

# SERTP CREDIT MANUAL

**I. Transmission Developer Pre-Qualification Criteria:** In order to be eligible to propose a transmission project (that the transmission developer intends to develop) for consideration for selection in a regional transmission plan for RCAP in the upcoming planning cycle, a transmission developer (including the Transmission Provider and nonincumbents) or a parent company (as defined in item 2.B. of Section I below), as applicable, must submit a pre-qualification application by August 1st of the then-current planning cycle. To demonstrate that the transmission developer will be able to satisfy the minimum financial capability and technical expertise requirements, the pre-qualification application must provide the following:

1. A non-refundable administrative fee of \$25,000 to off-set the cost to review, process, and evaluate the transmission developer's pre-qualification application;
2. Demonstration that at least one of the following criteria is satisfied:
  - A. The transmission developer must have and maintain a Credit Rating (defined below) of BBB- or better from Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial ("S&P"), a Credit Rating of Baa3 or better from Moody's Investors Service, Inc. ("Moody's") and/or a Credit Rating of BBB- or better from Fitch Ratings, Inc. ("Fitch", collectively with S&P and Moody's and/or their successors, the "Rating Agencies") and not have or obtain less than any such Credit Rating by S&P, Moody's or Fitch. The senior unsecured debt (or similar) rating<sup>1</sup> for the relevant entity from the Rating Agencies will be considered the "Credit Rating". In the event of multiple Credit Ratings from one Rating Agency or Credit Ratings from more than one Rating Agency, the lowest of those Credit Ratings will be used by the Transmission Provider for its evaluation. However, if such a senior unsecured debt (or similar) rating is unavailable, the Transmission Provider

---

<sup>1</sup> References to senior unsecured debt (or similar) or issuer (or similar) ratings shall mean such ratings not supported by third party credit enhancements.

will consider Rating Agencies' issuer (or similar) ratings as the Credit Rating.

- B. If a transmission developer does not have a Credit Rating from S&P, Moody's or Fitch, it shall be considered "Unrated", and an Unrated transmission developer's parent company or the entity that plans to create a new subsidiary that will be the transmission developer (both hereinafter "parent company") must have and maintain a Credit Rating of BBB- or better from S&P, Baa3 or better from Moody's and/or BBB- or better from Fitch, not have or obtain less than any such Credit Rating by S&P, Moody's or Fitch, and the parent company must commit in writing to provide an acceptable guaranty to the Transmission Provider meeting the requirements of Section III for the transmission developer if a proposed transmission project is selected in a regional transmission plan for RCAP. If there is more than one parent company, the parent company(ies) committing to provide the guaranty must meet the requirements set forth herein.
  
- C. For an Unrated transmission developer, unless its parent company satisfies the requirements under B. above, such transmission developer must have and maintain a Rating Equivalent (defined below) of BBB- or better. Upon an Unrated transmission developer's request, a credit rating will be determined for such Unrated transmission developer comparable to a Rating Agency credit rating ("Rating Equivalent") based upon the process outlined below:
  - (i) Each Unrated transmission developer will be required to pay a non-refundable annual fee of \$15,000.00 for its credit to be evaluated/reevaluated on an annual basis.
  
  - (ii) Upon request by the Transmission Provider, an Unrated transmission developer must submit to the Transmission Provider for the determination of a Rating Equivalent, and not less than annually thereafter, the following information with respect to the transmission developer, as applicable:
    - a. financial statements (audited if available) for each completed fiscal quarter of the then current fiscal year including the most recent fiscal quarter, as well as the most recent three (3) fiscal years;
      - i. For Unrated transmission developers with publicly-traded stock, this information must include:

1. Annual reports on Form 10-K (or successor form) for the three (3) fiscal years most recently ended, and quarterly reports on Form 10-Q (or successor form) for each completed quarter of the then current fiscal year, together with any amendments thereto, and
  2. Form 8-K (or successor form) reports disclosing material changes, if any, that have been filed since the most recent Form 10-K (or successor form), if applicable;
- ii. For Unrated transmission developers that are privately held, this information must include:
1. Financial Statements, including balance sheets, income statements, statement of cash flows, and statement of stockholder's equity,<sup>2</sup>
  2. Report of Independent Accountants,
  3. Management's Discussion and Analysis, and
  4. Notes to financial statements;
- b. its Standard Industrial Classification and North American Industry Classification System codes;
- c. at least one (1) bank and three (3) acceptable trade references;
- d. information as to any material litigation, commitments or contingencies as well as any prior bankruptcy declarations or material defaults or defalcations by, against or involving the transmission developer or its predecessors, subsidiaries or affiliates, if any;
- e. information as to the ability to recover investment in and return on its projects;<sup>3</sup>
- f. information as to the financial protections afforded to unsecured creditors contained in its contracts and other legal documents related to its formation and governance;

---

<sup>2</sup> or other owner's equity

<sup>3</sup> Related, at Transmission Provider's request, the Unrated transmission developer should provide information as to its financial projections for the next five years and transmission developer's compliance with any existing financial covenants.

- g. information as to the number and composition of its members or customers;
- h. its exposure to price and market risk;<sup>4</sup>
- i. information as to the scope and nature of its business; and
- j. any additional information, materials and documentation which such Unrated transmission developer deems relevant evidencing such Unrated transmission developer's financial capability to develop, construct, operate and maintain transmission developer's projects for the life of the projects.

(iii) The Transmission Provider will notify an Unrated transmission developer after the determination of its Rating Equivalent. Upon request, the Transmission Provider will provide the Unrated transmission developer with information regarding the procedures, products and/or tools used to determine such Rating Equivalent (*e.g.*, Moody's RiskCalc™ or other product or tool, if used).

(iv) An Unrated transmission developer desiring an explanation of its Rating Equivalent must request such an explanation in writing within five (5) business days of receiving its Rating Equivalent. The Transmission Provider will respond within fifteen (15) business days of receipt of such request with a summary of the analysis supporting the Rating Equivalent decision.

3.<sup>5</sup> Evidence that the transmission developer has the capability to develop, construct, operate, and maintain significant U.S. electric transmission projects. The transmission developer should provide, at a minimum, the following information about the transmission developer. If the transmission developer is relying on the experience or technical expertise of its parent company or affiliate(s) to meet the requirements of this subsection 3, the following information should be provided about the transmission developer's parent company and its affiliates, as applicable:

A. Information regarding the transmission developer's or other relevant experience regarding transmission projects in-service,

---

<sup>4</sup> Such information should include, at Transmission Provider's request the Unrated transmission developer's risk management plans and policies and exposure to interest rate risk.

<sup>5</sup> While information described in this section is required to be provided by all transmission developers as and when required by, and will be used for the purposes described in, Southern Companies Open Access Transmission Tariff (Tariff Volume No. 5), such information, as regards this Credit Manual, need only be provided by, and will only be used to evaluate the creditworthiness of, Unrated transmission developers.

under construction, and/or abandoned or otherwise not completed including locations, operating voltages, mileages, development schedules, and approximate installed costs; whether delays in project completion were encountered; and how these facilities are owned, operated and maintained;

- B. Evidence demonstrating the ability to address and timely remedy failure of transmission facilities;<sup>6</sup>
- C. Violations of NERC and/or Regional Entity reliability standard(s) and/or violations of regulatory requirement(s) that have been made public pertaining to the development, construction, ownership, operation, and/or maintenance of electric transmission infrastructure facilities (provided that violations of CIP standards are not required to be identified), and, if so, an explanation of such violations; and
- D. A description of the experience of the transmission developer in acquiring rights of way.

- 4.<sup>7</sup> Evidence of how long the transmission developer and its parent company, if relevant, have been in existence.

