

PUC (TRANSMISSION) LP



SECURITY DEPOSIT PROCEDURE

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Security Deposit Procedure

1. Introduction

This Procedure was developed in accordance with section 6.3.11 of the TSC. The purpose of the security deposit is to provide PUC with some means to mitigate risk to transmission connection pool customers during the construction phase of a connection. PUC has the right under the TSC to retain all or part of the security deposit when it has expended funds for a new connection to its transmission system or made modifications to its transmission system to accommodate a customer and the customer does not connect or fails to reimburse PUC for funds expended on its behalf.

For the purposes of this Procedure:

“Agreement” means an agreement made between the Applicant and PUC where PUC is required to order long-lead time equipment, perform engineering work or construct new or modified network or connection facilities, in relation to a connection application from the Applicant where new or modified network or connection facilities need to be constructed.

“Material change in financial risk”, consistent with the definitions in the Ontario Securities Act (R.S.O. 1990), means a “material change” or “material fact” as defined below:

“Material change”:

- (a) a change in the business, operations or capital of the Applicant or its corporate parent (where a parental guarantee is being provided) that would reasonably be expected to have a significant effect on the market price or value of any of the securities of the Applicant or its corporate parent, or that would be considered important by a reasonable investor.
- (b) a decision to implement a change referred to in (a) above made by the board of directors or other persons acting in a similar capacity or by senior management of the Applicant or its corporate parent who believe that confirmation of the decision by the board of directors or such other persons acting in a similar capacity is probable.

“Material fact”: when used in relation to an Applicant or its corporate parent, means a fact that would reasonably be expected to have a significant effect on the market price or value of any of its securities.

2. Requirement for Security Deposit:

PUC may require each Generator, Storage, or Load Applicant to provide a security deposit at or before the time of executing a Connection and Cost Recovery Agreement (CCRA).

3. Amount of Security Deposit:

Table 1 below prescribes the amount of total aggregate security that a Generator, Storage, or Load Applicant will be required to provide PUC with respect to new or modified connection or network facilities. PUC shall not require a security deposit in relation to the construction of an enabler facility.

Table 1: Total Aggregate Security Deposit Requirement During Construction for Generator, Storage and Load Applicants

Credit Rating	Total Aggregate Security Deposit Requirement	Rationale for Security Amount
AAA- and above, and LDC's with an acceptable credit rating	None	Highest credit rating. Long term stability supported by municipal tax base.
BBB- to AA+ (investment grade)	25% of MNE	Good credit rating.
BB- to BB+ (below investment grade)	50% of MNE	Fair credit rating just below investment grade, possibly caused by temporary or cyclical factors.
B+ or below, or unrated	100% of MNE	Low or no credit rating.
Future Customers (including LDC's) (Section 6.3.9 of the TSC)	100% of incremental costs required to install additional capacity	Up to 5 year lead time for connection requires security deposit if customer does not connect.

Maximum Net Exposure (MNE) is equal to PUC's estimated Connection and Network Costs, less Capital Contribution allocated to benefitting customers. Security deposit requirements may be reduced if cost recovery is reasonably assured through confirmation by the OPG, IESO or OEB, or if customer credit-worthiness is established through means other than a bond rating, such as Altman-Z or Kaplan-Urwitz credit scores or other means. Any adjustments to the security deposit requirements are at PUC's sole discretion.

Phased Project

PUC may collect the total aggregate security deposit requirement defined above over one or more discrete phases as the project progresses. The Applicant will provide the additional security deposit required by PUC for each subsequent phase no later than 10 days following written notice from

PUC. If the Applicant fails to provide the required additional security deposit within such 10-day period, PUC will have the right to suspend all work related to the project and may terminate the connection work for cause.

4. Form of Security Deposit:

The Applicant shall provide any required security deposit in the form of cash, letter of credit or surety bond, or a combination thereof or such other form on which the Applicant and PUC may agree.

If the Applicant has an affiliate with a good credit rating and the affiliate is willing to provide a guarantee towards the Applicant's indebtedness, PUC may consent to the use of the affiliate's credit information when determining the Applicant's security deposit requirements, provided that if the Applicant or affiliate experiences a material change in financial risk during the construction phase of the project or prior to the in-service date, the Applicant must advise PUC within 5 business days of the change, and PUC shall have the right to require an additional security deposit. The additional security deposit at the Applicant's option may be in the form of cash, letter of credit or surety bond, or a combination thereof. The Applicant shall have 5 business days to comply with PUC's request.

