



# Organization Policy

<b>Section:</b>	<b>Financing and Accounting</b>	<b>Number:</b>	<b>207.0</b>
		<b>Date Issued:</b>	<b>05/22/18</b>
<b>Subject:</b>	<b>Credit Policy</b>	<b>Supersedes Issuance Dated:</b>	

## I. PURPOSE

- A. To establish the guidelines for the determination of credit limits of Powder River Energy Corporation (PRECorp) based upon Board of Directors (Board) determined risk tolerance.

## II. POLICY

- A. The Board is responsible for determining PRECorp’s risk tolerance for potential credit losses and approving maximum levels of open credit. PRECorp’s overall credit risk tolerance drives the maximum levels of open credit that PRECorp may grant to its nonresidential members and guides the PRECorp’s management in making decisions regarding concentration risk.
- B. The Board provides the authority to PRECorp’s management to determine amounts of open credit to its individual members within the guidelines of the nonresidential credit risk procedure.
- C. PRECorp’s management is responsible for providing the Board with timely reporting of member exposures and collateral as well as suggestions as to any changes that may be considered to credit procedure, from time to time, that may improve upon the PRECorp’s ability to manage and mitigate its credit risks within a changing market environment.
- D. The following may be considered for collateral, in lieu of a cash deposit:
  - 1) Letter of Credit: In lieu of a required deposit, PRECorp may accept a letter of credit from a nonresidential applicant or nonresidential member in an amount equal to the required deposit and in a form that is approved by the PRECorp Board and from a Bank in Good Standing.

2) Guarantee: PRECorp may accept guarantees from a member's parent or affiliate in an amount equal to the required deposit and in a form that is approved by the PRECorp Board.

E. Total credit exposures by industry will be tracked, monitored, and reported to the Board, along with a brief industry outlook for any relevant industries, as deemed helpful. This reporting will help inform the Board, from time to time and as needed, for purposes of reexamining PRECorp's risk tolerance and maximum open credit limits.

F. Collateral documents placed in the hands of the PRECorp shall be kept in the PRECorp's safe deposit box at PRECorp's bank, as designated by the Chief Financial and Administration Officer (CFAO).

III. RESPONSIBILITY

A. It shall be the responsibility of the Board of Directors to periodically review this policy and the credit procedure to see that it is reasonable and equitably serves the purpose for which it is established.

B. The Chief Executive Officer (CEO) and the Chief Financial and Administration Officer (CFAO) are responsible for the administration of this policy.

IV. BOARD ESTABLISHMENT OF POLICY

This policy was established by the PRECorp Board of Directors at its meeting held May 22, 2018.

APPROVED:

  
Secretary/Treasurer

Date Amended/Reviewed: May 22, 2018

# Powder River Energy Corporation

## Nonresidential Member Credit Risk Procedure

June 2018

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## Introduction and Purpose

Powder River Energy Corporation (“PRECorp”) is an electricity transmission and distribution cooperative whose mission is to safely and reliably deliver electricity to its members at a reasonable cost. PRECorp is a not for profit entity and passes along its costs to members in the form of rates, as approved by the Wyoming Public Service Commission. As a non-profit corporation that exists to serve its members PRECorp operates with a low tolerance for business risks, including credit risk.

The purpose of this document is to outline PRECorp’s intent to manage credit risk and to minimize exposure to losses associated with nonpayment or default from its nonresidential members. PRECorp has determined that active and prudent management of credit risk will contribute to avoiding financial loss that might need to be passed on to its members in the form of higher rates.

## Responsibilities and Authorities

The Board of Directors is responsible for determining PRECorp’s risk tolerance for potential credit losses and approving maximum levels of open credit. PRECorp’s overall **credit risk tolerance** drives the maximum levels of open credit that PRECorp may grant to its nonresidential members and guides the Corporation’s management in making decisions regarding **concentration risk**. The Board of Directors provides the authority to PRECorp’s management to determine amounts of open credit to its individual members within the guidelines of this nonresidential credit risk procedure.

PRECorp’s management is responsible for providing the Board of Directors with timely reporting of member exposures and **collateral** as well as suggestions as to any changes that may be considered to this procedure, from time to time, that may improve upon the Corporation’s ability to manage and mitigate its credit risks within a changing market environment. The Board of Directors may also initiate discussion and/or action regarding these issues.

