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## **Introduction**

TransCanada reviews all Shippers and potential Shippers to determine if financial assurances are required.

The provision of financial assurances, when requested, is a condition for obtaining and continuing service with TransCanada.

## **Financial Assurance Requirements**

### **1. Determination of Creditworthiness**

The creditworthiness of all Shippers and potential Shippers is assessed by TransCanada. All non-creditworthy Shippers, as determined by TransCanada, are required to post financial assurances upon request.

TransCanada determines the creditworthiness of a Shipper by using information provided by the Shipper, and / or other information pertaining to the creditworthiness of the Shipper that is available. (Section 7 outlines the various forms of financial, credit, and business information that TransCanada may use in assessing the financial position of a Shipper).

Any Shipper determined to be non-creditworthy, including any Shipper who does not provide information sufficient for TransCanada to establish the Shipper's creditworthiness, will be required to provide TransCanada with an acceptable financial assurance within four Banking Days of request, in an amount up to the maximum stipulated in the Tariff (see Section 3).

If requested, TransCanada will provide an explanation of its creditworthiness determination to a non-creditworthy Shipper.

### **2. Acceptable Financial Assurances**

A non-creditworthy Shipper must provide, within four Banking Days of request, a financial assurance such as an irrevocable letter of credit or other form of financial assurance acceptable to TransCanada.

TransCanada will continue to accept other forms of financial assurances which may include the provision of an acceptable assurance (such as a guarantee) by a creditworthy party on behalf of the Shipper.

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### **3. Amount of Financial Assurances**

Non-creditworthy Shippers, including non-creditworthy assignees, are required to provide financial assurances in an amount sufficient to cover the total rates, tolls, charges, and other amounts payable (including taxes) to TransCanada over a defined period.

The maximum amount of financial assurances that TransCanada may request from a non-creditworthy Shipper are as follows:

#### **3a. For Demand Based Charges (excluding Expansion Capacity)**

- financial assurance coverage for the total rates, tolls, charges, and other amounts payable (including taxes) which will be incurred over the 70 day billing cycle (see Section 4 for billing cycle details).

#### **3b. For Expansion Capacity Charges**

- financial assurance coverage for the total rates, tolls, charges, and other amounts payable (including taxes) which will be incurred over the 70 day billing cycle plus an additional 1 month of the total rates, tolls, charges, and other amounts payable (including taxes) for each remaining year of initial term, to a total maximum of 12 months worth of financial assurances, recalculated annually.

#### **3c. For Facility Expansions (Prior to Service Commencement)**

- for facility additions or expansions, prior to service commencement, non-creditworthy Shippers shall, if requested, provide TransCanada with an acceptable financial assurance in an amount determined in an agreement between Shipper and TransCanada, until service commencement.

#### **3d. For All Other Charges**

- financial assurances are required in an amount sufficient to provide for 70 days of billing cycle coverage for all of the rates, tolls, charges and other amounts payable (including taxes), based on the average daily utilization charges observed during the previous 12 months.
- initial financial assurance requirements are based upon forecast utilization charges provided by the non-creditworthy Shipper.
- during the initial 12 month forecast period, assurance requirements are based on the greater of the billing cycle utilization forecast or the peak observed billing cycle charges (see attached example).

#### **3e. Permanent Assignment Charges**

- for all permanent assignments, non-creditworthy assignees shall, if requested, provide financial assurances up to the amounts determined above in Sections 3a, 3b, 3c and 3d.

#### **3f. Temporary Assignment Charges**

- for all temporary assignments, non-creditworthy assignees shall not be required to provide any financial assurances.

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**Example - Other Charges Financial Assurance Requirements (as per Section 3d):**

- New service commencing January 1 (no other executed Service Agreements)

Month	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Shipper Forecast Charges	\$10k	\$10k	\$5k	\$5k	\$0k	\$0k	\$0k	\$0k	\$0k	\$0k	\$20k	\$20k
Actual Charges	\$30k	\$25k	\$25k	\$15k	\$10k	\$5k	\$0k	\$0k	\$5k	\$10k	\$215k	\$20k

**i. Initial Assurance Requirement (based on Shipper forecast):**

$$= \frac{(\sum (\text{Shipper Forecast Charges over 12 Months}))}{12 \text{ months}} / 30.4375 \text{ days/month} * \text{Billing Cycle} + \text{Taxes}$$

$$= \frac{(\$70k / 30.4375 \text{ days/month} * 70 \text{ days} + \text{Taxes})}{12}$$

$$= (\$5.84K / 30.4375 * 70 + \text{Taxes})$$

$$= (\$13,415.47 + \text{Taxes}) = \$14,086.24 > \underline{\$15,000.00} \text{ Initial Financial Assurance Requirement}$$

