing on all its Members, Customers and Market Participants. A complete copy of this filing will be posted on the SPP web site, www.spp.org, and is also being served on all affected state commissions.

4. Requisite agreements:

Not applicable.

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¹⁸ Because the revisions to the Tariff submitted herein do not involve any changes in rates, the use of the abbreviated filing procedures as set forth in 18 C.F.R. § 35.13(a)(2)(iii) is appropriate.

B. Communications

Correspondence and communications with respect to this filing should be sent to, and SPP requests the Secretary to include on the official service list, the following:

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V. CONCLUSION

For all of the foregoing reasons, SPP respectfully requests that the Commission accept the Tariff revisions proposed herein as just and reasonable, to be effective November 9, 2015.

Respectfully submitted,

/s/ **Matthew Harward**

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ARTICLE THREE

Credit Assessment

3.1 Minimum Criteria for Market Participation and Initial Credit Assessment.

3.1.1 Credit Application and Credit Information. A Credit Customer must submit a completed and duly executed Credit Application. A completed Credit Application includes submission of the Credit Application form (Appendix "A"), all information required under Section 3.1.1, and additional information that SPP may request. The Credit Customer must submit the following information with its Credit Application.

3.1.1.1 Audited Financial Statements and Related Information. All annual Financial Statements submitted must be audited. Financial Statements are the following.

- a. If the Credit Customer is subject to SEC reporting requirements, Financial Statements are:
 - i. Annual Reports on Form 10-K for the three fiscal years most recently ended, together with any amendments thereto;
 - ii. Quarterly Reports on Form 10-Q for each completed fiscal quarter of the then current fiscal year, together with any amendments thereto; and
 - iii. Form 8-K reports, if any, filed after the most recent Form 10-K.
- b. If the Credit Customer is not subject to SEC reporting requirements, Financial Statements are:
 - i. For each of the three fiscal years most recently ended, the Report of Independent Accountants (for each of the three fiscal years most recently ended); and audited financial statements, including balance

- sheet, income statement, statement of cash flow, and statement of stockholder's equity;
- ii. For each completed fiscal quarter of the then current fiscal year; financial statements as described in (i) above. Unaudited quarterly financial statements are acceptable.
 - iii. Notes to financial statements; and
 - iv. Management's discussion and analysis, if any.
- c. The Credit Customer may submit Financial Statements by informing SPP, in writing, where the Financial Statements can be retrieved through the internet. Successful retrieval by SPP will satisfy the Financial Statements submission requirements of this Section. If SPP is not satisfied with the retrieval through the internet, it may require the Credit Customer to submit Financial Statements in hard copy form.
- d. In the event any parts of the Financial Statements required under this Section are inapplicable to the Credit Customer, SPP may specify alternate requirements. SPP may request additional Financial Statements and related information at its sole discretion.
- e. For Not-For-Profit Credit Customers, some of the above financial submittals may not be applicable, and alternate requirements may be specified by SPP.
- f. In the credit evaluation of Not-For-Profit Credit Customers, SPP may request additional information as part of the overall financial review process and will consider other relevant factors in determining financial strength and creditworthiness.

3.1.1.2

References. The Credit Customer must provide at least one bank reference and at least three references from entities that have significant commercial relationships with the Credit Customer.

3.1.1.3 Loss Contingencies. The Credit Customer must fully and accurately identify and describe each of the following, or state that there are no such matters applicable to the Credit Customer:

- a. known pending or, to the Credit Customer's knowledge, threatened, court actions, arbitration proceeding, investigations, commitments, claims, contingencies, or existing or potential liabilities that are or would be Material if determined adversely to the Credit Customer;
- b. ongoing investigations by the SEC, the FERC, or of any other governing, regulatory, or standards body that is Material or would be Material if determined adversely to the Credit Customer;
- c. prior bankruptcy declarations or petitions, voluntary or involuntary, by or against the Credit Customer, its predecessors, subsidiaries or Affiliates; and
- d. Material defalcations or fraud by or involving the Credit Customer, its predecessors, subsidiaries or Affiliates, or any of their respective assets.

3.1.1.4 Affiliates. The Credit Customer must identify all Affiliates that are Credit Customers.

3.1.1.5 Total Potential Exposure Information. The Credit Customer shall provide an estimate of its current or anticipated transaction activity for all services under the Tariff or otherwise over the succeeding twelve months, excluding Transmission Congestion Rights activity, sufficient to permit SPP to determine the Credit Customer's Total Potential Exposure.

3.1.1.6 Attestation Minimum Criteria for Market Participation and of Risk Management Capabilities. Each applying Market

Participant shall submit to SPP a notarized statement signed by an authorized officer in the form attached as “Appendix E” to this Attachment X, attesting that:

- a. The officer has signature authority to make the statement;
- b. Employees or agents transacting in markets and services provided pursuant to the Tariff on behalf of the applying Market Participant have received, or will receive, applicable training with regard to their participation under this Tariff as a condition of being authorized to transact on behalf of the Market Participant;
- c. The applying Market Participant will maintain current written risk management policies and procedures that address those risks that could materially affect the applying Market Participant’s ability to pay its SPP invoices when due;
- d. The applying Market Participant has available appropriate personnel resources, operating procedures, and technical abilities to promptly and effectively respond to SPP communications and directions related to, but not limited to, settlements, billing, credit requirements and other financial matters;
- e. The applying Market Participant will maintain the minimum capitalization or alternate capitalization requirements set forth in Section 3.1.1.8 of this Attachment X; and
- f. Certifying that the Market Participant meets the minimum criteria for market participation set forth in Section 3.1.1.8.

Such attestation shall be renewed and updated for each successive year of market participation, and shall be submitted to SPP no later than April 30 of each year.

The applying Market Participant shall be declined participation in all SPP markets if: (i) the risk management capabilities of the applying Market Participant are deemed insufficient by SPP for the type of service that will be undertaken, (ii) SPP determines that the applying Market Participant does not meet the minimum criteria for market participation, (iii) the attestation is deemed insufficient by SPP to determine the risk management capabilities of the applying Market Participant, or (iv) the attestation is deemed insufficient by SPP to determine whether the applying Market Participant meets the minimum criteria for market participation. An applying Market Participant will have two (2) Business Days from receipt of notice from SPP that its attestation was deemed insufficient to cure any deficiency identified by SPP prior to being declined participation in SPP markets.