**II. Change Notices:** The transmission developer must inform the Transmission Provider of the occurrence of any of the developments described in (1) or (2) below should the following apply (and within the prescribed time period): (i) within five (5) business days of the occurrence if the transmission developer has a pre-qualification application pending as of the date of the occurrence; (ii) upon the submission of a renewal request for pre-qualification should the development have occurred since the transmission developer was pre-qualified; (iii) prior to, or as part of, proposing a transmission project for potential selection in a regional transmission plan for RCAP should the development have occurred since the transmission developer was pre-qualified; and (iv) within five (5)

---

<sup>6</sup> Such evidence should include, without limitation, evidence of reasonably satisfactory insurance (or plan to obtain the same) and storm damage/natural disaster reserve policies, procedures and amounts.

<sup>7</sup> While information described in this section is required to be provided by all transmission developers as and when required by, and will be used for the purposes described in, Southern Companies Open Access Transmission Tariff (Tariff Volume No. 5), such information, as regards this Credit Manual, need only be provided by, and will only be used to evaluate the creditworthiness of, Unrated transmission developers.

business days of the occurrence if the transmission developer has a transmission project either selected or under consideration for selection in a regional transmission plan for RCAP. These notification requirements are applicable upon the occurrence of any of the following:

1. the existence of any material new or ongoing investigations against the transmission developer by the Commission, the Securities and Exchange Commission, or any other governing, regulatory, or standards body that has been or was required to be made public; if its parent company has been relied upon to meet the requirements of Section I or Section III, such information must be provided for the parent company and, in any event, with respect to any affiliate that is a transmitting utility; and
2. any event or occurrence which could constitute a material adverse change in the transmission developer's (and, if the parent company has been relied upon to meet the requirements of item 2 of Section I or of Section III, the parent company's) financial condition ("Material Adverse Change") such as:
  - A. A downgrade or suspension of any debt or issuer rating by any Rating Agency,
  - B. Being placed on a credit watch with negative implications (or similar) by any Rating Agency,
  - C. A bankruptcy filing or material default or defalcation,
  - D. Insolvency,
  - E. A quarterly or annual loss or a decline in earnings of twenty-five percent (25%) or more compared to the comparable year-ago period,
  - F. Restatement of any prior financial statements, or
  - G. Any government investigation or the filing of a lawsuit that reasonably would be expected to adversely impact any current or future financial results by twenty-five percent (25%) or more.

### **III. Credit and Security Requirements to Protect the Beneficiaries Against Delay or Abandonment of a Transmission Project Selected in a Regional Transmission Plan for RCAP**

1. **Demonstration of Financial Strength:** In order for a project to be selected and remain selected in a regional transmission plan for RCAP, the transmission developer must satisfy the following:

**1.1** Consistent with Section I, the transmission developer for such project or its parent company providing the Beneficiaries with a parent guaranty (“Parent Guarantor”) must have and maintain a Credit Rating of BBB- (or equivalent) or better from one or more of the Rating Agencies and not have or obtain less than any such Credit Rating by any of the Rating Agencies, or the transmission developer must be Unrated and have and maintain a Rating Equivalent of BBB- or better.

**1.2** In addition to the requirements of Section III.1.1, the transmission developer must satisfy one of the following by and at all times after the deadline established by the Beneficiaries:

1. The transmission developer must (i) have and maintain a Credit Rating of BBB+ (or equivalent) or better from one or more of the Rating Agencies and not have or obtain less than any such Credit Rating by any of the Rating Agencies or (ii) be Unrated and have and maintain a Rating Equivalent of BBB+ or better; or
2. The transmission developer must provide to and maintain with the Beneficiaries Eligible Developer Collateral (as defined in Section III.4 below) in an amount equal to twenty-five percent (25%) of the total costs of the transmission developer’s projects selected in a regional transmission plan for RCAP.

**2. Limitation of Exposure**

**2.1** Notwithstanding the foregoing, the Beneficiaries may limit their exposure with respect to transmission projects selected in a regional transmission plan being developed by a transmission developer satisfying the requirements of item 1 of Section III.1.2 above if the aggregate costs of such projects are at any time in excess of the lesser of (a) 10% of the transmission developer’s Tangible Net Worth if the transmission developer has a Tangible Net Worth of less than one billion dollars or (b)

two hundred fifty million dollars (the “Cap”). In such event, the transmission developer must provide to and maintain with the Beneficiaries Eligible Developer Collateral in a dollar amount not less than the amount by which the aggregate costs of such projects exceed the Cap. Each transmission developer will provide and update the Beneficiaries with such information as is necessary to establish and confirm the transmission developer’s Tangible Net Worth. For purposes hereof, “Tangible Net Worth” shall be equal to the relevant entity’s total equity minus its intangible assets and also minus its goodwill.

