

# INTRODUCTION

The North American Energy Standards Board (NAESB) is a voluntary non-profit organization comprised of members from all aspects of the natural gas and electric industries. The NAESB mission is to develop and recommend Model Business Practices to standardize and streamline business practices between industry participants.

Within NAESB, the Retail Electric Quadrant (REQ) focuses on issues impacting the retail sale of electricity to end-use Customers. REQ Model Business Practices are intended to provide guidance to Distribution Companies, Suppliers, and other Market Participants involved in providing competitive electric service to end-use Customers. The focus of this particular section is the process of establishing credit between Distribution Companies and Suppliers to enable them to work together serving retail access Customers.

The Model Business Practices are voluntary and do not address policy issues that are the subject of state legislation or regulatory decisions. All of the Model Business Practices have been adopted in the realization that as the industry evolves and uses the Model Business Practices, additional and amended NAESB REQ Model Business Practices may be necessary. Any industry participant seeking additional or amended Model Business Practices (including principles, definitions, Model Business Practices, data elements, process descriptions, technical implementation instructions) should submit a request to the NAESB office, detailing the change, so that the appropriate process may take place to amend the Model Business Practices.

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- Deleted: ing
- Deleted: implementing
- Deleted: across the industry
- Deleted: and to simplify and expand supporting electronic communication
- Deleted: This will lead to a seamless North American marketplace for energy, as recognized by its customers, the business community, industry participants and regulatory bodies
- Deleted: (book?)
- Deleted: The Model Business Practices contained herein are a product of the North American Energy Standards Board.
- Deleted: written as 'minimums,' which industry participants are encouraged to exceed (if they are not doing so already) through provision of value-added services and customized arrangements. NAESB defines 'exceed the minimum standard' to mean surpassing the Model Business Practices without negatively impacting contracting and non-contracting parties.

## TAB 1 Version Notes

Contains a summary of changes to this version and all preceding versions.

## TAB 2 Introduction

*(Provides a background statement about NAESB's Mission and the underlying concepts behind the design and use of this guide. —Section shown above goes here)*

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## TAB 3 Executive Summary

*(Provides a brief outline of the industry business situation that is the basis for development of this guide. —Executive Summary section that follows, goes here)*

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## TAB 4 Business Process & Practices

*(Provides a brief overview of the business process and the NAESB REQ approved principles, definitions, Model Business Practices and interpretations related to the*

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1 | *business process covered by this guide—~~the ratified Model Business Practices go~~*  
2 | *~~here).~~*

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3 |  
4 | **TAB 5 Related Model Business Practices**

5 |  
6 | *(Provides a reference to any related Model Business Practices, including Model Business*  
7 | *Practices and standards from other organizations, that were used in development of this set*  
8 | *of Model Business Practices or that relate to implementation of these NAESB REQ Model*  
9 | *Business Practices. ~~Related Standards that would be referenced would go under this Tab,~~*  
10 | *~~most likely there are none for Creditworthiness.)~~*

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EXECUTIVE SUMMARY

Industry Overview

Successful development and operation of competitive energy markets require that all Market Participants have a clear understanding of their roles and obligations related to interactions between Distribution Companies and Suppliers. Role definition incorporates not only the processes and functions to be performed, but also describes interactions and communications necessary between Distribution Companies and Suppliers to enable the market to function efficiently.

Expectations and the obligations associated with the roles will be defined by applicable laws, regulations, agreements executed between Market Participants, and operational or procedures manuals—collectively referred to herein as “Governing Documents”. Where the roles and responsibilities of the Market Participants create financial risks and/or obligations between Distribution Companies and Suppliers, the establishment of creditworthiness requirements between the parties may be appropriate.

Specific documents and performance standards will vary depending on the jurisdiction, but following the stated Model Business Practices should ensure that key elements are in place so that all parties are aware of their responsibilities.

*The Creditworthiness Evaluation Process*

The business purpose for the proposed Model Business Practices is to facilitate the establishment of working relationships between Distribution Companies and Suppliers to enable them to serve retail access Customers. The practices do so by presenting a consistent process for establishing credit between the parties in the context of serving retail access Customers. The diagrams on the following pages outline three key aspects of the creditworthiness evaluation process included in the Model Business Practices: Determining Initial Credit Limit, Challenging the Credit Limit, and Reconsideration of Credit Limit.

*Determining Initial Credit Limit*

Before the Creditor and Applicant do business, the Creditor determines the Applicant’s initial credit limit. The process begins when the Applicant contacts the Creditor to apply. The Creditor provides the Credit Application Form to the Applicant. The Applicant then gathers the necessary financial information, completes the Credit Application Form and submits it, along with supporting documents to the Creditor. Upon receipt of the Credit Application Form, the Creditor reviews the application for completeness. The Creditor should notify the Applicant of any missing required information within five Business Days.