3.1.1.7 Additional Information. At any time and from time to time, SPP may request such additional information as SPP determines is necessary and appropriate for the Credit Assessment and the Credit Customer shall timely provide such additional information. At any time, the Credit Customer may provide SPP with additional information that the Credit Customer considers relevant to the Credit Assessment.

3.1.1.8 Minimum Criteria for Market Participation.

3.1.1.8.1 Minimum Eligibility Requirements

In order to be eligible to transact in the Integrated Marketplace, each Market Participant must demonstrate to SPP that it qualifies as one of the following:

- a. An “appropriate person,” as defined under Section 4(c)(3)(A) through (J) of the Commodity Exchange Act (7 U.S.C. § 6(c)(3)(A) through (J)). A Market Participant may qualify as an “appropriate person” by providing: (i) an unlimited Corporate Guaranty in a form acceptable to SPP as described in Article 6 of this Attachment X and Appendix D of this Attachment X from an entity that demonstrates to SPP that it has in excess of \$1 million of total net worth or in excess of \$5 million of total assets per Market Participant for which that guarantor has issued an unlimited Corporate Guaranty, or (ii) a letter of credit in excess of \$5 million in a form acceptable to SPP that the Market Participant acknowledges is separate from, and cannot be applied to meet, its credit requirements under this Attachment X.
- b. An “eligible contract participant,” as defined in Section 1a(18) of the Commodity Exchange Act (7 U.S.C. § 1a(18)) and in the Commodity Futures Trading Commission’s regulation 1.3(m) (17 C.F.R. § 1.3(m))

- c. A person or entity that is in the business of: (1) generating, transmitting or distributing electric energy or (2) providing electric services that are necessary to support the reliable operation of the transmission system (78 Fed. Reg. 19880, page 19914).

For purposes of meeting the minimum criteria for market participation under this Credit Policy, SPP shall accept annual audited Financial Statements prepared according to either United States Generally Accepted Accounting Principles (US GAAP) or International Financial Reporting Standards (IFRS).

If a Market Participant is unable to meet the minimum eligibility requirements for market participation set forth in this Section 3.1.1.8.1, the Market Participant shall immediately notify SPP and immediately cease conducting transactions in the Integrated Marketplace. When SPP receives such notification from a Market Participant or determines that a Market Participant does not meet the minimum eligibility requirements set forth in this Section 3.1.1.8.1, SPP shall immediately terminate that Market Participant's transaction rights in the Integrated Marketplace.

In the event that a Market Participant is no longer able to demonstrate that it meets the minimum eligibility requirements set forth in this Section 3.1.1.8.1, and possesses, obtains, or has rights to possess or obtain any open or forward position in the Integrated Marketplace, SPP may take any action it deems necessary with respect to such open or forward positions. Such action may include but is not limited to, liquidation, transfer, assignment, or sale. The Market Participant will be entitled to any positive market value of such positions, net of any obligations due to SPP, notwithstanding its ineligibility to participate in the Integrated Marketplace. Nothing in this paragraph shall restrict SPP's ability to enforce SPP's rights to pursue and collect any amounts Market Participants may owe to SPP.

3.1.1.8.2 **Minimum Capitalization Requirements**

Each Market Participant that meets the minimum eligibility requirements in Section 3.1.1.8.1 shall also, at a minimum, possess:

- a. A Tangible Net Worth of One Million Dollars (\$1,000,000) as shown in the most recent fiscal year end audited financial statements as described in Section 3.1.1.1; or
- b. Ten Million Dollars (\$10,000,000) in assets as shown in the most recent fiscal year end audited financial statement as described in Section 3.1.1.1; or
- c. A Credit Rating of, or equivalent to, BBB-; or
- d. A Guaranty as described in Article Six of this Attachment X, and approved by SPP, through which the audited financials or Credit Rating of the Guarantor is used to meet at least one of the alternatives specified in (a) through (c) above; or
- e. In the event a Market Participant cannot meet at least one of the alternatives specified in (a) through (d) above, the Market Participant shall, at a minimum, deposit with SPP Two Hundred Thousand Dollars (\$200,000) in Financial Security to be segregated and unavailable to secure any market or transmission activity. Pursuant to election of this alternative, if the anticipated activity at time of application or actual market activity as determined in Article Five, of the Market Participant exceeds One Hundred Thousand Dollars (\$100,000) in Market Exposure, the Market Participant shall provide SPP twice the amount of Financial Security that would otherwise be required of the Market Participant pursuant to Section 4.4.

If the applying Market Participant is unable to meet the minimum capitalization requirements in this Section 3.1.1.8.2, the applying Market Participant shall be declined participation in all SPP markets.

Failure at any time of a Market Participant to continue to satisfy these minimum capitalization requirements in this Section 3.1.1.8.2 shall be deemed a Material Adverse Change pursuant to Section 3.2.7.

3.1.1.9 Minimum Criteria and Risk Management Verification Process

Through a periodic compliance verification process, SPP shall review and verify Market Participants' eligibility for market participation based upon SPP's minimum criteria for market participation, risk management policies, practices, and procedures pertaining to the Market Participants' activities in the SPP markets. Such review shall include verification that:

1. The risk management framework is documented in a risk policy addressing market, credit, and liquidity risks;
2. The Market Participant maintains an organizational structure with clearly defined roles and responsibilities that clearly segregates trading and risk management functions;
3. There is clarity of authority specifying the types of transactions into which traders are allowed to enter;
4. The Market Participant has requirements that traders have adequate training or expertise relative to their authority in the systems and SPP markets in which they transact;
5. As appropriate, risk limits are in place to control risk exposures;
6. Reporting is in place to ensure that risks and exceptions are adequately communicated throughout the organization;
7. Processes are in place for qualified independent review of trading activities; and
8. As appropriate, there is periodic valuation or mark-to-market of risk positions.
9. The Market Participant meets the minimum participation criteria, including capitalization requirements, set forth in Section 3.1.1.8.

