

# BPA Policy 231-4

## Transmission Credit Risk Management

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## 1. Purpose & Background

This policy presents non-discriminatory credit review procedures to mitigate Bonneville Power Administration's (BPA) financial exposure to the risk of customer non-payment for transmission services rendered. This policy was developed in accordance with the "Creditworthiness" provision of BPA's Open Access Transmission Tariff (OATT), Standards of Conduct, standard commercial practices, and the Federal Energy Regulatory Commission's (FERC) November 19, 2004, Policy Statement on Electric Creditworthiness.

## 2. Policy Owner

The Executive Vice President of Compliance, Audit and Risk working through the Chief Risk Officer or his/her designee has overall responsibility for monitoring, reporting, deploying, evaluating, and proposing revisions to this policy. The Senior Vice President for Transmission Services has primary responsibility for execution of this policy.

## 3. Applicability

This policy applies to transactions for transmission service that are conducted under either the OATT or non-OATT legacy contracts. This policy does not govern other Transmission Services agreements, including but not limited to operations and maintenance agreements, reimbursable agreements, Network Open Season Precedent Transmission Service Agreements, telecommunication agreements, and supply chain contracts. This policy does not apply to the activities or credit exposures of the BPA Power Services organization. Power Services transactions are governed by a separate policy, the Bonneville Power Administration Power Transacting Risk Management Policy.

## 4. Terms & Definitions

- A. Audit, Compliance & Governance Committee (ACGC):** The ACGC is a senior management forum to obtain assurance about effective internal control and compliance over BPA objectives. This committee is responsible for establishing risk tolerance levels for BPA commercial transacting risks and provides guidance to the ROC in the development of relevant risk programs and policies.
- B. Back Office:** Includes the groups that have functional responsibility for accounting, reporting, auditing, and contract administration for transmission service transactions. These functions are within the Accounting and Reporting, Treasury Management, Customer Billing, Contract Management and Administration, Internal Audit, and Transmission Legal organizations.
- C. Credit Risk:** The risk of a financial loss arising from the failure of a counterparty to perform on its contractual obligations.
- D. Front Office:** Includes the groups that have functional responsibility and delegated authority for directing, organizing, executing, amending, and interpreting contracts for the

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purchase and sale of transmission and transmission-related services. The Front Office includes Account Executives who have the authority to sign umbrella agreements and enter into transmission service contracts. At BPA the Front Office functions are located within Transmission Marketing & Sales in the Transmission Sales and Transmission Account Services organizations.

- E. **Middle Office:** Analyzes and monitors the transactions executed by the Front Office. Credit risk management is one of the functions performed by the Middle Office. At BPA the Middle Office function is located in the Transacting and Credit Risk Management organization. The middle office implements the credit risk management policies established by the ROC including evaluating counterparty creditworthiness and monitoring and reporting credit exposures.
- F. **Open Access Transmission Tariff (OATT):** Provides the terms and conditions for transmission and transmission-related services provided within the BPA Control Area. It also requires that BPA provide non-discriminatory, open-access transmission for all similarly situated customers to its control area.
- G. **Receivable Exposure:** The amount due to BPA after BPA has performed its obligations of providing transmission service.
- H. **Risk Oversight Committee (ROC):** The ROC is a senior management level committee that has responsibility for ensuring that risk management monitoring systems and limits are in place to govern commercial transacting risks across BPA, within the parameters established by the Audit, Compliance & Governance Committee (ACGC).
- I. **Settlement Exposure:** The past due amounts owed to BPA and any potential incremental credit exposure from accounts receivable for settlements from transactions that will occur in the near-term and the remaining value of the contract.
- J. **Total Credit Exposure:** The dollar value of the maximum monthly transmission service, expected over the term of the transmission service agreement, multiplied by a factor of 4.6.
- K. **Transactor:** Members of the Transmission Marketing and Sales Organization (Front Office) who directly support BPA’s transmission transacting activities. Transactors have the authority to contractually obligate BPA to agreements that expose BPA to credit risk.

