

## **Introduction**

NOVA Gas Transmission Ltd. (“NGTL”) reviews all Customers and potential Customers to determine if financial assurances are required.

The provision of financial assurances, when requested, is a condition for obtaining and continuing service on the NGTL System.

## **Financial Assurance Requirements**

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

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

NGTL determines the creditworthiness of a Customer by using information provided by the Customer, and / or other information pertaining to the creditworthiness of the Customer that is available. (Section 8 outlines the various forms of financial, credit, and business information that NGTL may use in assessing the financial position of a Customer).

Any Customer determined to be non-creditworthy, including any Customer who does not provide information sufficient for NGTL to establish the Customer’s creditworthiness, will be required to provide NGTL 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, NGTL will provide an explanation of its creditworthiness determination to a non-creditworthy Customer.

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

A non-creditworthy Customer 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 NGTL.

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 Customer.

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

Non-creditworthy Customers, 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 NGTL over a defined period.

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

#### **3a. For Demand Based Charges (excluding FT-D 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 FT-D Expansion 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 30 days of the total rates, tolls, charges, and other amounts payable (including taxes) for each remaining year of initial term, to a total maximum of 1 year worth of financial assurances, recalculated annually.

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

- for delivery facility additions or expansions, prior to service commencement, non-creditworthy Customers shall, if requested, provide NGTL with an acceptable financial assurance in an amount determined in an agreement between Customer and NGTL, until service commencement.
- for receipt facility additions or expansions, prior to service commencement, non-creditworthy Customers shall, if requested, provide NGTL with an acceptable financial assurance in an amount sufficient to cover up to the Customer authorized facility costs (including taxes), until service commencement.
- Customers are responsible for all authorized costs incurred until service commencement.

#### **3d. For Commodity Based 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 Customer.
- 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. Assignment Charges**

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

## NGTL Transportation Procedures - Credit and Financial Assurances -

### Example - Commodity Based Financial Assurance Requirements:

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

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

#### i. Initial Commodity Assurance Requirement (based on Customer forecast):

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

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

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

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

#### ii. Initial Forecast Period Commodity Assurance Requirements:

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

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

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 Customer utilization history is not available, financial assurances are required to cover the greater of peak observed exposure (averaged for the months previous) and the initial forecast requirement. Therefore, assurances requirements can not decrease from month to month during the initial forecast period).

# NGTL Transportation Procedures - Credit and Financial Assurances -

## Example (Continued) - Commodity Based Financial Assurance Requirements:

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

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

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

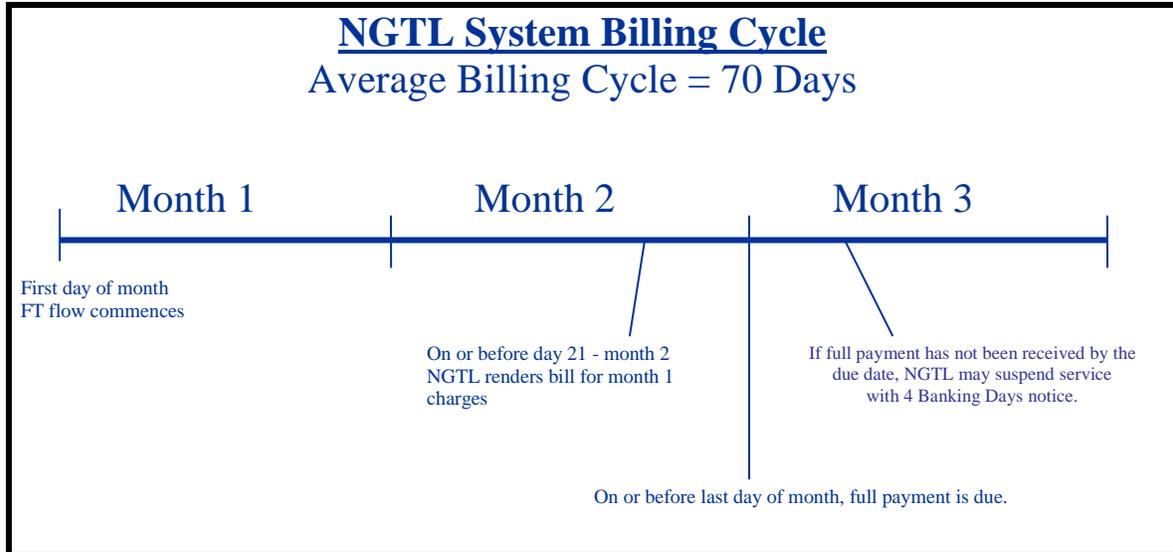
$$= (\$30K / 30.4375 * 70 + \text{GST})$$

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

## 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 NGTL may suspend service for failure to pay for the services provided during such time period.

Given current average billing and payment timelines, the length of the billing cycle for most services is 70 days.



## **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 NGTL.

If a Customer fails to provide a financial assurance within four Banking Days of request, NGTL may, with four Banking Days notice, suspend any or all service being or to be provided to Customer. Suspension does not relieve the Customer 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 NGTL.

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

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

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

In the event a Customer fails to pay the full amount of their bill, including any disputed amounts, by the time payment is due, NGTL may, with four Banking Days notice, suspend any or all service being or to be provided to Customer. Suspension does not relieve the Customer 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 NGTL.

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

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

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

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

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

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

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## **7. Customer Inventory Imbalances**

An inventory imbalance is either a positive or negative balance of gas in a NGTL Customer account which remains in place after a Customer has become inactive, or has defaulted on its Service obligations.

Inventory imbalances on the NGTL System originate from either a Customer over / under selling (or over / under producing) their account, and from month end allocations and Prior Period Revisions.

Prior Period Revisions which negatively affect the inventory of an inactive or defaulted Customer are not permitted.

Customers are required to clear any inventory imbalances, in accordance with the terms of the Tariff, when requested by NGTL. Should an inventory imbalance remain on an inactive or defaulted account, NGTL will implement the following actions to recover the imbalance:

### **NGTL Inventory Recovery Procedures**

1. Customer is sent a statement requesting the inventory imbalance be cleared in-kind.
2. If not cleared by Customer, NGTL will invoice Customer for the inventory at the Company Gas Use Price.
3. If the imbalance remains after these recovery attempts, it is determined to be unrecoverable and is charged to Gas Lost.

NGTL will include unrecovered inventory imbalances as part of the damages when litigating defaulted accounts.

NGTL will report any defaulted Customer inventory charged to the Gas Lost account on the monthly Gas Accounting reports.

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## **8. Information**

NGTL utilizes various sources of financial, credit, and business information in assessing the financial position of a Customer. This information, as provided by Customers 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 Customer;
- 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.