Once all basic data and documents are in hand, the Creditor performs an initial credit limit determination. If the Creditor needs clarification on any item, such clarification should be requested from the Applicant. After the Applicant provides all information required to complete the application, the Creditor prepares and sends a written report of initial credit limit determination to the Applicant. The Applicant’s receipt of the written results of the initial credit limit determination completes the process.

**Deleted:** Performance Standards should be established for key processes and transactions to ensure that all parties fulfill their roles. Performance targets established by these standards should reflect the market’s maturity and recognize the need for tolerance to accommodate extraordinary events. Performance standards agreed to by the Market Participants should be recorded in the Governing Documents, including any remedies for failing to meet the standards.

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1 The initial credit determination should be completed within ten Business Days of the  
 2 Creditor's receipt of the completed application with all required information and the written  
 3 report of the outcome should be in the Applicant's hands within another five Business Days.

4  
 5 *Challenging Initial Credit Limit*

6  
 7 If the Applicant is not satisfied with the written results of the initial credit limit determination,  
 8 the Applicant may submit a Challenge of that determination to the Creditor, provided they do  
 9 so within thirty days of Applicant's receipt of the written results. The Creditor may reject the  
 10 Challenge if the Challenge was not submitted within the specified time period. Applicants  
 11 submitting timely Challenges should be provided the rationale for the determination within  
 12 five Business Days of the Creditor's receipt of the Challenge.

13  
 14 The Applicant and Creditor review the initial determination and the supporting data. If there  
 15 are no material errors, and the determination is acceptable to the Applicant, the process is  
 16 complete. If material errors exist, the Creditor performs a re-evaluation within ten Business  
 17 Days of receipt of the corrected information and prepares and sends a written report of the  
 18 reevaluation within five additional Business Days.

19  
 20 If the Applicant finds the new determination to be acceptable, the evaluation is complete. If  
 21 the new determination is not acceptable to the Applicant, and if the Creditor is regulated, the  
 22 Applicant can appeal to the Applicable Regulatory Authority.

23  
 24 *Reconsideration of Credit Limit*

25  
 26 Because a Market Participant's financial and creditworthiness situation can be expected to  
 27 change over time, the Model Business Practices incorporate a "reconsideration" process to  
 28 re-evaluate the credit limit determination either after the passage of a period of time or in  
 29 response to Material Changes in one of the party's financial situations. This is different than  
 30 the Challenge process described above in that it isn't a request to review and possibly  
 31 change a recent determination; rather, it is a completely new credit evaluation. The time  
 32 frames for such reconsideration process are the same as those established for the initial  
 33 determination.

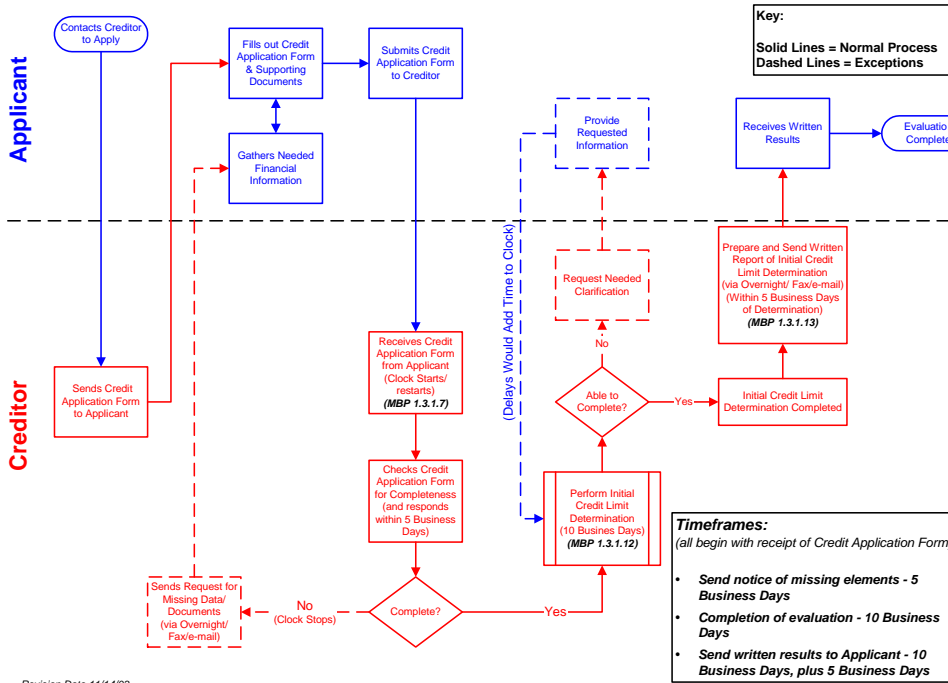
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34  
 35 Either the Applicant or the Creditor can initiate this reconsideration process. If the Applicant  
 36 requests reconsideration within twelve months of the last evaluation, and there have been no  
 37 material changes in the information used in making the last determination, the Creditor may  
 38 reject the request by notifying the Applicant in writing, which completes the process.