## 5. Policy

It is BPA’s policy to minimize its risks while providing safe and reliable transmission services, consistent with sound business practices in an environmentally sensitive manner to its customers, stakeholders and the region. BPA has low tolerance for credit risk, in part to protect its high creditworthiness, and crafts its credit limits and acceptable credit support documents accordingly. This risk aversion is tempered, however, with the fundamental and

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inherent need to market transmission services that provide the majority of high-voltage transmission to regional utilities in the Pacific Northwest.

The BPA Administrator is charged under the Bonneville Project Act and the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act), and other statutes, with balancing regional fish and wildlife, conservation, power reliability, and power economics concerns. Together, these activities can represent competing interests impacting the federally-owned portion of the Northwest’s transmission system and federally-owned hydro projects of the Federal Columbia River Power System (System). The success of BPA can be directly and/or indirectly determined by how the flexibility of the system is managed to garner the economic benefits derived from power and transmission sales, while also meeting dynamic non-power demands on the system. It is the intent of management that this Transmission Credit Risk Management Policy governs the credit aspects of all transmission transactions originating in the regulated transmission business at BPA.

This policy supersedes Bonneville Power Administration Transmission Credit Risk Management Policy, Version 1.2, dated July 18, 2005 and all existing or historical credit risk-related policies, or parts of policies that address the activities encompassed in this policy.

A primary goal of the policy is to ensure significant adherence to industry best credit risk management practices as reasonably applied to large transmission system operations. In meeting this mission-critical goal, the policy supports business objectives by:

- A. Providing a policy and organizational structure for managing credit risks that are inherent in BPA’s operations in accordance with the Bonneville Project Act, the Northwest Power Act, and other legally-defined obligations, as directed by the ROC.
- B. Maintaining control and reporting protocols over the credit risk management activities of the organization such that limits established by this policy are not exceeded.
- C. Ensuring that all necessary information is communicated, consistent with Standards of Conduct, to the ROC and personnel engaged in transmission transacting activities to keep them informed of the credit risk position and credit portfolio of the transmission business at all times.
- D. Determining whether the credit conditions of transmission transacting strategies and associated credit risk exposure limits are appropriate given BPA’s risk tolerance and objectives.

## 6. Policy Exceptions

None.

## 7. Responsibilities

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**A. The Risk Oversight Committee (ROC):** Has the delegated authority for the credit risk taking and credit risk management of transacting activities of BPA (i.e., the levels and types of risk assumed and the types of activities undertaken to manage risk). The ROC develops and modifies this policy based upon BPA’s transmission activities, and monitors and oversees performance and exposures. This group is directly empowered by the Administrator, and is governed by the ROC Charter.

The ROC ensures implementation and compliance with this policy and may direct changes in the organization’s exposure to credit risks governed by this policy. The ROC may refer violations of this policy to the responsible supervisor for actions consistent with federal employee regulations. In addition to its charter obligations, the ROC is tasked with the following schedule of duties:

1. **On a weekly basis:** Reviews all weekly management reports as described in the Performance and Monitoring (1.9) section below.
2. **On a monthly basis:**
  - a. Reviews the historical credit risk profile of transmission transacting activities; and
  - b. Reviews summaries of reportable limit violations and exceptions for the prior period and take corrective action, if necessary.
3. **On quarterly basis** (or more frequently if necessary): Reports the results of the transmission credit risk management activities to the Administrator.
4. **On an as-needed basis:**
  - a. Authorizes or denies Policy Change Requests or out-of scope activities (see section 1.9.F.1).
  - b. Approves changes and modifications to credit risk report contents and format.
  - c. Ensures that adequate staffing and resources (e.g., number, level, expertise, and experience of staff, hardware and software support, etc.) are devoted to activities described in this policy.
  - d. Directs internal audit to hire and manage external independent regulatory or risk management advisors and/or auditors.
  - e. Sets and approves all policies and broad controls for the transmission credit risk management program.
  - f. Ensures an organizational structure sufficient to maintain adherence to and achieve the goals of this Policy.
  - g. Ensures there is an adequate program for measuring and monitoring BPA’s transmission credit risk exposure.
  - h. Implements revisions to this policy as needed.

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- i. Monitors for procedure creation and maintenance as it pertains to policy.
- j. Determines the credit risk tolerances of the agency with respect to transmission transacting.
- k. Reviews the accuracy and effectiveness of credit risk measurement methodologies relative to BPA’s risk tolerance.
- l. Reviews counterparty credit limit structures.
- m. Assess the adequacy and functionality of the system of controls within BPA (or its agents, if any) over credit risks, including the use of risk-based internal audits.
- n. Reviews the effectiveness of the credit risk management program.