5. Security Deposits in the Form of Cash:

The TSC section 6.3.11 states that when an Applicant provides all or any portion of a security deposit in the form of cash, upon returning the security deposit, PUC shall pay interest to the Applicant at the following rates:

- a) for the period between the date on which the security deposit was provided by the Applicant and the date on which the security deposit is required to be returned by PUC, at the average over the period of the prime lending rate as published on the Bank of Canada website, less two percent; and
- b) for the period after the date on which the security deposit is required to be returned by PUC, the prime lending rate as published on the Bank of Canada website, plus two percent.

6. Right to Retain All or Part of a Security Deposit:

PUC may retain all or a part of a security deposit that has been given in relation to the construction or modification of connection or network facilities in any one or more of the following circumstances:

- a) where the Applicant subsequently fails to connect its facilities to PUC's new or modified connection facilities;
- b) where the Applicant terminates an Agreement or PUC terminates an Agreement as a result of a breach of the Agreement by the Applicant;
- c) where the Applicant fails to make any payment due under the terms of an Agreement; and
- d) to remedy any non-financial breach by the Applicant of an Agreement made by the parties in relation to the construction or modification of connection or network facilities.

PUC shall not otherwise retain a security deposit given in relation to the construction or modification of network facilities unless the Board has first determined under section 6.3.5 of the TSC that exceptional circumstances exist so as to reasonably require the Applicant to make a capital contribution for the construction or modification of network facilities.

7. Returning Security Deposits:

PUC shall return security deposits in any of the following circumstances:

- a) if the security deposit is in the form of cash, PUC shall return the security deposit to the Applicant, together with interest at the rate referred to in section 5 of this procedure, less the amount of any capital contribution owed by the Applicant, once the Applicant's facilities are connected to PUC's transmission facilities;
- b) if the security deposit is in a form other than cash, PUC shall return the security deposit to the Applicant once the Applicant's facilities are connected to PUC's transmission facilities and any capital contribution owing has been paid; and
- c) pursuant to TSC section 6.3.5, where an Applicant requests that PUC not commence with construction pending direction from the Board, PUC shall promptly return to the Applicant any outstanding security deposit related to the construction of the new or modified connection, unless the Applicant and PUC agree otherwise, less any expenditures made or committed by PUC prior to the request.

8. Customer Requiring Capacity in the Future

Where PUC is, at the time at which it is constructing a connection facility for an Applicant, aware of another future customer that will need capacity within five years of the construction of the connection facility, PUC shall add that capacity to the connection facility at the time of construction, provided that it obtains a security deposit in a form referred to in the TSC section 6.3.11 from that future customer to cover the cost of that additional capacity. The amount of the capital contribution to be obtained from the Applicant and the amount or value of the security deposit to be collected from the future customer shall be determined using the economic evaluation methodology set out in the TSC section 6.5, the load forecasts of both customers and the methodology for attributing that capital contribution as described in the TSC section 6.3.14, 6.3.14A, 6.3.15 or 6.3.16. At the time of connection of the future customer's facilities, PUC shall where required redo the original economic evaluation using the same inputs except for any revised load forecast provided by the future customer. This will determine the amount of capital contribution to be collected from the future customer.

Where the security deposit is in the form of cash, PUC shall return the security deposit to the future customer at the time of connection of its facilities to the connection facility, together with interest at the rate referred to in section 5 of this procedure, less the amount of the future customer's capital contribution. Where the security deposit is in a form other than cash, the transmitter shall return the security deposit to the future customer upon receipt of the customer's capital contribution. (Code section 6.3.9)

9. Additional Security Deposits:

An Applicant may be required to provide additional security deposits at any time after PUC has executed an Agreement if, (a) the Applicant is in default of a term of such an agreement and has not remedied the default within the cure period specified in the agreement or, if no cure period is specified in the agreement, a reasonable cure period, or (b) if there is a material change in financial

risk associated with a proposed new or modified connection. When an Applicant becomes aware of a material change in financial risk it must advise PUC of the change within 5 business days. Failure to do so will be considered a material breach of the Agreement.

In a case where more than one Applicant triggers the need for a transmission upgrade, an Applicant may be required to provide an additional security deposit or extend the term of a security deposit after PUC has executed Agreements and collected initial security deposits. This would occur when an Applicant's proportional share of the upgrade cost increases because of other Applicant projects being delayed or cancelled that would have been contributors to the upgrade as originally planned and calculated in the Agreements.

