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Supplier Credit Assessment and Daily Net Exposure		2.15
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PURPOSE:

The LG&E and KU Energy, LLC Power Supply Credit Policy requires that a credit risk limit must be established for all counterparties with whom LG&E does business (See Exhibit 2-W).

The purpose of this procedure is to outline the methodology used to monitor, on an ongoing basis, the creditworthiness of LG&E's natural gas suppliers. While the credit evaluation function is primarily the responsibility of LG&E's Credit Department, it is important for the Gas Supply Department to maintain current credit information within the Gas Supply Department for use in evaluating purchases from, or sales to, suppliers. The Gas Supply Department uses the Effective Credit Limit and Maximum Credit Limit to determine the type of natural gas transaction(s) that each supplier is qualified to enter into with LG&E. This determination is made by the Gas Supply Department using the methodology described in this procedure. As a result, Requests For Proposals ("RFPs") are sent only to suppliers that have the level of creditworthiness required to support the transaction described in the RFP.

LG&E monitors creditworthiness for two reasons. Firstly, LG&E must ensure that suppliers with which it transacts have the financial strength to stand behind transactions and pay damages to LG&E in the event of non-performance for reasons other than force majeure as defined in LG&E's gas supply agreements. Secondly, when LG&E does make a sale of natural gas in the off-system market, LG&E must ensure that the natural gas supplier (as a buyer) will be able to pay LG&E for the gas sold. By monitoring its purchase and sales transactions with suppliers, LG&E's exposure is further limited.

As a purchaser of natural gas, LG&E's exposure to the financial creditworthiness of a given supplier is limited because it is the supplier that extends credit to LG&E. Additionally, LG&E's exposure is limited since LG&E's purchases are made "at market". In instances where LG&E is a seller of gas, LG&E's credit exposure may be higher to the extent that such sales are not netted against purchases from the same supplier.

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RESPONSIBILITY

ACTION

Gas Supply Department

1. Requests a credit evaluation of suppliers from the Credit Department. The Gas Supply Department may provide to the Credit Department any information (financial or otherwise) to which it has access in order to assist the Credit Department in its evaluation of suppliers.

Credit Department

2. Determines supplier's creditworthiness and establishes a Maximum Credit Limit. The Maximum Credit Limit considers, among other factors, Tangible Net Worth, the supplier's (or its guarantor's) credit rating, and the maximum amount of adequate assurance that a supplier could potentially provide to LG&E in the form of a Guaranty.
3. Determines and provides the Gas Supply Department with the rating agency's credit rating, effective date of such rating, and Maximum Credit Limit for each supplier.

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RESPONSIBILITY

ACTION

Credit Department (cont.)

4. In the absence of verifiable financial information which could otherwise be used to establish a credit limit, the supplier is required to provide adequate assurance. The Credit Department provides conditions and guidelines for the Gas Supply Department to use in obtaining adequate assurance from the potential supplier (e.g., parent guaranty, letter of credit, or other financial assurance, typically with a minimum amount of \$500,000 and preferably for a term of at least six months).

Gas Supply Department

5. If applicable, requests financial assurance from supplier satisfactory to LG&E.

Supplier

6. Provides adequate assurance. If adequate assurance is not provided, the Gas Supply Department notifies the supplier and no RFP's are sent to supplier until adequate assurance is provided. If negotiating with a potential supplier, then LG&E may cease contract negotiation.

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RESPONSIBILITY

Gas Supply Department

ACTION

7. Determines supplier's Effective Credit Limit which shall be equal to the lower of the supplier's Maximum Credit Limit or Adequate Assurance.

NOTE: The Effective Credit Limit is to be shared across all LKE entities and may not apply solely to LG&E or to transactions by the Gas Supply Department.

File Location: G:/GSUPPLY/Shared/
Credit Information/Year.xlsx
(Approved Transaction List tab).

8. After a Base Agreement for Natural Gas Sales and Purchases is executed (see Section No. 2.7), adds supplier to Approved Transaction List and Credit Evaluation List including credit information provided by Credit Department (See Report 6.4.4 and example in Appendix 2-P). Supplier qualifies to receive RFPs for various purchase or off-system sales transactions based upon supplier's Effective Credit Limit. The following guidelines apply to the Approved Transaction List:
 - (a) If supplier has no Effective Credit Limit, then supplier qualifies for no RFPs, purchases, or off-system sales transactions.

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ACTION

Gas Supply Department (cont.)