**B. Transmission Marketing and Sales Organization (Front Office):** Directly supports BPA’s transmission transacting activities. Individuals within the group serve as transactors (see definition above) and have the authority to contractually obligate BPA to agreements that expose BPA to credit risk. This function is composed of Customer Transmission Account Executives, Transmission Policy & Strategy, Transmission Scheduling, and Transmission Contracts. Transmission Marketing and Sales and System Operations managers are broadly expected to communicate to their organization the importance of credit risk management and control activities, and review and engage in proposed Policy changes affecting the manager’s group prior to submission to the ROC

1. **Account Executives:** Serve as the primary transactors and have the authority to sign umbrella agreements for long-term and short-term transmission contracts.

**On a daily or ongoing basis:**

- a. Disclose to Credit Risk Management any information that may affect the assessment of counterparty creditworthiness.
- b. Transact within credit risk limits when executing new or amended long term transmission contracts and umbrella agreements (Account Executives are not responsible for the amount of short-term business transacted through OASIS assuming the counterparty was approved for credit prior to contract execution).
- c. Consult with Credit Risk Management to resolve any questions regarding credit availability (e.g. transactions that extend beyond the transacting period reported on applicable credit reports) prior to the execution of transactions in question.
- d. Together with Credit Risk Management, work with counterparties to resolve credit related issues as they arise.

**On an as-needed basis:**

- e. Periodically review credit risk management reports described in section 1.9 for counterparty credit limit updates, data inaccuracies.

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- f. Present customer information to the ROC when necessary to support ROC oversight responsibilities.
- g. Propose changes to credit risk tolerances and/or limits to the ROC based on business Review and participate in developing proposed policy changes prior to submission to the ROC.
- h. Work with Credit Risk Management, Legal, and the Transmission Contracts group when developing non-standard credit terms in transmission contracts such as prepayment agreements.

**C. Transmission Scheduling:** Schedules all short-term and long-term transmission reservations. The Transmission Commercial System Production Support function is responsible for the administration and maintenance of the transmission marketing and sales reservations and scheduling systems. The Transmission Scheduling function is expected to comply with specific credit risk management directives as they may apply. Examples could include directives to suspend a counterparty’s ability to submit Transmission Service Requests (TSR) and /or e-tag transactions following a counterparty’s failure to make a prepayment or a failure to provide other required credit support, which could be issued by Credit Risk Management. In some instances, compliance with such directives will require modifications to transmission marketing and sales reservations and scheduling systems. Such modifications are the responsibility of the Transmission Commercial System Production Support function. Credit risk management directives are communicated directly to both the Transmission Commercial System (TSR) and Transmission Scheduling (TSS) managers.

**D. The Transmission Account Services (Transmission Contracts):** Serves as the contract support staff for transmission transactors.

**On a daily or ongoing basis:**

- 1. Acquires confirmations from the Transmission Account Executive that counterparties are approved for credit
- 2. Maintains accuracy of counterparty transmission contract information that originates in the transmission contracts information system
- 3. Supports implementation of credit terms in contracts such as prepayment or other credit support requirements.

**E. Transmission Policy and Analysis,** on an as-needed basis:

- 1. Supports Account Executives in preparing analyses and associated reports as needed to support ROC oversight responsibilities;
- 2. Reviews and participates in developing proposed policy changes prior to submission to the ROC; and,

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3. Together with Credit Risk Management and Legal, drafts the Transmission Creditworthiness Business Practice.

**F. Manager of Transacting and Credit Risk Management (Middle Office):** Reports to the BPA Chief Risk Officer, and does not have direct execution responsibilities for risk-taking or risk-mitigating activities contained in this policy.