SPP may select Market Participants for review on a random basis and/or based on identified risk factors such as, but not limited to, the SPP markets in which the Market Participant is transacting, the magnitude of the Market Participant's transactions, or the volume of the Market Participant's open positions. Those Market Participants notified by SPP that they have been selected for review shall, upon fourteen (14) calendar days notice, provide a copy of their current governing risk control policies, procedures, and controls applicable to their SPP market activities and shall also provide such further information or documentation pertaining to the Market Participants' activities in the SPP markets as SPP may reasonably request. Market Participants selected for risk management verification through a random process and satisfactorily verified by SPP shall be excluded from such verification process based on a random selection for the subsequent two years. SPP shall annually randomly select for review no more than twenty percent (20%) of the Market Participants.

Each selected Market Participant's continued eligibility to participate in the SPP markets is conditioned upon SPP notifying the Market Participant of successful completion of SPP's verification, provided, however, that if SPP notifies the Market

Participant in writing that it could not successfully complete the verification process, SPP shall allow such Market Participant fourteen (14) calendar days to provide sufficient evidence for verification prior to declaring the Market Participant as ineligible to continue to participate in SPP's markets, which declaration shall be in writing with an explanation of why SPP could not complete the verification. If, prior to the expiration of such fourteen (14) calendar days, the Market Participant demonstrates to SPP that it has filed with the Federal Energy Regulatory Commission an appeal of SPP's risk management verification determination, then the Market Participant shall retain its transaction rights, pending the Commission's determination on the Market Participant's appeal. SPP may retain outside expertise to perform the review and verification function described in this section. SPP and any third party it may retain will treat as confidential the documentation provided by a Market Participant under this section, consistent with the applicable provisions of the Tariff.

3.1.2 Rating Agency Information. In the initial Credit Assessment and in subsequent and ongoing assessments, SPP will consider Rating Agency reports applicable to the Credit Customer. This review will be focused on the Credit Customer's unsecured, senior long-term debt ratings. If these ratings are not available, SPP will consider issuer ratings.

3.1.3 Power Supply Agent Disclosure Requirements. A Not-For-Profit Credit Customer may request that its suggested Unsecured Credit Allowance calculation reflect as equity the outstanding balance of revenue bonds issued by the Not-For-Profit Credit Customer when such revenue bonds are issued solely in support of the Not-For-Profit Credit Customer's role as power supply agent for not-for-profit electric distribution utilities. In support of such request, the Not-For-Profit Credit Customer must provide SPP with the following information:

- (a) Management representation letter stating:
 - (i) Principal amount, in dollars, of revenue bonds outstanding;
 - (ii) Prior to default and after default, debt service on the revenue bonds is payable only after operating expenses are paid;
 - (iii) Amounts payable to SPP under this Tariff are operating expenses for purposes of the revenue bonds; and

- (iv) The trustee for the revenue bonds has a valid and binding security interest in the revenues or net revenues from the power supply contracts to secure payment of the revenue bonds and the Not-For-Profit Customer has not granted any lien thereon prior to the lien of the bond resolution.
- (b) Opinion of counsel stating:
- (i) The power supply contracts are binding obligations of the Not-For-Profit Credit Customer enforceable in accordance with their terms;
 - (ii) The trustee of the revenue bonds has a valid and binding security interest in, or assignment and pledge of, the revenues or net revenues from the power supply contracts to secure payment of the revenue bonds;
 - (iii) The resolution or other document creating the security interest or pledge and providing for the priority of payment is enforceable in accordance with its terms;
 - (iv) Prior to default and after default, debt service on the revenue bonds is payable only after operating expenses are paid; and
 - (v) All amounts payable to SPP arising from transactions under this Tariff are operating expenses for purposes of the revenue bonds.
- (c) All Rating Agency ratings on revenue bond(s).

The opinion of counsel referenced above shall be provided to SPP together with copies of the most recent written opinions of counsel, if any, for each member of the Not-For-Profit Credit Customer that relate to the enforceability of the power supply contract(s).

3.1.4 Guaranties. If the Credit Customer proposes a Guaranty to establish, contribute to, or maintain an Unsecured Credit Allowance, Credit Information required under Section 3.1.1 must be submitted with respect to both the Credit Customer and the proposed Guarantor.

3.2. Annual and Other Ongoing Credit Assessments.

- 3.2.1 Purpose of Annual and Other Ongoing Credit Assessments.** At least once annually, SPP will review and update its Credit Assessment for each Credit Customer. This will include a review of the Credit Customer's creditworthiness and consideration of revisions of the Credit Customer's (a) Unsecured Credit Allowance; (b) Financial Security requirements; and (c) Total Credit Limit. In its sole discretion, SPP may conduct additional reviews and updates, including reviews in response to new facts or occurrences that may bear upon the Credit Customer's creditworthiness. Unless otherwise stated, all annual information required under Section 3.2 shall be provided to SPP no later than 120 days after the end of the Credit Customer's fiscal year.
- 3.2.2 Procedures for Posting Additional Financial Security or Taking Other Corrective Measures.** In the event a Credit Customer experiences a Material Adverse Change, SPP may invoke its right to require the Credit Customer to post additional Financial Security, cease one or more transactions, or take other measures to restore confidence in the Credit Customer's ability to transact safely. In addition, based upon the annual or other Credit Assessment, SPP may, at any time, revise any (a) Unsecured Credit Allowance; (b) Financial Security requirements; and (c) Total Credit Limit, applicable to the Credit Customer. If SPP has upwardly revised the required amount of Financial Security, the Credit Customer will have two (2) Business Days from receipt of the notice from SPP to provide the required Financial Security, in an amount and form acceptable to SPP. Failure to provide additional required Financial Security shall be a Default under this Credit Policy and a default under the Tariff.
- 3.2.3 Rating Agency Information.** The Credit Customer will give notice to SPP of any changes to its Credit Ratings within five (5) Business Days of the announcement of the change.
- 3.2.4 Financial Statements.** On an annual basis, and except as otherwise stated with respect to quarterly reports, each Credit Customer must provide SPP with updated Financial Statements within ten (10) days after they become available, and in no event later than 120 days after the end of the Credit Customer's fiscal year. Quarterly reports must be provided quarterly, within ten (10) days after they become available. Financial Statements may be submitted in the manner provided under Section 3.1.1.1.
- 3.2.5 Power Supply Agent Disclosure Requirements.** A Not-For-Profit Credit Customer that initially qualified to have its suggested Unsecured Credit Allowance calculation reflect as equity the outstanding balance of revenue bonds issued by the Not-For-Profit Credit Customer, and is requesting to continue to