**ii. Initial Forecast Period Assurance Requirements:**

During the initial forecast period, assurances are required for the greater of the initial assurance requirement and the greatest observed actual charges over a billing cycle.

$$= \frac{(\sum (\text{Total Actual Charges}))}{\text{Months of Utilization}} / 30.4375 \text{ days/month} * \text{Billing Cycle} + \text{Taxes}$$

Jan	= Initial Requirement <b>\$15,000.00</b>
Feb	= [(\$30k / 1 month) / 30.4375 * 70 * 1.05] = \$72,443.53 = <b>\$73,000.00</b> Assurances Required
Mar	= [(\$55k / 2 months) / 30.4375 * 70 * 1.05] = \$66,406.57 = <b>\$73,000.00</b> Assurances Required
Apr	= [(\$80k / 3 months) / 30.4375 * 70 * 1.05] = \$64,394.25 = <b>\$73,000.00</b> Assurances Required
May	= [(\$95k / 4 months) / 30.4375 * 70 * 1.05] = \$57,351.13 = <b>\$73,000.00</b> Assurances Required
Jun	= [(\$105k / 5 months) / 30.4375 * 70 * 1.05] = \$50,710.47 = <b>\$73,000.00</b> Assurances Required
Jul	= [(\$110k / 6 months) / 30.4375 * 70 * 1.05] = \$44,271.05 = <b>\$73,000.00</b> Assurances Required
Aug	= [(\$110k / 7 months) / 30.4375 * 70 * 1.05] = \$37,946.61 = <b>\$73,000.00</b> Assurances Required
Sep	= [(\$110k / 8 months) / 30.4375 * 70 * 1.05] = \$33,203.29 = <b>\$73,000.00</b> Assurances Required
Oct	= [(\$115k / 9 months) / 30.4375 * 70 * 1.05] = \$30,855.58 = <b>\$73,000.00</b> Assurances Required
Nov	= [(\$125k / 10 months) / 30.4375 * 70 * 1.05] = \$30,184.80 = <b>\$73,000.00</b> Assurances Required
Dec	= [(\$340k / 11 months) / 30.4375 * 70 * 1.05] = \$74,638.79 = <b>\$75,000.00</b> Assurances Required
Jan	= [(\$360k / 12 months) / 30.4375 * 70 * 1.05] = \$72,443.53 = <b>\$75,000.00</b> Assurances Required

**End of Initial Period**

(Note: During the initial period, since adequate Shipper utilization history is not available, financial assurances are required to cover the greater of peak observed exposure and the initial forecast requirement. Therefore, assurance requirements can not decrease from month to month during the initial forecast period).

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### iii. Financial Assurance Requirements (based on usage over previous 12 months)

$$= \frac{\sum (\text{Actual Charges over previous 12 Months})}{12 \text{ months}} / 30.4375 \text{ days/month} * \text{Billing Cycle} + \text{Taxes}$$

$$= \frac{(\$360k)}{12} / 30.4375 \text{ days/month} * 70 \text{ days} + \text{Taxes}$$

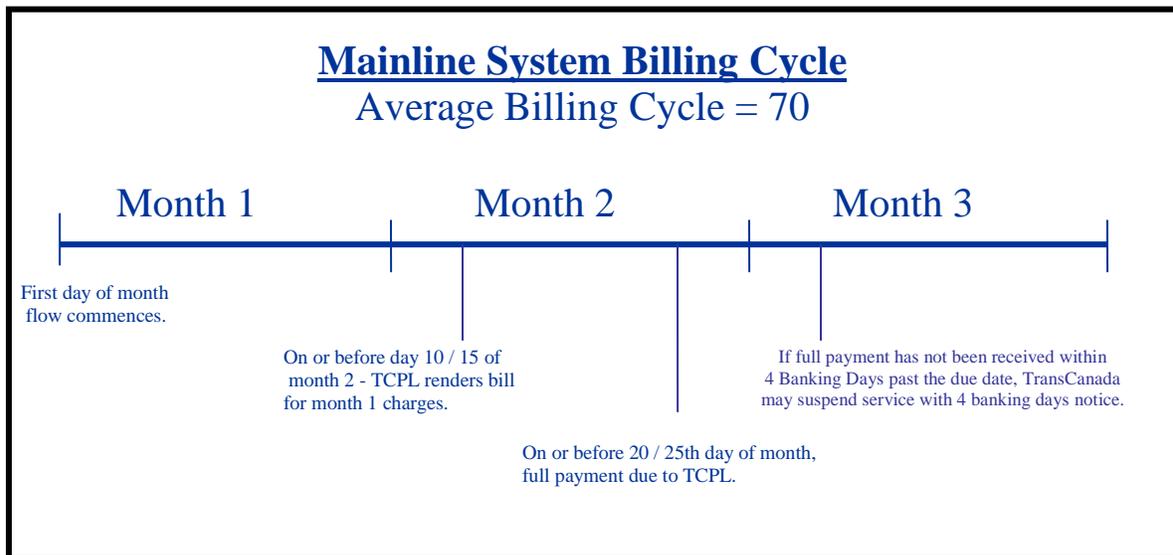
$$= (\$30K / 30.4375 * 70 + \text{Taxes})$$

$$= (\$68,993.84 + \text{Taxes}) = \$72,443.53 > \underline{\$73,000.00} \text{ Assurance Requirement}$$

### 4. Billing Cycle

A billing cycle is the average number of days between the first day of a month and the first day on which TransCanada may suspend service for failure to pay for services provided during such time period.