**The Middle Office:**

1. Provides formal training on this policy and addresses questions on policy implementation as they arise.
2. Independently monitors and reports the credit risk taking and credit risk management activities of the organization to Transmission Marketing & Sales management, the Chief Risk Officer of BPA, and the ROC.
3. Proposes to the ROC, changes to this policy that are feasible and achievable, are based on an informed understanding of the affected business/transacting processes, and meet the BPA's risk management objectives.
4. Assesses the effectiveness of the organization's system of controls over credit risk, including transaction processing systems.
5. Executes risk measurement methodologies established by the ROC for credit risks.
6. Complies with BPA Standards of Conduct so as not to be a conduit of inappropriate information between business functions.
7. Communicates and documents decisions made in the ROC meetings.

**G. Credit Risk Management:** Performs technical and administrative duties in connection with the credit analysis and approval of new and existing counterparties associated with BPA's power, procurement and transmission activities, and is headed by the Lead Credit Analyst who reports to the Manager of Transacting and Credit Risk Management. With regards to transmission transacting activities, Credit Risk Management:

1. Screens and processes all counterparties for credit approval as directed by this policy and the Transmission Credit Risk Management Business Practice.
2. Establishes a credit assessment and rating methodology for evaluating counterparty creditworthiness based upon a variety of quantitative and qualitative criteria. (Counterparties will be evaluated at least annually, or immediately if their business condition changes.)
3. Performs financial analysis and related assessments in accordance with approved credit risk management policies and limits.
4. Develops and adheres to processes that assure compliance with BPA Standards of Conduct in regards to information sharing between business units.

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**On a daily or ongoing basis:**

- 5. Coordinates the maintenance, distribution and/or review of the Approved Counterparty Lists, Credit Exposure Reports, and related information.
- 6. Monitors on an ongoing basis the creditworthiness of all approved counterparties.
- 7. Calculates and maintains credit approval and applicable limits for all counterparties, monitor the total credit exposure of individual counterparties, and prepare and issue all credit risk management reports (e.g. Credit Exposure Report, Credit Exception Report, etc.).
- 8. Maintains and secures counterparty records and internal ratings and assessments in accordance with leading practices.

**On an as-needed basis:**

- 9. Applies this ROC approved policy to assess the creditworthiness of new counterparties in accordance with Section 1 and the Transmission Credit Risk Management Business Practice.
- 10. Extends credit limits to creditworthy counterparties as directed by policy and the Transmission Credit Risk Management Business Practice.
- 11. Reports to the appropriate Transmission Account Executive all necessary information concerning a counterparty’s credit status and credit limits including changes and potential changes in credit limits.
- 12. Assists in the review and processing of master, enabling, umbrella, and other transmission agreements associated with transmission transacting activities for credit related issues.
- 13. Assists the Policy Development & Analysis group in drafting and/or altering the Transmission Credit Risk Management Business Practices document.
- 14. Develops and maintain credit risk procedures.
- 15. Coordinates the processing of credit information requests from BPA’s counterparties.
- 16. Notifies Account Executives when credit applications are received.
- 17. Supports the Account Executives and Office of General Counsel in the negotiation, processing, and tracking of corporate guarantees, letters of credit, prepay agreements, and other similar agreements.
- 18. Creates new credit measurement methodologies as needed.
- 19. Consults with Account Executives with regard to the credit implications of proposed transactions.

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- 20. Provides credit information about BPA to counterparties when requested.
- 21. Assists where requested in the collection of and monitoring of past due accounts receivable.
- 22. Identifies and reports real or potential improvements to the policy to the ROC.

**H. Accounting and Reporting:** Provides accounting and financial reporting for the Federal Columbia River Power System (FCRPS) and BPA. Develops and implements accounting policy, performs financial management system and general ledger operations, provides derivative accounting and settlement operations, performs asset accounting operations, and prepares audited financial statements and other financial reports. This organization performs cost analysis, performs accounting treatment analysis, appropriately classifies financial data, monitors developing accounting and reporting standards, and provides analysis which supports BPA decision-making. It maintains appropriate and adequate financial systems and process support throughout BPA ensuring that such support meets continuing and growing requirements. It provides functional guidance and oversight to all BPA’s financial management systems and establishes BPA and FCRPS-wide requirements and reporting mechanisms to assure adequacy of internal controls and compliance with applicable laws, regulations and internal directives.