The PRECorp Treasury Department is responsible for managing the Corporation’s credit risk, which includes, but is not limited to:

- Coordinating credit assessments for members,
- Coordinating objective credit screens, as needed or required,
- Determining and monitoring open credit,
- Determining and managing member security deposits,
- Managing and maintaining credit **collateral** other than security deposits,
- Negotiating payment terms,
- Providing credit reporting to internal stakeholders, and
- Monitoring **concentration risk**.

## Definitions

Credit risk is the risk of financial loss due to a member’s failure to fulfill the terms of its financial obligations to PRECorp on a timely basis. Credit risk depends upon the likelihood of a member’s default, the amount of the member’s exposure, and estimated recovery rates. Terms defined below will be placed in **bold** font for reference throughout this document.

For the purposes of this manual, credit risks are defined as follows:

**Credit Risk Tolerance:** An estimate of the overall amount of financial loss PRECorp’s Board of Directors has determined to be allowable at any one time or within an accounting period from a default of other non-payment for power deliveries and/or other services to any individual member or combination of members.

**Current Exposure:** A point in time estimate of the financial loss that would be incurred if a given member were to default on its obligations under its existing transactions.

<b>Current Exposure</b> =	Unpaid invoices	+ Accrued unbilled accounts receivable	- <b>Collateral</b> Held by PRECorp
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**Concentration Risk:** Represents a large percentage of credit risk associated with one or more members in relation to the overall portfolio of members’ credit risk. **Concentration risk** can occur with a single member or for groupings of members as by industry, geographic area or other criteria.

**Other Definitions:**

**Available Credit:** Any positive amount remaining after subtracting the value of a member’s **current exposure** from its **credit limit**.

**Bank in Good Standing:** A U.S. based financial institution or domestic branch of a foreign financial institution with total shareholder’s equity of at least USD \$1.0 billion that has a senior unsecured or company **credit ratings** of at least BBB+/Baa1 from an **Established Rating Agency** and that is acceptable to PRECorp. In the event of Split Ratings, the lowest of the rating agency ratings shall be used. For letters of credit for amounts less than or equal to \$250,000, a local or regional bank that is known and acceptable to PRECorp is also considered a **Bank in Good Standing**.

**Cash Deposit:** Cash **collateral** provided by a **member** and held by PRECorp.

**Collateral:** Security provided in support of transactions, such as security deposits (cash), letters of credit or guarantees.

**Credit Limit:** The total of a **member’s** open credit plus the amount of any acceptable **collateral** provided to PRECorp. PRECorp may adjust a **member’s** open credit due to changes in credit exposure or member rating.

**Credit Rating:** An **implied rating** or a **rating agency rating** from an **Established Rating Agency**.

**Commission:** The Wyoming Public Service Commission, also referred to as WPSC.

**Established Rating Agency:** Standard and Poor’s (“S&P”), Moody’s Investor Service (“Moody’s”), or Fitch Ratings (“Fitch”).

**Guarantee Agreement:** An agreement issued by a parent company or other entity guaranteeing responsibility for the obligations of a **member** under its membership agreement with PRECorp.

**Guarantor:** The entity providing a third party guarantee pursuant to a **Guarantee Agreement**.

**Implied Rating:** For unrated **members**, an **established rating agency** equivalent rating as determined by an objective credit screen. S&P's rating scale will be used to depict the **implied rating**.

**Letter of Credit:** An irrevocable, transferable, standby **letter of credit** in a form that is acceptable to PRECorp and issued by a **Bank in Good Standing** to PRECorp.

**Member:** Nonresidential **member** of Powder River Energy Corporation.

**Open Credit:** The amount of unsecured credit allowed to a **member** based upon an assessment of that company's financial strength / overall creditworthiness.

**Rating Agency Rating:** A senior unsecured or company rating from an **Established Rating Agency**.

**Secured Credit:** The amount of credit backed by acceptable **collateral**.

**Security Deposit:** A **cash deposit** required from a nonresidential **member** that does not qualify for **open credit** under the terms of this policy and/or PRECorp's Tariffs.