Given current average billing and payment timelines, the length of the Billing Cycle for all services is currently 70 days.



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## **5. Withholding, Suspension and Termination of Service**

### **5a. For Non-Provision of Assurances**

Any requested Service may be withheld until requested financial assurances are received by TransCanada.

If a Shipper fails to provide a financial assurance within four Banking Days of request, TransCanada may, with four Banking Days notice, suspend any or all service being or to be provided to Shipper. Suspension does not relieve the Shipper from any obligation to pay any rate, toll, charge or other amount payable. Suspended service will be reinstated within two Banking Days of the receipt of an acceptable financial assurance, as requested by TransCanada.

If a Shipper's failure to provide a requested assurance continues after suspension, TransCanada may, with an additional four Banking Days notice, terminate any or all service being or to be provided to Shipper.

Upon termination, all current and future contractual charges shall become immediately payable to TransCanada.

TransCanada will notify the National Energy Board of any withholding, suspension, or termination of service for the non-provision of requested financial assurances.

### **5b. For Failure to Pay Bill**

In the event a Shipper fails to pay the full amount of their bill, including any disputed amounts, by the time payment is due, TransCanada may, with four Banking Days notice, suspend any or all service being or to be provided to Shipper. Suspension does not relieve the Shipper from any obligation to pay any rate, toll, charge or other amount payable. Suspended service shall be reinstated within two Banking Days of the receipt of full payment, including any interest or other amounts owing, by TransCanada

If a Shipper's failure to pay continues after suspension, TransCanada may, with an additional four Banking Days notice, terminate any or all service being or to be provided to the Shipper.

Upon termination, all current and future contractual charges shall become immediately payable to TransCanada.

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## **6. Ongoing Review of Financial Assurance Requirements**

TransCanada reviews, on an ongoing basis, the creditworthiness of all Shippers, using information provided by each Shipper, and / or other information pertaining to the creditworthiness of the Shipper that is available. These ongoing reviews also take into account the Shipper's payment record and inventory trends with TransCanada.

If at any time a non-creditworthy Shipper experiences a material change in its financial position whereby it believes that TransCanada may determine the Shipper's financial position to be acceptable, upon request and the receipt of information evidencing the material change, TransCanada will review the financial position of the Shipper within 20 Banking Days. Financial assurances are still required during the review period.

Upon the expiry or termination of all Service Agreements, TransCanada will return any financial assurances, within four banking days, once all amounts payable or which may become payable, including inventory imbalances, are paid to TransCanada in full.

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## **7. Information**

TransCanada utilizes various sources of financial, credit, and business information in assessing the financial position of a Shipper. This information, as provided by Shippers or is otherwise available, may include, but is not limited, to the following:

- Audited Financial Statements;
- Annual Report;
- List of Affiliates, Parent Companies, and Subsidiaries;
- Publicly Available Information from Credit Reports of Credit and Bond Rating Agencies;
- Private Credit Ratings, if obtained by the Shipper;
- Bank References;
- Trade References;
- Legal Composition;
- Length of Time Business has been in Operation;
- Most recent filed documents with the Securities and Exchange Commission (or an equivalent authority) or such other publicly available information;
- For public entities, the most recent publicly available interim financial statements, with an attestation by its Chief Financial Officer, Controller, or equivalent (CFO) that such statements constitute a true, correct, and fair representation of financial condition prepared in accordance with Generally Accepted Accounting Principles (GAAP) or equivalent;
- For non-public entities, including those that are regulated utilities:
  - the most recent available interim financial statements, with an attestation by its CFO that such statements constitute a true, correct, and fair representation of financial condition prepared in accordance with GAAP or equivalent;
  - an existing sworn filing, including the most recent available interim financial statements and annual financial reports filed with the respective regulatory authority, showing the shipper's current financial condition;
- For regulated utility local distribution companies, documentation from their respective regulatory commission (or an equivalent authority) of an authorized gas supply cost recovery mechanism which fully recovers both gas commodity and transportation capacity costs and is afforded regulatory asset accounting treatment in accordance with GAAP or equivalent;
- Such other information as may be mutually agreed to by the parties;
- Above information for Affiliates, Parent Companies, and Subsidiaries.