**I. The Treasury organization:** Directs financial planning and investment of funds for BPA and exercises authority for receipt, disbursement, banking, custody of funds, and financial instruments. This organization processes receipts, disbursements, payroll, provides cash and reserves management, conducts collection on overdue accounts, develops short and long-term cash forecasts, develops and executes cash management strategies, and plans and executes capital financing, and exercises funds control. Part of this group’s responsibility includes maintaining clearly defined procedures for matching payments made by customers that arrange for payment of goods or services in advance of reservation, schedule, or delivery, and notifying the Middle Office and Account Executives of any customer that is past due in payment or has filed for bankruptcy. The Cash and Treasury Management organization:

- 1. **On a weekly basis,** produces an aging report to review counterparties payment status and prepares reports as needed on a counterparty’s payment history.
- 2. **On an as-needed basis:**
  - a. Refers past due accounts to U.S. Treasury for collection.
  - b. Suggests areas of focus and works with Credit Department when chronic problems occur.

**J. Internal Audit:** Conducts, or arranges for outside specialists to conduct periodic risk based audits, assessment and tests of transactions and the transacting processes under the

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ROC charter. This includes compliance with this policy, its associated procedures, and controls.

**K. The Office of General Counsel:**

1. Reviews contracts for legally acceptable language associated with credit risk as such contracts are being developed and negotiated.
2. Together with Credit Risk Management Personnel and Account Executives, applies this policy and standard BPA credit support provisions to negotiate corporate guarantees, letters of credit, and similar credit related documents.
3. Develops standard contract language and legal interpretation for guarantees, letters of credit, similar credit related documents, master agreements, and confidentiality agreements, and reviews proposed non-standard terms and conditions within contracts in a timely fashion.
4. Advises Credit Risk Management and the Policy Development & Analysis group in drafting and/or altering the Transmission Credit Risk Management Business Practices document.
5. Provides guidance on FERC Rulings related to credit risk.
6. Assists with preparation of and submits, any FERC required documentation related to creditworthiness when necessary.

**L. Information Technology:**

1. Maintains credit information systems and implementing modifications when required.
2. Works with business stakeholders to identify all system modifications that are necessary to implement this policy.
3. Resolves data and system issues associated with transmission credit information systems.

**8. Standards & Procedures**

**A. Transmission Credit Exposure Calculation:** BPA’s settlement and potential incremental settlement exposures are the primary factors considered when calculating credit exposure and determining credit support requirements for a transmission counterparty. Taken together, these factors constitute BPA’s Total Credit Exposure to a transmission counterparty.

Given BPA’s existing billing practices and payment terms, and allowing for reasonable delays in the billing process, BPA’s Total Credit Exposure to a transmission counterparty is calculated for the purposes of this policy as the dollar value of the maximum monthly transmission service expected over the term of the transmission service agreement

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multiplied by a factor of 4.6. The 4.6 multiplier is a reflection of the terms in the OATT and includes credit exposures that may occur during the total time period covering the billing cycle, past due payment cure period, and the time period before termination is allowed.

**B. Qualification for unsecured credit:** Transmission counterparties may apply for unsecured credit by completing a BPA Credit Application and submitting it to an Account Executive or directly to Credit Risk Management.

There are two methods for counterparties to potentially qualify for unsecured credit with BPA. The amount of the unsecured credit limit available under Method 1 is less than under Method 2). Counterparties qualifying for credit under Method 1 may alternatively choose to be evaluated for a higher credit limit under Method 2.

1. Qualification Method 1 - Following are the criteria that must be satisfied for qualification under Qualification Method 1:
  - a. The counterparty is a distribution utility and has the direct authority to establish and adjust rates to recover costs, including power costs, without seeking approval from a state level regulatory agency with jurisdiction over more than one utility.
  - b. The counterparty is not in default to BPA or another known party and has not been in default to BPA or another known party during the prior year.
  - c. The counterparty has not experienced a material adverse change in its financial condition or payment practices during the prior year.
  
2. Qualification Method 2 – To qualify for credit under Qualification Method 2, counterparties must undergo a comprehensive creditworthiness evaluation. These counterparties are required to provide the following information:
  - a. Three years of audited financial statements including income statement, balance sheet, cash flow statements, and accompanying footnotes (\*Note: a. Counterparties without three years of audited financial statements should provide the maximum number of years available; b. BPA can offer pre-approved Confidentiality Agreement forms for counterparties providing confidential financial information).
  - b. Bond ratings, if available.
  - c. Expected level of business.
  