**Split Ratings:** Occurs when either (a) two or more of the established rating agencies have provided senior unsecured and/or company ratings that differ from each other and/or (b) a single rating agency has issued both a senior unsecured rating and a company rating that differs from one another.

**Tariff:** For purposes of this procedure, this term means Powder River Energy Corporation Tariffs inclusive of rate schedules and PRECorp rules and regulations.

## Credit Assessment

Every nonresidential PRECorp **member** with 2 cumulative months of the **member's** average monthly billings over \$2,000 is subject to an objective credit screen to determine financial strength and creditworthiness in order to qualify for open credit. Using an objective credit screen, the Treasury Department (or others as designated by the CEO) will determine whether a **member** qualifies for an amount of **open credit** or must post a deposit. Prior to initiating a credit screen, the Treasury Department will review and validate a **member's** application to determine whether they are eligible to apply for **open credit**. Please refer to Appendix 1 – Determine Eligibility for Credit Assessment.

### Objective Credit Screen

There are three (3) types of objective credit screens utilized for nonresidential **members**; (1) Rating Agency Rating, (2) Intelliscore Report, or (3) an objective credit screen by a qualified third party of the Corporation's choosing ("Third Party Credit Screen"). The application of each of these options is based upon specific conditions and may not be chosen subjectively by PRECorp staff. The decision regarding which credit assessment applies is also outlined in the Credit Assessment Process flowchart (Appendix 2).

#### (1) Rating Agency Rating

If the **member** has a **Rating Agency Rating** from an **Established Rating Agency**, then the lowest of these ratings will be used as the **credit rating** for determining a maximum amount of credit. If the total of 2 cumulative months of average monthly billings exceeds the maximum amount of **open credit** permitted for its rating, a fractional deposit will be required for the difference between the total amount of any deposit and/or other **collateral** already held by PRECorp and the maximum amount of **open credit**.

## (2) Intelliscore Report

If the **member** does not have an applicable Rating Agency Rating and if two (2) cumulative months of the **member's** average monthly billings are, or (if two months are not available) are expected to be, under \$50,000, the **member** will be screened using the Business Intelliscore Report from the Online Utility Exchange which provides a pass or fail **credit rating**.

- If the **member** passes, they will be granted an amount of **open credit** of up to \$50,000.
- If the **member** fails, a full deposit is required.
- If the result is a no score, a full deposit is required for any **member** that has: 1) less than 24 months of on time payment or 2) total of 2 cumulative months of average monthly billings exceeding \$5,000.

## (3) Third Party Credit Screen

If the **member** does not have an applicable Rating Agency Rating and if two (2) cumulative months of the **member's** average monthly billings are expected to be equal to or greater than \$50,000, then the Treasury Department will refer to an outside third party of its choosing to provide an objective credit screen and to determine an **implied rating** for determining an amount of **open credit**. If the total of 2 cumulative months of average monthly billings exceeds the maximum amount of **open credit** permitted for its **credit rating**, a fractional deposit will be required for the difference between the total amount of any deposit and/or other **collateral** already held by PRECorp and the maximum amount of **open credit**.

- The **member** must supply at least 3 years of audited financial statements including financial notes/footnotes to allow for an objective third party credit screen. If the **member** does not supply such statements within 2 weeks of a written request from PRECorp, PRECorp may move forward as if the **member** has refused to supply this documentation.

## New Members

Each new **member** is subject to an objective credit screen unless they elect to post a deposit instead for two (2) months of billing based on anticipated load characteristics. In the event that the new **member** applicant would like to apply for **open credit**, they will be screened as outlined above and in Appendix 1.

## Existing Members

Every **member** will be reviewed at least annually (meaning the review will start within a year of obtaining a deposit based on the prior review) using the objective credit screen or the **member** may elect to post a full deposit of two (2) months of average monthly billing. After the objective credit screen, the **member's open credit** and required level of deposit will be reviewed. Required deposits and available **open credit** may change from year to year based not only on changes in the **member's** financial condition, but also based on PRECorp's overall risk tolerance and **concentration risks**.

