

NATIONAL GRID

TRANSMISSION AGREEMENTS CREDITWORTHINESS POLICY

Effective April 1, 2007

1. Introduction

This policy establishes creditworthiness standards for transmission service and/or interconnection service customers (“Customers”) entering into new or amended service agreements with National Grid under the ISO New England Open Access Transmission Tariff (“ISO-NE OATT”)¹ or the New York ISO’s Open Access Transmission Tariff (“NYISO OATT”)². In accordance with the Federal Energy Regulatory Commission’s Policy Statement on Credit-Related Issues for Electric OATT Transmission Providers, Independent System Operators and Regional Transmission Organizations (“Policy Statement”),³ this Creditworthiness Policy is intended to make National Grid’s credit-related practices more transparent and comprehensive. The following describes National Grid’s credit review procedures and the types of security that are acceptable to National Grid to protect against the risk of non-payment.

2. Creditworthiness

National Grid will evaluate the creditworthiness of Customers entering into new or amended transmission or interconnection service agreements with National Grid in order to assess a Customer’s credit risk relative to the exposure or “Total Outstanding Obligation” as defined in Section 2.1 below, created by the transaction or transactions that National Grid has with the Customer. For purposes of determining the ability of a Customer to meet its obligations, National Grid may require the Customer to submit financial information for the credit review, including credit ratings, credit reports and audited financial statements.

2.1. Total Outstanding Obligation

The Customer’s Total Outstanding Obligation to National Grid will be the sum total of the following components:

- 2.1.1. If the Customer is making payments to National Grid for ongoing expenses (including, but not limited to, O&M expenses related to interconnections or other monthly charges such as monthly transmission charges under Schedule 21- NEP of the ISO-NE OATT) the Customer will be required to provide security pursuant

¹ See ISO New England Inc., FERC Electric Tariff No. 3, Section II. This policy is applicable to transmission or interconnection service agreements established from time-to-time under Schedules 21-NEP, Schedules 22 and 23 of the ISO-NE OATT and to individually negotiated agreements for similar transmission or interconnection services.

² See New York Independent Operator, Inc., FERC Electric Tariff Volume No. 1. This policy is applicable to transmission or interconnection service agreements established from time-to-time under Attachment X of the NYISO OATT and to individually negotiated agreements for similar transmission or interconnection services.

³ 109 FERC ¶ 61,186 (November 19, 2004).

to Section 2.2 below, for four months' worth of the Customer's average payment obligation for such charges.

- 2.1.2. Whenever, in accordance with the provisions of the NYISO OATT or the ISO-NE OATT, a Customer will pay a Contribution in Aid of Construction ("CIAC") or transfer ownership of facilities to National Grid for transmission or interconnection facilities that are to be constructed on behalf of a Customer at the Customer's sole expense, and National Grid determines in good faith that the receipt of CIAC payments or property from the Customer are non-taxable, National Grid will require a form of security from the customer pursuant to Section 2.2 below for the amount of the potential tax liability to National Grid that would occur if such facilities were deemed taxable.
- 2.1.3. Whenever, in accordance with the provisions of the NYISO OATT or the ISO-NE OATT, a Customer will pay a formula rate over time for return of and on the cost of capital incurred by National Grid on behalf of a Customer at the Customer's sole expense, the Customer will be required to provide security pursuant to Section 2.2 below, for the unamortized balance of plant in service reserved for the sole use of the Customer.