3. All counterparties may provide additional information to assist in the creditworthiness evaluation. Examples include, but are not limited to:
  - a. Trade and/or bank references
  - b. Business plans

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- c. Risk Management Policies
  - d. Other relevant materials
4. Both quantitative and qualitative criteria will be evaluated in the comprehensive credit review process. Examples of the criteria used in the credit review process include but are not limited to the following:
- a. Quantitative Criteria
    - (i) Financial ratios (capitalization metrics, return on equity and asset metrics, operating and net margin metrics, tangible net worth metrics, debt and interest coverage metrics, cash flow metrics, purchased power expense metrics, etc.)
    - (ii) Financial trends (year to year, quarter to quarter, etc.)
    - (iii) Bond ratings
    - (iv) Off-balance sheet items
  - b. Qualitative Criteria
    - (i) Counterparty market position
    - (ii) Management reputation
    - (iii) Executive succession plan
    - (iv) Power supply portfolio
    - (v) Asset and investment quality
    - (vi) Risk profile of industry classification
    - (vii) Corporate strategy
    - (viii) Risk management capability
    - (ix) Regulatory environment
    - (x) Recent news including judgments and contingencies

All counterparties qualifying under Method 2 will be re-evaluated for creditworthiness at least annually and may be required to provide updated financial information to Credit Risk Management for review.

**C. Credit limit assignment**

1. Qualification Method 1: Counterparties that qualify for unsecured credit under Method 1 will be assigned a \$1 million unsecured credit limit.
2. Qualification Method 2:
  - a. Counterparties that apply for unsecured credit under Method 2 will be assigned an internal credit rating based upon the evaluation of the quantitative and qualitative

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criteria listed in section 8.B. BPA’s internal credit rating has the same rating scale as Standard and Poor’s (e.g. AAA, AA, A, BBB, BB, etc.).

- b. Counterparties with internal credit ratings of BBB- or greater will qualify for unsecured credit. The credit limit assigned will be the greater of 5% of the counterparty’s tangible net worth or \$10 million, up to a maximum of \$30 million.

If a counterparty qualifies for credit based on the credit standing of a guarantor, letter of credit provider, etc., the credit limit assigned to the counterparty will be limited by the amount of credit support provided, but not surpassing the dollar limits stated above. Counterparties rating below BBB- fail to qualify for unsecured credit and will be required to provide acceptable credit support to BPA in an amount at least equal to the projected Total Credit Exposure prior to the initiation of transacting activity.

Counterparties that have qualified for unsecured credit according to the terms of this Policy (Method 1 or Method 2) may be required to provide additional credit support if their credit exposures exceed or are expected to exceed their current transmission credit limits. The amount of required additional credit support would be at least equal to the difference between their Total Credit Exposure and their current transmission credit limit.

Any counterparty required to provide credit support may request a written explanation describing how credit evaluation criteria were applied and the justification behind the conclusion. BPA will make a reasonable effort to provide this written explanation within ten business days following the request.

Counterparty creditworthiness may be reevaluated at any time, but a review will occur at least once per year. Counterparties that previously were internally rated at or above BBB-, but are downgraded as the result of a subsequent credit review to below BBB-, will be subject to credit support demands as allowed in BPA’s OATT and discussed in the following section.

**D. Acceptable credit support** could include one or a combination of the following:

1. Corporate guarantee from an entity assigned by BPA an internal rating of BBB- or better (pre-approved BPA standard guarantee form is available).
2. Irrevocable Standby Letter of Credit from a financial institution assigned a Senior Unsecured Credit Rating from Moody’s or Standard & Poor’s of “A” or better.
3. Prepayment arrangement.
4. Contract amendment, as determined by BPA Office of General Counsel to be enforceable, to shorten the 4.6 month credit exposure period and effectively reduce BPA’s settlement and potential incremental settlement exposures.
5. Other form of credit support acceptable to BPA.

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All counterparty costs associated with meeting BPA’s credit risk requirements, including any costs of obtaining and posting credit support, are the responsibility of the counterparty.

The failure of a counterparty with existing transmission agreements to provide acceptable credit support when required under the terms of this policy and the OATT will be considered a material breach of the contract.