## Credit Limits

The maximum amounts of **open credit** in the table below represent the maximum amount of **open credit** that PRECorp is willing to grant to a **member** based upon that **member's** financial strength as reflected by its **credit rating**. To qualify for **open credit** the **member** must pass an appropriate objective credit screen as outlined above in the Credit Assessment section. Open amounts of credit will be assigned based on the **Rating Agency Rating**, Intelliscore Pass Rating, or an **Implied Rating** as determined by an objective third party of PRECorp's choosing. When subsidiaries of a parent or holding company seek independent stand-alone amounts of open



credit based upon separate credit assessments the total amount of **open credit** in aggregate for all of the parent or holding company's subsidiaries or related companies will not be set higher than two times the amount of **open credit** that would be allowed for the parent or holding company as a stand-alone based on the **credit rating** of the parent or holding company.

The amount of **open credit**, along with evidence of the **member's credit rating** and all supporting financials, are to be maintained within the **member's** credit file. The amount of **open credit** suggested by the Manager of Treasury should be acknowledged by signature from the Chief Financial and Administrative Officer or Chief Executive Officer before utilized.

**Powder River Energy Corporation  
Credit Limit Matrix - June, 2018**



S&P	Moody's	Fitch	S&P 1 Year Average* Default Rate	S&P 1 Year Maximum* Default Rate	Maximum Open Credit	
AAA	Aaa	AAA	0.00%	0.00%	\$2,500,000	
AA+	Aa1	AA+	0.00%	0.00%	\$2,500,000	
AA	Aa2	AA	0.01%	0.44%	\$2,500,000	
AA-	Aa3	AA-	0.02%	0.41%	\$2,500,000	
A+	A1	A+	0.05%	0.58%	\$2,500,000	
A	A2	A	0.06%	0.40%	\$2,500,000	
A-	A3	A-	0.08%	0.79%	\$2,500,000	
BBB+	Baa1	BBB+	0.14%	1.10%	\$2,000,000	
BBB	Baa2	BBB	0.24%	1.40%	\$1,500,000	Investment Grade
BBB-	Baa3	BBB-	0.27%	1.33%	\$1,000,000	
BB+	Ba1	BB+	0.55%	3.70%	\$500,000	Non- Investment
BB	Ba2	BB	0.78%	3.09%	\$250,000	
BB-	Ba3	BB-	1.31%	7.04%	\$100,000	
B+	B1	B+	2.25%	8.72%	\$50,000	
B	B2	B	6.49%	17.17%	\$0	
B-	B3	B-	9.26%	32.43%	\$0	
CCC+	Caa1	CCC	23.64%	49.46%	\$0	
CCC	Caa2	CCC	DNA	DNA	\$0	
CCC-	Caa3	CCC	DNA	DNA	\$0	
CC	Ca	CCC	DNA	DNA	\$0	
C	Ca	CCC	DNA	DNA	\$0	
D	C	DDD	DNA	DNA	\$0	
D	D	DD	DNA	DNA	\$0	
D	D	D	DNA	DNA	\$0	

**(Note: S&P default rates reflect ave/max by ratings for the period 1981 - 2014)**

Once acknowledged, the amount of **open credit**, **collateral**, and deposits for each **member** is tracked as outlined below.

## Deposits and Other Collateral

In the event that a **member** does not choose to have a credit assessment, if they do not qualify for **open credit**, or if the **open credit** assigned is not sufficient to cover 2 months of average monthly billings, the **member** will be asked to post a **cash deposit**, or other form of **collateral** that is acceptable to PRECorp. A **member** may also be asked to post additional deposit or other **collateral** if their **current exposure**, at any time, exceeds the total approved **credit limit**.

**Cash Deposit:** Unless otherwise ordered by the **Commission**, a required **cash deposit** shall not exceed the total amount of a **member's** estimated bill for two months of average use based upon the **member's** monthly bills during the immediate previous 12-month period or based upon PRECorp's calculation of anticipated service characteristics and anticipated load if there is not an immediately previous 12-month period.

**Letter of Credit:** In lieu of a required deposit, PRECorp may accept a **letter of credit** from a nonresidential applicant or nonresidential **member** in an amount equal to the required deposit and in a form that is acceptable to PRECorp and from a **Bank in Good Standing**.