**2.2** Notwithstanding the foregoing, the Beneficiaries may limit their exposure with respect to transmission projects selected in a regional transmission plan being developed by a transmission developer or its affiliates who are satisfying the requirements of item 2 of Section III.1.2 or III.2.1 above by providing and maintaining a Developer Parent Guaranty (as defined in Section III.4 below) if the aggregate costs of such projects are at any time in excess of the lesser of (a) 10% of the Parent Guarantor’s Tangible Net Worth if such Parent Guarantor has a Tangible Net Worth of less than one billion dollars or (b) two hundred fifty million dollars (the “Guarantor Cap”). In such event, the transmission developer must provide to and maintain with the Beneficiaries an acceptable Irrevocable Letter of Credit in a dollar amount not less than the amount by which the aggregate costs of such projects exceed the Guarantor Cap. Each transmission developer will provide and update the Beneficiaries with such information as is

necessary to establish and confirm the Parent Guarantor's Tangible Net Worth.

**3. Credit Evaluation/Updates**

**3.1** On at least an annual basis, a transmission developer with a transmission project selected in a regional transmission plan for RCAP will provide the Beneficiaries with an updated, completed application and the updated information described in items 2, 3 and 4 of Section I, as applicable.<sup>8</sup>

**3.2** On at least an annual basis, or more often if there is a Material Adverse Change in the financial condition and/or a relevant change in the Tangible Net Worth of the transmission developer or its Parent Guarantor or if there are issues or changes regarding a transmission project, the Beneficiaries may review the Credit Rating and review and update the Rating Equivalent, Cap, Guarantor Cap and Eligible Developer Collateral requirements for said transmission developer. In the event said transmission developer is required to provide additional Eligible Developer Collateral as a result of the Beneficiaries' review/update, the Beneficiaries will notify the transmission developer and such additional Eligible Developer Collateral must be provided within five (5) business days of such notice, all in amount and form approved by the Beneficiaries.

**4. Eligible Developer Collateral:** Acceptable forms of eligible collateral meeting the requirements referenced below and the Beneficiaries' approval (the "Eligible Developer Collateral") may be either in the form of an irrevocable letter of credit

---

<sup>8</sup> Transmission developer should also provide the information referenced in footnotes 3, 4 and 6 *supra*, as applicable.

(“Irrevocable Letter of Credit”) or parent guaranty issued by a Parent Guarantor who has and maintains a Credit Rating of BBB+ (or equivalent) or better from one or more of the Rating Agencies and does not have or obtain less than any such Credit Rating by any of the Rating Agencies (“Developer Parent Guaranty”). Acceptable forms of Eligible Developer Collateral and related requirements and practices will be posted and updated on the Regional Planning Website and/or provided to the relevant transmission developer directly.

**4.1** An acceptable form of Irrevocable Letter of Credit that may be submitted as Eligible Developer Collateral is posted on the Regional Planning Website. The Transmission Provider may amend the form of acceptable Irrevocable Letter of Credit that may be submitted as Eligible Developer Collateral by posting an amended/updated form on the Regional Planning Website periodically and/or on a case-by-case basis.