- (b) If supplier's Effective Credit Limit is at least \$500,000 but less than \$1,000,000, then supplier qualifies for purchase transactions of one month or less, but no off-system sales transactions.
- (c) If supplier's Effective Credit Limit is at least \$1,000,000 but less than \$2,000,000, then supplier qualifies for purchase transactions up to seven months or less, but no winter-season Bid Invitation Letter (RFP), and no off-system sales transactions.
- (d) If supplier's Effective Credit Limit is at least \$2,000,000, then supplier qualifies for all purchase transactions and the winter-season Bid Invitation Letter (RFP), but no off-system sales transactions unless supplier meets credit limit described in (e), or unless off-system sales transactions with the supplier can be fully netted against purchases from the same supplier.

NOTE: In order to be awarded a winter-season purchase transaction, supplier must agree to provide additional adequate assurance if necessary to achieve the Effective Credit Limit required for the transaction.

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Gas Supply Department (cont.)

- (e) If supplier's Effective Credit Limit is at least \$5,000,000, then supplier qualifies for all purchase transactions as well as off-system sales transactions (assuming the contract with supplier provides for sales to supplier).

NOTE: The supplier does not qualify for off-system sales transactions if the Credit Department relied upon the counter-party's Tangible Net Worth in establishing the Maximum Credit Limit.

- 9. Monitors credit of all suppliers with which LG&E has gas supply agreements. Maintains current credit information on Credit Evaluation List which is an exhibit to the Approved Transaction List (See example included in Appendix 2-P) including supplier's S&P and Moody's ratings, Effective Credit Limit, Maximum Credit Limit, and, if applicable, type and amount of adequate assurance. Updates the Approved Transaction List (See Action 8 above) as required.
File Location: G:/GSUPPLY/Shared/Credit Information/Year.xlsx.

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ACTION

Gas Supply Department (cont.)

10. Calculates, on a daily basis, LG&E's net exposure for suppliers to prevent transactions from exceeding the supplier's Effective Credit Limit. LG&E's net exposure is equal to the net dollar amount of natural gas purchases from and sales to a supplier under the agreement which LG&E and the supplier have agreed to net. The net exposure amount for each supplier is compared to the supplier's Effective Credit Limit to ensure that the supplier's Effective Credit Limit is not exceeded. This calculation, included in the Gas Supply Purchase Record, is made available to other members of the Gas Supply Department and is reviewed prior to making off-system sales in accordance with Report 6.4.3.

Credit Department

11. If net exposure of all transactions under the agreements which LG&E and the supplier have agreed to net is positive (LG&E purchases > LG&E sales), then no action is required.
12. If net exposure of all transactions under the agreements which LG&E and the supplier have agreed to net is negative (LG&E sales > LG&E purchases) and such net exposure exceeds the Effective Credit Limit, the Credit Department is contacted to determine if the supplier's Effective Credit Limit can be increased.

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ACTION

Credit Department (cont.)

13. Evaluates supplier's credit and notifies the Gas Supply Department of any change impacting the determination of the Effective Credit Limit, if any.

Gas Supply Department

14. If Effective Credit Limit can be increased to an amount that results in positive net exposure, then sales can be made to the counterparty; if Effective Credit Limit is maintained at or lowered to an amount that results in negative net exposure, the Gas Supply Department makes no sales to the counterparty.

15. Reviews trade publications for any references indicating supplier performance issues or credit rating changes and provides notification of such to the Credit Department.

16. Requests quarterly review and update of credit information from the Credit Department for all suppliers.

Credit Department

17. Provides credit information on a quarterly basis (or as requested by the Gas Supply Department) including any changes to S&P and Moody's ratings or to the Maximum Credit Limit of natural gas suppliers.

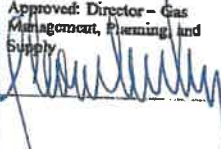

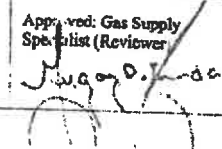
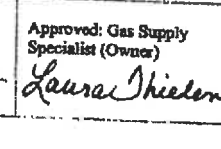
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RESPONSIBILITY

Gas Supply Department

ACTION

18. Updates Credit Evaluation List and Approved Transaction List (See Appendix 2-P) based on information provided by the Credit Department.
19. If the Maximum Credit Limit established by the Credit Department indicates that the natural gas supplier, or its guarantor, is no longer creditworthy (e.g., downgrade of financial ratings), the Gas Supply Department does not enter into natural gas sales and purchases unless adequate assurance is provided by the supplier (See Actions 4, 5, and 6).

Approved: Director - Gas Management, Planning, and Supply 	Approved: Manager, Gas Supply 	Approved: Gas Supply Specialist (Reviewer) 	Approved: Gas Supply Specialist (Owner) 
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