2.2. Creditworthiness Requirements

A Customer will be considered creditworthy upon satisfying at least one of the following conditions or a combination of those conditions at the time that the customer enters into a transmission or interconnection service agreement and for so long as the Customer maintains satisfaction of at least one of these conditions for any outstanding obligations thereunder:

- 2.2.1. The Customer maintains a minimum credit rating from Standard & Poor's Long-term Issuer Credit Rating of BBB or better or Moody's Investors Service Long-term Issuer Credit Rating of Baa2 or better so long as the Customer's Total Outstanding Obligation plus any other unsecured obligation with a National Grid company does not exceed the Credit Limits discussed in Section 4 below. When National Grid reviews a Customer's rating from two or more rating agencies and a split rating is present, the lower debt rating will apply. In the event that the Customer only has a rating from either Standard & Poor's or Moody's Investors Service, a rating from Duff & Phelps or Fitch and Weiss may also be used with acceptable ratings equivalent to those from either Standard and Poor's or Moody's Investors Service. If unrated, the Customer's financial statements will be reviewed to determine an equivalent rating based on the Customer's unsecured credit limits and/or financial statements.

If, at any time, the Customer's rating falls below investment grade (BBB- from Standard and Poor's and or Baa3 from Moody's), the Customer will be required to (i) notify National Grid within 10 days and, (ii) within 30 days, provide another

form of security reasonably acceptable to National Grid, as described in this Section 2.2.

- 2.2.2. The Customer provides and maintains in effect during the term of and until full and final payment and performance of the service agreement an unconditional and irrevocable letter of credit for the Total Outstanding Obligation in the form and substance and issued by a bank reasonably acceptable to National Grid. A draft, acceptable form letter of credit is posted on OASIS. Any such bank must satisfy the creditworthiness criteria described in 2.2.1 above.

If, at any time, the bank's rating falls below investment grade (BBB- from Standard and Poor's and or Baa3 from Moody's), the Customer will be required to (i) notify National Grid within 10 days and, (ii) within 30 days, provide another form of security reasonably acceptable to National Grid, as described in this Section 2.2.

- 2.2.3. The Customer's parent or an affiliate company satisfies the creditworthiness criteria described in 2.2.1 above and, subject to the Credit Limits stated in Section 4 below, such company submits to National Grid and maintains in effect a letter of guaranty reasonably acceptable to National Grid as to amount, form and substance for the term of and until full and final payment and performance of the service agreement.

If, at any time, the credit rating of the Customer's parent or affiliate providing the guaranty falls below investment grade (BBB- from Standard and Poor's and or Baa3 from Moody's), the Customer will be required to (i) notify National Grid within 10 days and, (ii) within 30 days, provide another form of security reasonably acceptable to National Grid, as described in this Section 2.

- 2.2.4. The Customer makes an advance payment to National Grid in immediately available funds for the Total Outstanding Obligation.

3. Customer Costs Requiring Prepayment

Whenever, in accordance with the provisions of the NYISO OATT or the ISO-NE OATT, a Customer will pay a Contribution in Aid of Construction ("CIAC") for transmission or interconnection facilities are to be constructed by National Grid on behalf of a Customer at the Customer's sole expense, the Customer will have the option to (i) prepay the CIAC in immediately available funds to National Grid, or (ii) make periodic CIAC progress payments, as defined in the Customer's service agreement, to prepay in increments capital costs scheduled to be incurred by National Grid. If National Grid determines in good faith that such payments or property transfers made by the Customer should be reported as income subject to taxation, the Customer shall also prepay all costs associated with the cost consequences of the current tax liability imposed on National Grid by those facilities (the "Tax Gross- up").

4. Determination of Credit Limits

National Grid reserves the right to limit the total amount of unsecured credit extended to a Customer under 2.2.1 and 2.2.3 above such that the sum of all unsecured credit that such Customer has with any of the National Grid companies, including the Total Outstanding Obligation, shall not exceed the Credit Limits defined below. Such limitations are based on an assessment of the Customer's or its Guarantor's credit rating and the net worth of the Customer's or its Guarantor's assets.

Standard and Poor's (or Equivalent) Rating	Unsecured Credit Limit as Percent of Customer's or Guarantor's Tangible Net Worth
A and above	1.0%
A-	0.5%
BBB+	0.2%
BBB	0.1%
BBB-	0.0%