have its suggested Unsecured Credit Allowance calculation reflect as equity the outstanding balance of revenue bonds issued by the Not-For-Profit Credit Customer when such revenue bonds are issued solely in support of the Not-For-Profit Credit Customer's role as power supply agent for not-for-profit electric distribution utilities, must at all times comply with the following information reporting requirements:

- (a) The Not-For-Profit Credit Customer must advise SPP of the principal amount of revenue bonds outstanding on an annual basis;
- (b) The Not-For-Profit Credit Customer must advise SPP within ten (10) days if the principal amount of the revenue bonds outstanding is reduced by more than twenty percent (20%) from the amount last certified by the Not-For-Profit Credit Customer;
- (c) The Not-For-Profit Credit Customer must advise SPP immediately if the security interest of the trustee is released or the Not-For-Profit Credit Customer grants any lien prior to the lien of the bond resolution; and
- (d) The Not-For-Profit Credit Customer must advise SPP within ten (10) days of any downgrade of any of the Not-For-Profit Credit Customer's revenue bond ratings issued by a Rating Agency.

3.2.6 Other Credit Information. On an annual basis, each Credit Customer must provide SPP with the information specified in Section 3.1.1.3 (Loss Contingencies), 3.1.1.4 (Affiliates), 3.1.1.6 (Additional Information).

3.2.7 Material Adverse Changes. Each Credit Customer must give SPP notice of any Material Adverse Change in its financial condition (and, as applicable, the financial condition of its Guarantor) within two (2) Business Days of the occurrence of the Material Adverse Change. If a Credit Customer or Guarantor files a Form 10-K, Form 10-Q, or Form 8-K with the SEC, notice of such filing, timely delivered to SPP in accordance herewith, will suffice on the condition that such notice states that the filing addresses a Material Adverse Change.

A Material Adverse Change in financial condition includes any Material change in operations or financial condition that a reasonable examiner of creditworthiness

would deem material to decisions concerning the extension of credit, including but not limited to, any of the following (“Material Adverse Change”):

- a. A downgrade of any debt rating or issuer rating, or change in the outlook of any Credit Rating, including debt rating or issuer rating;
- b. Any placement on a credit watch with negative implication by a Rating Agency;
- c. The filing of a lawsuit or initiation of an arbitration, investigation or other proceeding (including regulatory proceeding) which if decided adversely could have a Material effect on any current or future financial results or financial condition;
- d. The merger, acquisition or any other form of business combination involving the credit customer.
- e. Any adverse changes in financial condition which, individually, or in the aggregate, are Material;
- f. Any adverse changes, events or occurrences which, individually or in the aggregate, could affect the ability of the Credit Customer to pay its debts as they become due or could have a Material adverse effect on any current or future financial results or financial condition;
- g. Discovery or disclosure of conflict of interest issues;
- h. Resignation or removal of a key officer or director;
- i. Any action requiring the filing of a Form 8-K;
- j. Any report of a quarterly or annual loss or a decline in earnings of ten (10) percent or greater compared to the prior period;
- k. Any restatement of prior financial statements; and
- l. Failure of a Market Participant to continue to satisfy the minimum capitalization criteria for market participation specified in 3.1.1.8.2.

3.2.7.1 Notification of a Material Adverse Change by SPP to a Credit Customer. Upon the occurrence of a Material Adverse Change and prior to SPP compelling a Credit Customer to post additional Financial Security, cease one or more transactions, or take other measures to restore confidence in the Credit Customer’s ability to transact business safely as a result of any Material Adverse Change, SPP shall provide, when feasible, reasonable advance notice in writing, by fax, electronic mail, hand

delivery, reputable overnight courier, or first-class mail, to the Credit Contact designated by the Credit Customer pursuant to Section 9.1 of this Credit Policy. If delivery to the Credit Contact fails, then SPP may effect delivery to any officer, executive, or manager of the Credit Customer. Such notice shall identify the reasoning behind the invocation of the Material Adverse Change clause and be signed by an authorized representative of SPP.

- 3.2.8 Affiliates.** Each Credit Customer must identify all Affiliates that are Credit Customers.
- 3.2.9 Additional Information.** At any time and from time to time, SPP may request such additional information as SPP determines is necessary and appropriate for the Credit Assessment and the Credit Customer shall timely provide such additional information. At any time, the Credit Customer may provide SPP with additional information that the Credit Customer considers relevant to the Credit Assessment.
- 3.2.10 Guaranties.** If the Credit Customer relies upon a Guaranty to maintain an Unsecured Credit Allowance, Credit Information required under Section 3.2 must be submitted with respect to both the Credit Customer and the Guarantor.
- 3.2.11 Alternate Requirements.** For Not-For-Profit Credit Customers, some of the above financial submittals may not be applicable, and alternate requirements may be specified by SPP.
- 3.2.12** In the credit evaluation of Not-For-Profit Credit Customers, SPP may request additional information as part of the overall financial review process and will consider other relevant factors in determining financial strength and creditworthiness.
- 3.3 SPP Rights to Use Other Information.** Notwithstanding any provision of this Credit Policy, SPP shall have the right to utilize, in a Credit Assessment, any information of which it is aware concerning the Credit Customer.
- 3.4 Positive Material Change in Financial Condition of the Credit Customer.** If there is a positive Material change in the financial condition of the Credit Customer, a significant reduction in the Total Potential Exposure of the Credit Customer, or any other change

that the Credit Customer believes may warrant an increase in the Credit Customer's Unsecured Credit Allowance and/or a reduction in the Financial Security required of the Credit Customer, the Credit Customer may make a written request to SPP to update the Credit Assessment and include or refer to any supporting information. SPP may request any Credit Information described in Section 3.2 to evaluate the merit of the Credit Customer's request. SPP anticipates that it will respond to the Credit Customer's request within a reasonable period of time, generally within ten (10) Business Days after receiving all information that is required for an ongoing review as required in this Article.