**Guarantee:** PRECorp will consider accepting guarantees in a form that is acceptable from PRECorp from a **member's** parent or affiliate that itself has at least a senior unsecured or company investment grade rating of BBB-/Baa3. In the case of **Split Ratings**, the lowest of the ratings shall be used to determine investment grade status. Any **guarantee** PRECorp accepts will be in a form acceptable to PRECorp.

## Document Security

PRECorp will take all reasonable measures to ensure original **collateral** documents such as **letters of credit** and signed third party **guarantees** are securely maintained. The Treasury Department has designated the Manager of Treasury as the primary custodian for maintenance of original documents. Each document received must be scanned and saved electronically, logged into a master list of original documents on file, and ultimately stored in PRECorp's bank safe deposit box as soon as is practicable. In the interim, while the document is in the office, it must be filed in a designated fireproof cabinet or other secure location. Access to the secure location is limited to the Manager of Treasury, the Chief Financial and Administrative Officer, and the CEO. If an original document must be taken from storage, its removal should be logged in the master list, including date and time of removal, as well as who accessed the document. Under no circumstances should original **collateral** documents be left unsecured overnight. At least once a year the Manager of Treasury will perform a reconciliation of original **collateral** documents physically on file against those logged into the master list.

## Credit Monitoring

### Exposure and Limits

The Treasury Department is responsible for monitoring each **member's** total **credit exposure** and aging of accounts receivable on at least a monthly basis to ensure that all **members** remain within their **credit limits**. In the event that a **member** account becomes delinquent, PRECorp has the right to terminate service in accordance with the terms of the **Tariff** and/or contract with the **member**. If the **member's credit exposure** exceeds its **credit limit**, the **member** has 10 days from the date of a written request for additional credit **collateral**. A **member** may not exceed its **credit limit** for more than 30 days. If it exceeds its **credit limit** for more than 30 days and ten (10) days have expired since the date of notice (not counting the date of notice), the **member's** service may be disconnected in accordance with the terms of the **Tariff** and/or contract with the **member**.

Once an amount owed to PRECorp becomes 90 days past due, the Treasury Department in collaboration with the Legal Department may elect to file a lien against any real property held by the nonresidential **member** in default.

### Ratings and Creditworthiness

PRECorp will attempt to proactively identify declines in credit quality. In the event of a **credit rating** downgrade, the Treasury Department will reassess and may adjust the approved **open credit**. In the event of a downgrade, the **member** may be asked to post additional **collateral**. As ratings downgrades frequently trigger **collateral** calls on **members** from their other vendors and counterparties, it is important that **members** respond to requests for additional **collateral** promptly. **Member** have up to twenty (20) days from a call for additional **collateral** to respond or the **member** will be considered as having refused to provide the appropriate deposit.

Recognizing that credit deterioration may also occur in PRECorp's unrated **members** that were assessed for credit quality through the objective credit screen, it is important that the Treasury Department monitor news and other noteworthy developments for the **members** with the largest exposures throughout the year to determine if a reassessment of credit quality is warranted. The Manager of Treasury will set up news alerts for all large nonresidential **members** to watch for developments that may indicate a financial deterioration or other events that suggest a reassessment of credit quality is necessary.

### Concentration Risk

PRECorp's nonresidential **members** are concentrated in certain industries and subsectors, primarily coal mining, oil & gas, and agriculture, wherein macroeconomic financial distress or other industry hardship (i.e. volatility in commodity prices or environmental regulations) may significantly increase PRECorp's risk of default from a group of **members**. As a result of these industry concentrations and the geographical concentration of PRECorp's service area, PRECorp's Board of Directors will consider **concentration risk** when determining and authorizing maximum open **credit limits**.

Total **credit exposures** by industry will be tracked, monitored, and reported to the Board, along with a brief industry outlook for any relevant industries, as deemed helpful. This reporting will help inform the Board, from time to time and as needed, for purposes of reexamining PRECorp's risk tolerance and maximum open **credit limits**.