**4.1.1** Each Beneficiary shall require an Irrevocable Letter of Credit to be issued to it in a dollar amount equal to the percentage of the costs of a transmission developer’s transmission projects allocated or proposed to be allocated to it (“Percentage”) multiplied by the aggregate dollar amount of all Irrevocable Letters of Credit constituting or to constitute Eligible Developer Collateral for such transmission projects. Each such Irrevocable Letter of Credit must be for an initial term of not less than three hundred sixty (360) days and be issued by a U.S. financial institution having a minimum corporate debt rating (not supported by third party credit

enhancements) of A- by S&P, A3 by Moody's, or A- by Fitch (or an equivalent short-term debt rating (not supported by third party credit enhancements) by any of the Rating Agencies) at the time of issuance and at all times the Irrevocable Letter of Credit is outstanding. All costs associated with obtaining an Irrevocable Letter of Credit will be the sole responsibility of the transmission developer. If a transmission developer chooses to replace an Irrevocable Letter of Credit with a new Irrevocable Letter of Credit, the Beneficiary will return the initial Irrevocable Letter of Credit when the replacement Irrevocable Letter of Credit is received by the Beneficiary in form and amount acceptable to such Beneficiary.

**4.1.2** The Irrevocable Letter of Credit shall by its terms automatically renew unless the issuing financial institution provides a notice to the Beneficiary at least ninety (90) days prior to its expiration date stating its decision not to renew the Irrevocable Letter of Credit. Upon and after receiving such notice, the Beneficiary shall be entitled to draw the full amount of the Irrevocable Letter of Credit.

**4.1.3** Should the amount of the Irrevocable Letter of Credit fall below the required level due to a drawing, it must be immediately replenished or substituted for by another form of Eligible Developer Collateral acceptable to the Beneficiary.

**4.1.4** If the issuing financial institution's corporate debt is no longer rated or is at any time rated less than A- by S&P, A3 by Moody's or A- by Fitch (or an equivalent short-term debt rating by any of the Rating Agencies) (not supported by third party credit enhancements) or if the Irrevocable Letter of Credit otherwise no longer satisfies the Eligible Developer Collateral criteria and related requirements, the transmission developer shall immediately submit another form of Eligible Developer Collateral acceptable to each Beneficiary in place thereof.

**4.2** An acceptable form of Developer Parent Guaranty is posted on the Regional Planning Website. The Transmission Provider may amend the form of acceptable Developer Parent Guaranty that may be submitted as Eligible Developer Collateral by posting an amended/updated form on the Regional Planning Website from time to time and/or on a case-by-case basis. Each Beneficiary shall require a Developer Parent Guaranty to be issued to it in a dollar amount equal to its Percentage multiplied by the aggregate dollar amount of all Developer Parent Guaranties constituting or to constitute Eligible Developer Collateral for such transmission projects.

The Developer Parent Guaranty must:

- (i) be in the form of Developer Parent Guaranty referenced above with any proposed modifications to such form by transmission developer being subject to review and approval by the Beneficiary;
- (ii) be denominated in United States currency;
- (iii) be written and executed solely in English, including any duplicate originals;
- (iv) be signed by an authorized officer or representative of the Parent Guarantor;

- (v) be authorized and executed in a manner acceptable to the Beneficiary; and
- (vi) if requested by the Beneficiaries, be accompanied by an executed and sealed Secretary's Certificate confirming that the execution, delivery and performance of the Developer Parent Guaranty is duly authorized and that the person signing the Developer Parent Guaranty is duly authorized, all in a manner acceptable to the Beneficiary.

**4.2.1** A transmission developer supplying a Developer Parent Guaranty must provide and continue to provide the same information regarding the Parent Guarantor as is required of a transmission developer, including rating information, financial statements and related information, references, litigation information and other disclosures, as applicable.

**4.2.2** If there is a Material Adverse Change in the financial condition of the Parent Guarantor or if the Developer Parent Guaranty comes within ninety (90) days of expiring without renewal or no longer satisfies the requirements of this Section III, the transmission developer will be required to immediately provide each Beneficiary with a substitute Developer Parent Guaranty or other substitute Eligible Developer Collateral.

**4.2.3** All costs associated with obtaining and maintaining Irrevocable Letters of Credit and/or Developer Parent Guaranties and meeting the requirements of this Section III are the responsibility of the transmission developer.