ARTICLE THREE

Credit Assessment

3.1 Minimum Criteria for Market Participation and Initial Credit Assessment.

3.1.1 Credit Application and Credit Information. A Credit Customer must submit a completed and duly executed Credit Application. A completed Credit Application includes submission of the Credit Application form (Appendix "A"), all information required under Section 3.1.1, and additional information that SPP may request. The Credit Customer must submit the following information with its Credit Application.

3.1.1.1 Audited Financial Statements and Related Information. All annual Financial Statements submitted must be audited. Financial Statements are the following.

- a. If the Credit Customer is subject to SEC reporting requirements, Financial Statements are:
 - i. Annual Reports on Form 10-K for the three fiscal years most recently ended, together with any amendments thereto;
 - ii. Quarterly Reports on Form 10-Q for each completed fiscal quarter of the then current fiscal year, together with any amendments thereto; and
 - iii. Form 8-K reports, if any, filed after the most recent Form 10-K.
- b. If the Credit Customer is not subject to SEC reporting requirements, Financial Statements are:
 - i. For each of the three fiscal years most recently ended, the Report of Independent Accountants (for each of the three fiscal years most recently ended); and audited financial statements, including balance

- sheet, income statement, statement of cash flow, and statement of stockholder's equity;
- ii. For each completed fiscal quarter of the then current fiscal year; financial statements as described in (i) above. Unaudited quarterly financial statements are acceptable.
 - iii. Notes to financial statements; and
 - iv. Management's discussion and analysis, if any.
- c. The Credit Customer may submit Financial Statements by informing SPP, in writing, where the Financial Statements can be retrieved through the internet. Successful retrieval by SPP will satisfy the Financial Statements submission requirements of this Section. If SPP is not satisfied with the retrieval through the internet, it may require the Credit Customer to submit Financial Statements in hard copy form.
- d. In the event any parts of the Financial Statements required under this Section are inapplicable to the Credit Customer, SPP may specify alternate requirements. SPP may request additional Financial Statements and related information at its sole discretion.
- e. For Not-For-Profit Credit Customers, some of the above financial submittals may not be applicable, and alternate requirements may be specified by SPP.
- f. In the credit evaluation of Not-For-Profit Credit Customers, SPP may request additional information as part of the overall financial review process and will consider other relevant factors in determining financial strength and creditworthiness.

3.1.1.2 References. The Credit Customer must provide at least one bank reference and at least three references from entities that have significant commercial relationships with the Credit Customer.

3.1.1.3 Loss Contingencies. The Credit Customer must fully and accurately identify and describe each of the following, or state that there are no such matters applicable to the Credit Customer:

- a. known pending or, to the Credit Customer's knowledge, threatened, court actions, arbitration proceeding, investigations, commitments, claims, contingencies, or existing or potential liabilities that are or would be Material if determined adversely to the Credit Customer;
- b. ongoing investigations by the SEC, the FERC, or of any other governing, regulatory, or standards body that is Material or would be Material if determined adversely to the Credit Customer;
- c. prior bankruptcy declarations or petitions, voluntary or involuntary, by or against the Credit Customer, its predecessors, subsidiaries or Affiliates; and
- d. Material defalcations or fraud by or involving the Credit Customer, its predecessors, subsidiaries or Affiliates, or any of their respective assets.

3.1.1.4 Affiliates. The Credit Customer must identify all Affiliates that are Credit Customers.

3.1.1.5 Total Potential Exposure Information. The Credit Customer shall provide an estimate of its current or anticipated transaction activity for all services under the Tariff or otherwise over the succeeding twelve months, excluding Transmission Congestion Rights activity, sufficient to permit SPP to determine the Credit Customer's Total Potential Exposure.

3.1.1.6 Attestation Minimum Criteria for Market Participation and of Risk Management Capabilities. Each applying Market

Participant shall submit to SPP a notarized statement signed by an authorized officer in the form attached as “Appendix E” to this Attachment X, attesting that:

- a. The officer has signature authority to make the statement;
- b. Employees or agents transacting in markets and services provided pursuant to the Tariff on behalf of the applying Market Participant have received, or will receive, applicable training with regard to their participation under this Tariff as a condition of being authorized to transact on ~~behal~~behalf of the Market Participant;
- c. The applying Market Participant will maintain current written risk management policies and procedures that address those risks that could materially affect the applying Market Participant’s ability to pay its SPP invoices when due;
- d. The applying Market Participant has available appropriate personnel resources, operating procedures, and technical abilities to promptly and effectively respond to SPP communications and directions related to, but not limited to, settlements, billing, credit requirements and other financial matters;
- e. The applying Market Participant will maintain the minimum capitalization or alternate capitalization requirements set forth in Section 3.1.1.8 of this Attachment X; and
- f. Certifying that the Market Participant meets the minimum criteria for market participation set forth in Section 3.1.1.8.

Such attestation shall be renewed and updated for each successive year of market participation, and shall be submitted to SPP no later than April 30 of each year.

The applying Market Participant shall be declined participation in all SPP markets if: (i) the risk management capabilities of the applying Market Participant are deemed insufficient by SPP for the type of service that will be undertaken, (ii) SPP determines that the applying Market Participant does not meet the minimum criteria for market participation, (iii) the attestation is deemed insufficient by SPP to determine the risk management capabilities of the applying Market Participant, or (iv) the attestation is deemed insufficient by SPP to determine whether the applying Market Participant meets the minimum criteria for market participation. An applying Market Participant will have two (2) Business Days from receipt of notice from SPP that its attestation was deemed insufficient to cure any deficiency identified by SPP prior to being declined participation in SPP markets.