### Credit Reporting

The Treasury Department is responsible for providing the following reports at least monthly to the appropriate stakeholders:

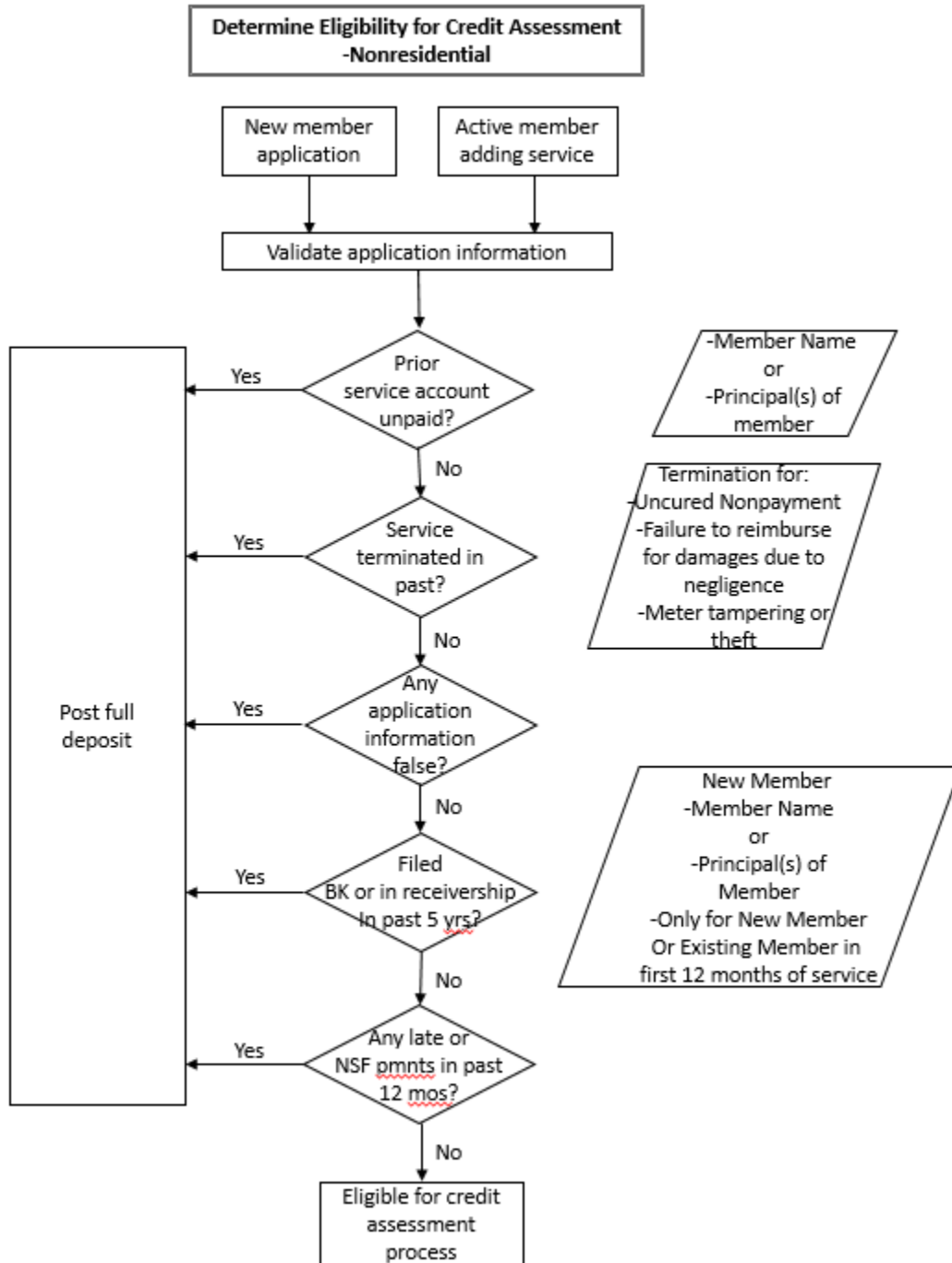
- **Open Credit**, Deposits, **Letters of Credit** and **Guarantees**
- Total **Credit Exposure** versus Total **Credit Limit**
- **Credit Exposure** by Industry Subsector

On an annual basis, the following shall be circulated to the appropriate stakeholders:

- Inventory of Original **Collateral** Documents on File

# Appendices

## Appendix 1 – Determining Eligibility for Credit Assessment



## Appendix 2 – Credit Assessment Process