**E. Counterparty credit and exposure limits:**

1. Through this policy, the ROC establishes that no transactions that may expose BPA to credit risk may be executed with counterparties that have not been approved for credit and assigned a credit limit; and, no long-term transactions may be executed which would knowingly cause a counterparty’s total credit limit or monthly credit limit to be exceeded.
2. **Exceptions to credit risk limits:** FERC guidelines and OATT provisions require that counterparties with similar characteristics be treated in a comparable and non-discriminatory manner. Specific counterparty exceptions to this policy and the Transmission Creditworthiness Business Practice are not allowed. BPA does have the ability to amend this policy and posted Business Practice document in accordance with section 4.9.F of this policy.

F. A credit limit violation has occurred if a total credit limit or monthly credit limit has been exceeded. Under such circumstance, the Lead Credit Analyst or his/her designee will notify the Transacting and Credit Risk Manager or his/her designee of such violation. Such notification will take place within one business day following violation detection.

G. All employees subject to this policy, regardless of department, are obligated to report credit violations to the Middle Office as soon as they become aware of them. This includes an obligation of self-reporting. If a limit has been exceeded the following actions occur:

1. The Lead Credit Analyst communicates and documents such violation (e.g. credit reports, transaction details) to the Account Executive. If the violation was due to a long-term transaction, the Lead Credit Analyst also communicates and documents the violation to the Account Executive Manager. The Account Executive Manager then provides a written explanation of the event to the Lead Credit Analyst.
2. Transactors do not conduct additional long-term transactions with a counterparty if the counterparty’s total credit limit has been exceeded as indicated on the Daily Credit Exposure Report.
3. In addition, the Lead Credit Analyst, in collaboration with the Account Executive, attempts to secure the exposure over the credit limit through some form of credit enhancement, such as a guarantee, letter of credit, prepayment or other form of

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acceptable collateral. Transactions can resume once the exposure is brought within limits or acceptable credit support received.

4. If BPA is unable to bring exposure within limits or if appropriate credit enhancement has not been obtained, the Lead Credit Analyst discusses options with the Transacting and Credit Risk Manager to reduce the credit risk associated with the transaction. If the conclusion reached is that actions must be taken to actively mitigate the risk, the Lead Credit Analyst discusses potential mitigation options with the Account Executive. A recommendation is presented to the ROC, which decides whether or not to instruct Transmission Marketing & Sales to take such actions.
5. The Middle Office compiles a written report of all credit limit violations and their resolutions are included in the monthly ROC meeting and could include the following:
  - a. Counterparty
  - b. Limit
  - c. Responsible Party
  - d. Contract
  - e. Date of Violation
  - f. Delivery Period
  - g. Price
  - h. Volume
  - i. Economic Impact
  - j. Brief description of event and cure (if cure available)
  - k. Management Disciplinary Action
  - l. Other relevant factors

## 9. Performance & Monitoring

### Reporting

**A. Daily Credit Exposure Report:** The Lead Credit Analyst or designee is responsible for preparing and documenting this report to reflect credit exposure at the close of each transacting day. The report documents each counterparty's credit limit to reflect prior month receivables, current and future month anticipated receivables, and available credit. A credit report is accessible to Account Executives documenting each counterparty's credit limit and available credit based on the forecasted accounts receivable position for each month in the authorized trading term.

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- B. **Weekly Transmission Exposure Report to ROC:** Each week the Middle Office provides to the ROC a summary report of transmission exposures, credit limits, and changes from the prior week, in addition to the more detailed transacting report provided daily to Account Executives.
- C. **Monthly Exception Report:** A written report of all credit limit violations and their resolutions is included in the monthly ROC meeting.
- D. **Standards of Conduct Reporting Requirement:** The daily, weekly, and monthly credit reports described in this section, in addition to other credit related documents and analyses that include transmission transactional data, shall not be provided to BPA’s power marketing function employees.
- E. **Policy compliance:** A risk management policy can only be expected to be effective if it is enforceable. This section directly connects policy knowledge and breaches with job performance and disciplinary actions.

Noncompliance with the provisions of this policy including misrepresentation of, or concealment of information regarding any transaction from the ROC or from any person responsible for the accurate recording and reporting of each transaction, may result in disciplinary action in accordance with federal employee regulations and applicable laws.