**4.2.4** Every Parent Guarantor under a Developer Parent Guaranty must:

- (i) satisfy all provisions of the Parent Guarantor financial criteria and related requirements;
- (ii) be a direct or indirect parent of the transmission developer;
- (iii) maintain an agent for acceptance of service of process in the United States;
- (iv) have and maintain a senior unsecured (or equivalent) rating by at least one Rating Agency acceptable to the Beneficiaries;
- (v) have and maintain a senior unsecured (or equivalent) rating (not supported by third-party credit enhancements) of BBB+ (or equivalent) or greater by any and all Rating Agencies that provide rating coverage of the entity or its debt; and
- (vi) if requested, provide financials to each Beneficiary in GAAP format or other format acceptable to the Beneficiary.

**4.2.5** If a proposed Developer Parent Guaranty is from an entity that is domiciled in a country other than the United States, the Developer Parent Guaranty agreement shall be considered a “Developer Foreign Guaranty”. All Developer Foreign Guaranties must not exceed fifty percent (50%) of the transmission developer’s Eligible Developer Collateral. In addition to all of the above conditions and requirements, every Parent Guarantor under a Developer Foreign Guaranty must:

- (i) be domiciled in a country with a minimum long-term sovereign (or equivalent) rating of AA+/Aa1 (or equivalent), with the following conditions: A) Sovereign ratings must be available from at least two Rating Agencies acceptable to the Beneficiaries; B) Each Rating Agency’s sovereign rating for the domicile will be considered to be the lowest of: country ceiling, senior unsecured government debt, long-term foreign currency sovereign rating, long-term local currency sovereign rating, or other equivalent measures (not supported by third party credit enhancements); and C) When two or more ratings from a

Rating Agency are available and/or when ratings are available from two or more Rating Agencies, the lowest of the ratings will be used;

- (ii) be domiciled in a country that recognizes and accepts judgments of United States courts; and
- (iii) demonstrate financial commitment to activity in the United States as evidenced by one of the following: A) its American Depository Receipts are traded on the New York Stock Exchange, American Stock Exchange, or NASDAQ; or B) it holds equity ownership worth over \$100,000,000 in wholly-owned or majority owned subsidiaries in the United States.

**4.2.6** Upon the Beneficiaries' request, the transmission developer, at its own cost, shall provide the Beneficiaries with a legal opinion from independent attorney(s)/solicitor(s) acceptable to the Beneficiaries, in form and substance acceptable to the Beneficiaries, confirming the enforceability of each Developer Parent Guaranty, the Parent Guarantor's legal authorization to issue each Developer Parent Guaranty, the compliance with the requirements of this Section III, and/or such other matters as the Beneficiaries may require. The Beneficiaries reserve the right to deny, reject, or terminate acceptance and acceptability of any Irrevocable Letter of Credit or any Developer Parent Guaranty as Eligible Developer Collateral at any time for reasonable cause, including the occurrence of a Material Adverse Change or other change in circumstances.

**4.2.7** If a Developer Parent Guaranty is utilized as Eligible Developer Collateral, the Eligible Developer Collateral value assigned thereto will (subject to the additional limitations on Developer Foreign Guaranties described above) not exceed the lesser of:

- The unused dollar limit imposed in the Developer Parent Guaranty; and
- The portion of the project cost which can be supported by such Developer Parent Guaranty as calculated by the Beneficiaries for the respective transmission developers and/or Parent Guarantor (as if it/they were the transmission developer) in the case of affiliated transmission developers and/or transmission developers with the same Parent Guarantor or affiliated Parent Guarantors.

**5. Cure Periods/Default:** If a transmission developer fails to comply with the requirements of this Section III and such failure is not cured within ten (10) business days after its initial occurrence, the Beneficiaries may declare such transmission developer to be in default hereunder and/or the Beneficiaries may, without limiting their other rights and remedies, revise the Cap, Guarantor Cap and Eligible Developer Collateral requirements; further, if such failure is not cured within an additional ten (10) business days, the Beneficiaries may, without limiting their other rights and remedies, immediately remove any or all of the transmission developer's projects from consideration for potential selection in the regional transmission plan for RCAP and, if previously selected, from being selected in a regional transmission plan for RCAP, as applicable.