PROCESS OVERVIEW

The process for establishing security deposits integrates with the over-all transmission connection process and is usually done in conjunction with the development of a Connection and Cost Recovery Agreement (CCRA). In situations where it is necessary to advance work or order equipment to meet critical in-service dates, PUC may consider proceeding with a letter agreement requiring a security deposit for 100% of the related costs minus any advance payments made by the customer prior to signing a CCRA. The letter agreement will include a date by which the CCRA must be signed.

Customer Application:

When an Applicant submits a connection application to PUC, after the Applicant and PUC have agreed to the scope of the project and a Customer Impact Assessment has been completed, PUC will provide the Applicant with an estimated cost of the work to complete the connection. Included with the estimate will be information on whether a security deposit is required and if required, the amount of the security deposit. The amount of the security deposit will be affected by the amount of contestable work the Applicant elects to carry out on its own or through a third party. The Applicant has an opportunity subsequent to receiving this information to decide if it wants to proceed with the project or not. If the Applicant decides to proceed, a CCRA is negotiated between the Applicant and PUC.

Security Deposit Terms within a Connection and Cost Recovery Agreement:

A CCRA contains the terms of the agreement between the Applicant and PUC for the construction and connection to a new or modified facility, including the terms of its financial repayment. It includes the scope of the project and the work each party is responsible for completing. The estimated cost of work and which group is responsible for paying those costs are identified in the Agreement.

Where costs for construction or modification of connection or network facilities can be attributed to more than one Applicant requiring the new connection or modification, the total shared connection and network costs will be allocated on a prorated "per MW" basis as a percentage of the total capacity between the Applicants requiring the new or modified connection, or on such other basis as may be agreed to by the parties. For example, assuming each requires its own dedicated

connection facilities, generator A with a capacity of 200MW and generator B with a capacity of 300MW for a total of 500MW would share network costs on a basis of 40% (200/500) for generator A and 60% (300/500) for generator B.

The amount of security deposit to be paid will be stipulated in the CCRA, as well as when it will be paid and the rules concerning how and when it is returned or retained by PUC in accordance with this document and the TSC. The security deposit will normally be paid by the time the Applicant signs the CCRA.

Security Deposits and Progress Payments during Project Construction:

During the construction phase, costs will be incurred by PUC on behalf of the Applicant. Where there is a capital contribution required, the Applicant will be expected to make progress payments towards the capital contribution in accordance with an agreed payment schedule in the CCRA. The progress payment schedule will typically coincide with the costs incurred for the project. The total capital contribution payable will be deducted from PUC's estimate of the total of the network and connection costs for the new connection or upgrade for the purposes of calculating the Maximum Net Exposure (**MNE**). The MNE represents PUC's at-risk amount during the construction phase. For the purposes of calculating the aggregate security deposit, the MNE will be a one-time only calculation and will not be adjusted on an ongoing basis unless there is a material change in the Applicant's financial risk. The MNE will be calculated shortly before or when the CCRA is being drafted.

The Applicant will provide its credit rating, taken from any of the reputable credit rating agencies, to PUC, which will determine the amount of security deposit required in accordance with Table 1 above. The amount of the aggregate security deposit required using Table 1 may be reduced if cost recovery is reasonably assured through confirmation by the OPA, IESO, or OEB, or if Applicant credit-worthiness is established through means other than a bond rating, such as Altman-Z or Kaplan-Urwitz credit scores or other means. Any adjustments to the security deposit requirements are at PUC's sole discretion.

In the event of a Material Change in the Financial Risk of an Applicant, for example a credit-watch or lowered credit rating, PUC reserves the right to request an increased security deposit. The Applicant is required to advise PUC of a material change in the Applicant's financial risk within 5 business days.

Example of Security Deposit Calculation:

This example is for a hypothetical Applicant with a BB+ credit rating with allocated network and connection costs estimated at \$20M and capital contribution of \$4M. The Maximum Net Exposure (MNE) is \$16M (\$20M minus \$4M). The aggregate security deposit requirement is 50% of the MNE which amounts to \$8M. PUC may collect the total aggregate security deposit requirement over one or more discrete phases as the project progresses. The security deposit can be provided in the form of cash, letter of credit or surety bond, as may be selected by the Applicant, or in such other form as the Applicant and PUC may agree.

Return of Security Deposit after Project Completion:

PUC will return the Applicant's security deposit after the construction phase of the project is complete and the Applicant has connected its facilities to PUC's transmission facilities. The CCRA will provide a timeline by which the Applicant is expected to have its facility in-service.

Security deposits provided by future Applicants (as noted under TSC section 6.3.9) will be returned after their facilities are connected to PUC's new or modified facilities.