This policy does not change existing employee rights and protections to grieve or appeal, as applicable, any administrative action that result from a violation of this policy.

- F. Due to the dynamic nature of BPA’s business environment, it is important to recognize that the policy may not anticipate all scenarios as market factors and characteristics change. A mechanism must exist for amending the existing policy in order to reflect such changes.
  - 1. Policy Change Requests shall be subject to review and approval by the ROC and ACGC prior to implementation in accordance with the following process:
    - a. The person or organization sponsoring the Policy Change Request documents the proposed change through a written report. Each Policy Change Request report contains the following information to each proposal, as applicable:
      - (i) The language to be changed in the policy
      - (ii) The reason for the proposed change
      - (iii) A list of affected organizations
      - (iv) An assessment of the extent of the change upon operations
      - (v) A timeframe for implementation

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- b. The Policy Change Request is reviewed by all organizations that may be impacted by the policy change. It is the responsibility of the sponsoring group to engage and inform affected organizations as to potential changes.
- c. As part of its review, Middle Office verifies that all steps of the policy change request process have been satisfactorily performed and effected organizations have been engaged, and that the proposal is ready for ROC review.
- d. The sponsoring group presents the Policy Change Request to the ROC for approval. Following approval by the ROC, a red line copy of the policy with a description of significant changes is sent to the ACGC for final approval
- e. In the event that a transaction or change is of a sufficiently urgent nature, the sponsoring group may petition the Chief Risk Officer to call an emergency, ad-hoc meeting of the ROC or ACGC.
- f. To the extent any amendment to this policy affects BPA’s posted Transmission Creditworthiness Business Practice document or visa, versa; the amendment must be consistently reflected in both documents and must be approved by the ROC. These responsibilities are shared by Legal and the Middle Office. If at any time the Creditworthiness Business Practice document conflicts with other portions of the Policy, the Creditworthiness Business Practice will govern.
- g. Risk Management follows all procedures established by the ROC for updating and maintaining risk policies as well as notifying affected individuals.

**10. Authorities & References**

- A. ROC Charter
- B. RMC Charter
- C. Transmission Creditworthiness Business Practice
- D. Federal Energy Regulatory Commission (FERC)
- E. Open Access Transmission Tariff (OATT)
- F. Electric Creditworthiness Policy Statement

**11. Review**

**Changes to policy and appendices:** Policy change requests require review and approval by the ROC and the ACGC.

The person or organization sponsoring the policy change request must document the proposed change through an ADF and present the change to the ROC and ACGC. The person or organization sponsoring the policy change request and the CRO will determine the level of rigor that is needed for the justification that will be presented to the ROC and the ACGC. Such justification will conform to the standards of the ADF and any standards specified by

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the ROC and the ACGC. Each policy change request will contain the following information, as applicable: the language to be changed in the policy, the reason for the proposed change, a list of affected organizations, an assessment of the extent of the change upon operations and risk, and a timeframe for implementation.

Proposed amendments that are not substantive in nature, such as factual, typographical, formatting, or grammatical corrections, and changes to organizational titles of members may be approved by the CRO and do not require an ADF.

Stakeholder organizations within BPA that may be affected by the proposed policy change, including, at a minimum, affected Front Office organization(s), Risk Management, Contract Administration, Billing, Accounting, and General Counsel’s Office, will be provided an opportunity to review and comment on the draft ADF. Each stakeholder will report the results of this review to the person or organization sponsoring the policy change request and the CRO. If the modification will require new systems or additional custom reporting from Information Technology (IT), the person or organization sponsoring the Policy change request has the responsibility to coordinate with IT to ensure the change can be supported.

As part of its review, the CRO must assess whether all steps of this process have been satisfactorily performed, and whether the proposal is ready for ROC and ACGC review.

This policy is scheduled for review in 2028.

## 12. Revision History

Version	Issue Date	Description of Change
2.0	August 31, 2015	Migration of content to new policy format.
3.0	February 5, 2016	Reviewed per the sunset review, made minor grammatical changes and updated sunset review date.
3.1	Oct. 16, 2017	Administrative update. Document revision process changed to match current standard.
4.0	Nov. 21, 2023	Sunset Review, no changes required.

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