3.1.1.7 Additional Information. At any time and from time to time, SPP may request such additional information as SPP determines is necessary and appropriate for the Credit Assessment and the Credit Customer shall timely provide such additional information. At any time, the Credit Customer may provide SPP with additional information that the Credit Customer considers relevant to the Credit Assessment.

3.1.1.8 Minimum Criteria for Market Participation.

3.1.1.8.1 Minimum Eligibility Requirements

In order to be eligible to transact in the Integrated Marketplace, each Market Participant must demonstrate to SPP that it qualifies as one of the following:

- a. An “appropriate person,” as defined under Section 4(c)(3)(A) through (J) of the Commodity Exchange Act (7 U.S.C. § 6(c)(3)(A) through (J)). A Market Participant may qualify as an “appropriate person” by providing: (i) an unlimited Corporate Guaranty in a form acceptable to SPP as described in Article 6 of this Attachment X and Appendix D of this Attachment X from an entity that demonstrates to SPP that it has in excess of \$1 million of total net worth or in excess of \$5 million of total assets per Market Participant for which that guarantor has issued an unlimited Corporate Guaranty, or (ii) a letter of credit in excess of \$5 million in a form acceptable to SPP that the Market Participant acknowledges is separate from, and cannot be applied to meet, its credit requirements under this Attachment X.
- b. An “eligible contract participant,” as defined in Section 1a(18) of the Commodity Exchange Act (7 U.S.C. § 1a(18)) and in the Commodity Futures Trading Commission’s regulation 1.3(m) (17 C.F.R. § 1.3(m))

- c. A person or entity that is in the business of: (1) generating, transmitting or distributing electric energy or (2) providing electric services that are necessary to support the reliable operation of the transmission system (78 Fed. Reg. 19880, page 19914).

For purposes of meeting the minimum criteria for market participation under this Credit Policy, SPP shall accept annual audited Financial Statements prepared according to either United States Generally Accepted Accounting Principles (US GAAP) or International Financial Reporting Standards (IFRS).

If a Market Participant is unable to meet the minimum eligibility requirements for market participation set forth in this Section 3.1.1.8.1, the Market Participant shall immediately notify SPP and immediately cease conducting transactions in the Integrated Marketplace. When SPP receives such notification from a Market Participant or determines that a Market Participant does not meet the minimum eligibility requirements set forth in this Section 3.1.1.8.1, SPP shall immediately terminate that Market Participant's transaction rights in the Integrated Marketplace.

In the event that a Market Participant is no longer able to demonstrate that it meets the minimum eligibility requirements set forth in this Section 3.1.1.8.1, and possesses, obtains, or has rights to possess or obtain any open or forward position in the Integrated Marketplace, SPP may take any action it deems necessary with respect to such open or forward positions. Such action may include but is not limited to, liquidation, transfer, assignment, or sale. The Market Participant will be entitled to any positive market value of such positions, net of any obligations due to SPP, notwithstanding its ineligibility to participate in the Integrated Marketplace. Nothing in this paragraph shall restrict SPP's ability to enforce SPP's rights to pursue and collect any amounts Market Participants may owe to SPP.

3.1.1.8.2 **Minimum Capitalization Requirements**

Each Market Participant that meets the minimum eligibility requirements in Section 3.1.1.8.1 shall also, at a minimum, possess:

- a. A Tangible Net Worth of One Million Dollars (\$1,000,000) as shown in the most recent fiscal year end audited financial statements as described in Section 3.1.1.1; or
- b. Ten Million Dollars (\$10,000,000) in assets as shown in the most recent fiscal year end audited financial statement as described in Section 3.1.1.1; or
- c. A Credit Rating of, or equivalent to, BBB-; or
- d. A Guaranty as described in Article Six of this Attachment X, and approved by SPP, through which the audited financials or Credit Rating of the Guarantor is used to meet at least one of the alternatives specified in (a) through (c) above; or
- e. In the event a Market Participant cannot meet at least one of the alternatives specified in (a) through (d) above, the Market Participant shall, at a minimum, deposit with SPP Two Hundred Thousand Dollars (\$200,000) in Financial Security to be segregated and unavailable to secure any market or transmission activity. Pursuant to election of this alternative, if the anticipated activity at time of application or actual market activity as determined in Article Five, of the Market Participant exceeds One Hundred Thousand Dollars (\$100,000) in Market Exposure, the Market Participant shall provide SPP twice the amount of Financial Security that would otherwise be required of the Market Participant pursuant to Section 4.4.

If the applying Market Participant is unable to meet the minimum capitalization requirements in this Section 3.1.1.8.2, the applying Market Participant shall be declined participation in all SPP markets.

Failure at any time of a Market Participant to continue to satisfy these minimum capitalization requirements in this Section 3.1.1.8.2 shall be deemed a Material Adverse Change pursuant to Section 3.2.7.

3.1.1.9 Minimum Criteria and Risk Management Verification Process

Through a periodic compliance verification process, SPP shall review and verify Market Participants' ~~Participants'~~ eligibility for market participation based upon SPP's minimum criteria for market participation, risk management policies, practices, and procedures pertaining to the Market Participants' activities in the SPP markets. Such review shall include verification that:

1. The risk management framework is documented in a risk policy addressing market, credit, and liquidity risks;
2. The Market Participant maintains an organizational structure with clearly defined roles and responsibilities that clearly segregates trading and risk management functions;
3. There is clarity of authority specifying the types of transactions into which traders are allowed to enter;
4. The Market Participant has requirements that traders have adequate training or expertise relative to their authority in the systems and SPP markets in which they transact;
5. As appropriate, risk limits are in place to control risk exposures;
6. Reporting is in place to ensure that risks and exceptions are adequately communicated throughout the organization;
7. Processes are in place for qualified independent review of trading activities; and
8. As appropriate, there is periodic valuation or mark-to-market of risk positions.
9. The Market Participant meets the minimum participation criteria, including capitalization requirements, set forth in Section 3.1.1.8.