39  
 40 If there has been a Material Change in condition, or it has been more than twelve months  
 41 since the last evaluation, the Creditor may initiate a new evaluation by sending a Credit  
 42 Application Form to the Applicant. The Applicant completes the Credit Application Form,  
 43 gathers necessary financial information and submits the Credit Application Form to the  
 44 Creditor. The Creditor then performs a new credit limit determination by following the same  
 45 process and timeline(s) as was followed for the initial determination of credit limit. The  
 46 Applicant receives the updated results in writing, completing the process.

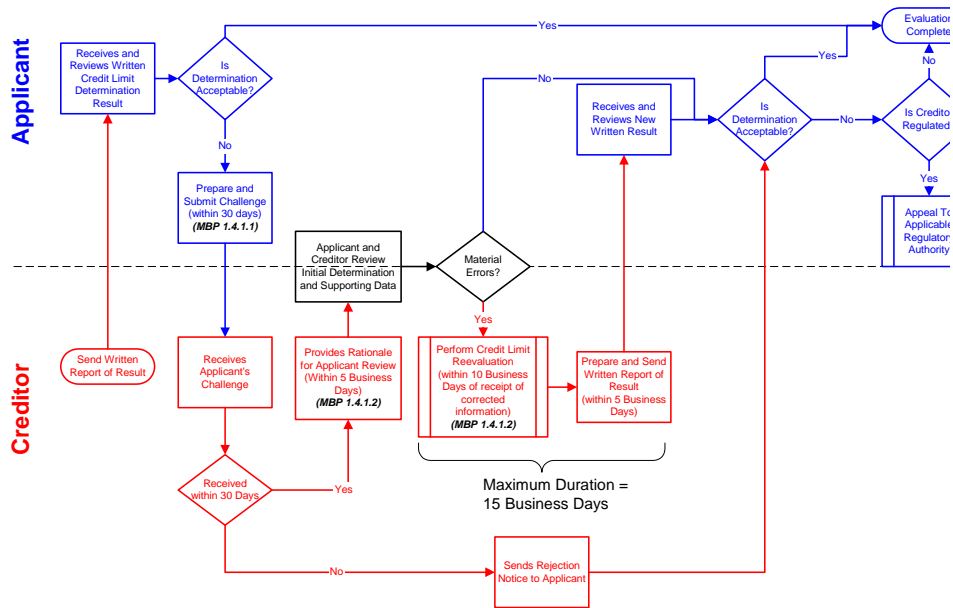
# Determining Initial Credit Limit - Process Flow

Creditworthiness Evaluation Process (Section 1.3)



# Challenging Initial Credit Limit - Process Flow

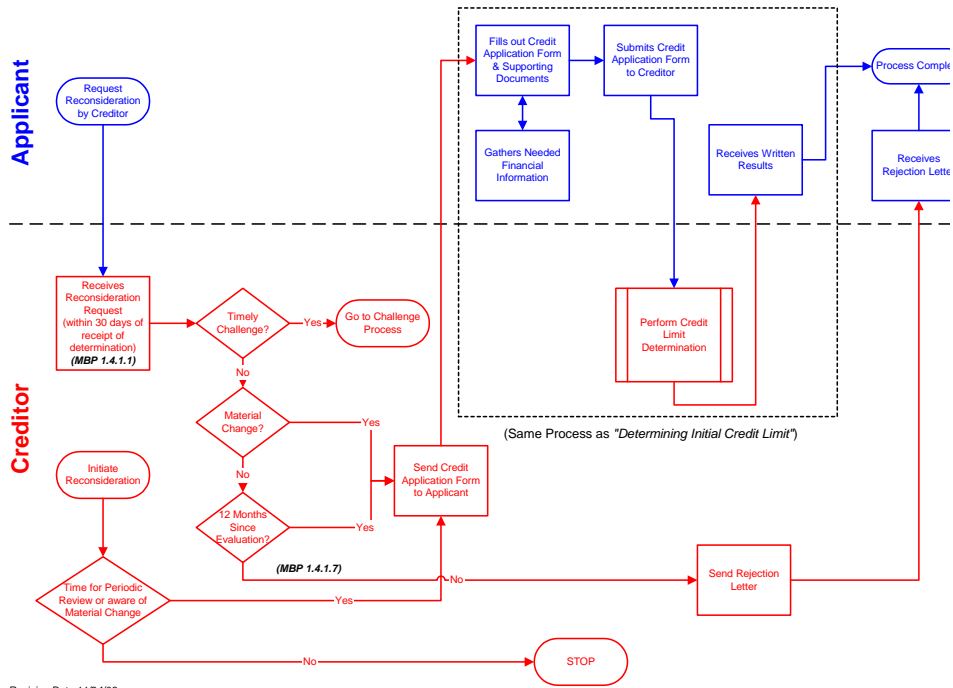
Creditworthiness Evaluation Process (Section 1.4)



Revision Date 11/24/03

# Reconsideration of Credit Limit - Process Flow

Creditworthiness Evaluation Process (Section 1.4)



Revision Date 11/24/03