SPP may select Market Participants for review on a random basis and/or based on identified risk factors such as, but not limited to, the SPP markets in which the Market Participant is transacting, the magnitude of the Market Participant's transactions, or the volume of the Market Participant's open positions. Those Market Participants notified by SPP that they have been selected for review shall, upon fourteen (14) calendar days notice, provide a copy of their current governing risk control policies, procedures, and controls applicable to their SPP market activities and shall also provide such further information or documentation pertaining to the Market Participants' activities in the SPP markets as SPP may reasonably request. Market Participants selected for risk management verification through a random process and satisfactorily verified by SPP shall be excluded from such verification process based on a random selection for the subsequent two years. SPP shall annually randomly select for review no more than twenty percent (20%) of the Market Participants.

Each selected Market Participant's continued eligibility to participate in the SPP markets is conditioned upon SPP notifying the Market Participant of successful completion of SPP's verification, provided, however, that if SPP notifies the Market

Participant in writing that it could not successfully complete the verification process, SPP shall allow such Market Participant fourteen (14) calendar days to provide sufficient evidence for verification prior to declaring the Market Participant as ineligible to continue to participate in SPP's markets, which declaration shall be in writing with an explanation of why SPP could not complete the verification. If, prior to the expiration of such fourteen (14) calendar days, the Market Participant demonstrates to SPP that it has filed with the Federal Energy Regulatory Commission an appeal of SPP's risk management verification determination, then the Market Participant shall retain its transaction rights, pending the Commission's determination on the Market Participant's appeal. SPP may retain outside expertise to perform the review and verification function described in this section. SPP and any third party it may retain will treat as confidential the documentation provided by a Market Participant under this section, consistent with the applicable provisions of the Tariff.

3.1.2 Rating Agency Information. In the initial Credit Assessment and in subsequent and ongoing assessments, SPP will consider Rating Agency reports applicable to the Credit Customer. This review will be focused on the Credit Customer's unsecured, senior long-term debt ratings. If these ratings are not available, SPP will consider issuer ratings.

3.1.3 Power Supply Agent Disclosure Requirements. A Not-For-Profit Credit Customer may request that its suggested Unsecured Credit Allowance calculation reflect as equity the outstanding balance of revenue bonds issued by the Not-For-Profit Credit Customer when such revenue bonds are issued solely in support of the Not-For-Profit Credit Customer's role as power supply agent for not-for-profit electric distribution utilities. In support of such request, the Not-For-Profit Credit Customer must provide SPP with the following information:

- (a) Management representation letter stating:
 - (i) Principal amount, in dollars, of revenue bonds outstanding;
 - (ii) Prior to default and after default, debt service on the revenue bonds is payable only after operating expenses are paid;
 - (iii) Amounts payable to SPP under this Tariff are operating expenses for purposes of the revenue bonds; and

- (iv) The trustee for the revenue bonds has a valid and binding security interest in the revenues or net revenues from the power supply contracts to secure payment of the revenue bonds and the Not-For-Profit Customer has not granted any lien thereon prior to the lien of the bond resolution.
- (b) Opinion of counsel stating:
- (i) The power supply contracts are binding obligations of the Not-For-Profit Credit Customer enforceable in accordance with their terms;
 - (ii) The trustee of the revenue bonds has a valid and binding security interest in, or assignment and pledge of, the revenues or net revenues from the power supply contracts to secure payment of the revenue bonds;
 - (iii) The resolution or other document creating the security interest or pledge and providing for the priority of payment is enforceable in accordance with its terms;
 - (iv) Prior to default and after default, debt service on the revenue bonds is payable only after operating expenses are paid; and
 - (v) All amounts payable to SPP arising from transactions under this Tariff are operating expenses for purposes of the revenue bonds.
- (c) All Rating Agency ratings on revenue bond(s).

The opinion of counsel referenced above shall be provided to SPP together with copies of the most recent written opinions of counsel, if any, for each member of the Not-For-Profit Credit Customer that relate to the enforceability of the power supply contract(s).

3.1.4 Guaranties. If the Credit Customer proposes a Guaranty to establish, contribute to, or maintain an Unsecured Credit Allowance, Credit Information required under Section 3.1.1 must be submitted with respect to both the Credit Customer and the proposed Guarantor.

3.2. Annual and Other Ongoing Credit Assessments.

- 3.2.1 Purpose of Annual and Other Ongoing Credit Assessments.** At least once annually, SPP will review and update its Credit Assessment for each Credit Customer. This will include a review of the Credit Customer's creditworthiness and consideration of revisions of the Credit Customer's (a) Unsecured Credit Allowance; (b) Financial Security requirements; and (c) Total Credit Limit. In its sole discretion, SPP may conduct additional reviews and updates, including reviews in response to new facts or occurrences that may bear upon the Credit Customer's creditworthiness. Unless otherwise stated, all annual information required under Section 3.2 shall be provided to SPP no later than 120 days after the end of the Credit Customer's fiscal year.
- 3.2.2 Procedures for Posting Additional Financial Security or Taking Other Corrective Measures.** In the event a Credit Customer experiences a Material Adverse Change, SPP may invoke its right to require the Credit Customer to post additional Financial Security, cease one or more transactions, or take other measures to restore confidence in the Credit Customer's ability to transact safely. In addition, based upon the annual or other Credit Assessment, SPP may, at any time, revise any (a) Unsecured Credit Allowance; (b) Financial Security requirements; and (c) Total Credit Limit, applicable to the Credit Customer. If SPP has upwardly revised the required amount of Financial Security, the Credit Customer will have two (2) Business Days from receipt of the notice from SPP to provide the required Financial Security, in an amount and form acceptable to SPP. Failure to provide additional required Financial Security shall be a Default under this Credit Policy and a default under the Tariff.
- 3.2.3 Rating Agency Information.** The Credit Customer will give notice to SPP of any changes to its Credit Ratings within five (5) Business Days of the announcement of the change.
- 3.2.4 Financial Statements.** On an annual basis, and except as otherwise stated with respect to quarterly reports, each Credit Customer must provide SPP with updated Financial Statements within ten (10) days after they become available, and in no event later than 120 days after the end of the Credit Customer's fiscal year. Quarterly reports must be provided quarterly, within ten (10) days after they become available. Financial Statements may be submitted in the manner provided under Section 3.1.1.1.
- 3.2.5 Power Supply Agent Disclosure Requirements.** A Not-For-Profit Credit Customer that initially qualified to have its suggested Unsecured Credit Allowance calculation reflect as equity the outstanding balance of revenue bonds issued by the Not-For-Profit Credit Customer, and is requesting to continue to

have its suggested Unsecured Credit Allowance calculation reflect as equity the outstanding balance of revenue bonds issued by the Not-For-Profit Credit Customer when such revenue bonds are issued solely in support of the Not-For-Profit Credit Customer's role as power supply agent for not-for-profit electric distribution utilities, must at all times comply with the following information reporting requirements:

- (a) The Not-For-Profit Credit Customer must advise SPP of the principal amount of revenue bonds outstanding on an annual basis;
- (b) The Not-For-Profit Credit Customer must advise SPP within ten (10) days if the principal amount of the revenue bonds outstanding is reduced by more than twenty percent (20%) from the amount last certified by the Not-For-Profit Credit Customer;
- (c) The Not-For-Profit Credit Customer must advise SPP immediately if the security interest of the trustee is released or the Not-For-Profit Credit Customer grants any lien prior to the lien of the bond resolution; and
- (d) The Not-For-Profit Credit Customer must advise SPP within ten (10) days of any downgrade of any of the Not-For-Profit Credit Customer's revenue bond ratings issued by a Rating Agency.

3.2.6 Other Credit Information. On an annual basis, each Credit Customer must provide SPP with the information specified in Section 3.1.1.3 (Loss Contingencies), 3.1.1.4 (Affiliates), 3.1.1.6 (Additional Information).

3.2.7 Material Adverse Changes. Each Credit Customer must give SPP notice of any Material Adverse Change in its financial condition (and, as applicable, the financial condition of its Guarantor) within two (2) Business Days of the occurrence of the Material Adverse Change. If a Credit Customer or Guarantor files a Form 10-K, Form 10-Q, or Form 8-K with the SEC, notice of such filing, timely delivered to SPP in accordance herewith, will suffice on the condition that such notice states that the filing addresses a Material Adverse Change.

A Material Adverse Change in financial condition includes any Material change in operations or financial condition that a reasonable examiner of creditworthiness

would deem material to decisions concerning the extension of credit, including but not limited to, any of the following (“Material Adverse Change”):

- a. A downgrade of any debt rating or issuer rating, or change in the outlook of any Credit Rating, including debt rating or issuer rating;
- b. Any placement on a credit watch with negative implication by a Rating Agency;
- c. The filing of a lawsuit or initiation of an arbitration, investigation or other proceeding (including regulatory proceeding) which if decided adversely could have a Material effect on any current or future financial results or financial condition;
- d. The merger, acquisition or any other form of business combination involving the credit customer.
- e. Any adverse changes in financial condition which, individually, or in the aggregate, are Material;
- f. Any adverse changes, events or occurrences which, individually or in the aggregate, could affect the ability of the Credit Customer to pay its debts as they become due or could have a Material adverse effect on any current or future financial results or financial condition;
- g. Discovery or disclosure of conflict of interest issues;
- h. Resignation or removal of a key officer or director;
- i. Any action requiring the filing of a Form 8-K;
- j. Any report of a quarterly or annual loss or a decline in earnings of ten (10) percent or greater compared to the prior period;
- k. Any restatement of prior financial statements; and
- l. Failure of a Market Participant to continue to satisfy the minimum capitalization criteria for market participation specified in 3.1.1.8.2.

3.2.7.1 Notification of a Material Adverse Change by SPP to a Credit Customer. Upon the occurrence of a Material Adverse Change and prior to SPP compelling a Credit Customer to post additional Financial Security, cease one or more transactions, or take other measures to restore confidence in the Credit Customer’s ability to transact business safely as a result of any Material Adverse Change, SPP shall provide, when feasible, reasonable advance notice in writing, by fax, electronic mail, hand

delivery, reputable overnight courier, or first-class mail, to the Credit Contact designated by the Credit Customer pursuant to Section 9.1 of this Credit Policy. If delivery to the Credit Contact fails, then SPP may effect delivery to any officer, executive, or manager of the Credit Customer. Such notice shall identify the reasoning behind the invocation of the Material Adverse Change clause and be signed by an authorized representative of SPP.

3.2.8 Affiliates. Each Credit Customer must identify all Affiliates that are Credit Customers.

3.2.9 Additional Information. At any time and from time to time, SPP may request such additional information as SPP determines is necessary and appropriate for the Credit Assessment and the Credit Customer shall timely provide such additional information. At any time, the Credit Customer may provide SPP with additional information that the Credit Customer considers relevant to the Credit Assessment.

3.2.10 Guaranties. If the Credit Customer relies upon a Guaranty to maintain an Unsecured Credit Allowance, Credit Information required under Section 3.2 must be submitted with respect to both the Credit Customer and the Guarantor.

3.2.11 Alternate Requirements. For Not-For-Profit Credit Customers, some of the above financial submittals may not be applicable, and alternate requirements may be specified by SPP.

3.2.12 In the credit evaluation of Not-For-Profit Credit Customers, SPP may request additional information as part of the overall financial review process and will consider other relevant factors in determining financial strength and creditworthiness.

3.3 SPP Rights to Use Other Information. Notwithstanding any provision of this Credit Policy, SPP shall have the right to utilize, in a Credit Assessment, any information of which it is aware concerning the Credit Customer.

3.4 Positive Material Change in Financial Condition of the Credit Customer. If there is a positive Material change in the financial condition of the Credit Customer, a significant reduction in the Total Potential Exposure of the Credit Customer, or any other change

that the Credit Customer believes may warrant an increase in the Credit Customer's Unsecured Credit Allowance and/or a reduction in the Financial Security required of the Credit Customer, the Credit Customer may make a written request to SPP to update the Credit Assessment and include or refer to any supporting information. SPP may request any Credit Information described in Section 3.2 to evaluate the merit of the Credit Customer's request. SPP anticipates that it will respond to the Credit Customer's request within a reasonable period of time, generally within ten (10) Business Days after receiving all information that is required for an ongoing review as required in this Article.