

## **Description of the SCO Credit Process**

### **Prequalification of Potential Bidders**

Potential bidders in the Columbia Gas of Ohio, Inc. ("Columbia") Standard CHOICE Offer ("SCO") Auction are required to be prequalified through credit evaluations conducted by Columbia. Once all required information is received, Columbia will use the financial information and other applicable business documents provided by the Applicant to determine the Applicant's credit profile.

As part of the review, Columbia will perform a UCC-1 search to verify that there are no perfected first priority liens filed against the applicant's accounts receivables that Columbia is purchasing from applicant under the contract documents ("Accounts Receivables"). In the event that the UCC-1 search reveals any first priority liens filed against applicant's Accounts Receivables, Columbia will work with applicant in order for applicant to work with the lienholder to modify its lien to remove the Accounts Receivable from the existing lien. Once any existing liens have been modified to remove the Accounts Receivables from any existing lienholder's lien, then applicant will be able to continue with the application process.

Columbia, at its sole discretion, will use the credit profile to determine whether or not the Applicant qualifies for an unsecured line of credit, and if so, the amount of that unsecured line of credit. Columbia will notify Applicants of their credit worthiness results, which will include the amount (if any) of unsecured credit extended by Columbia to the Applicant.

### **Determination of the Initial Financial Security Requirement per Tranche**

Columbia's formula for the initial financial security requirement is a calculation of the risk exposure per tranche and can be found on the [PUCO's website](#).

Please note, the initial security requirement estimate is subject to change.

### **Determination of Applicant's Security Requirements**

After the credit prequalification review has been completed, Applicants interested in bidding in the SCO Auction, must complete and submit a Bidder Registration form. As part of the form, the Applicant must indicate, among other things, the number of tranches on which it would like to secure the ability to bid on (up to four out of the sixteen tranches). The Applicant will determine the amount of security required by multiplying the initial security requirement per tranche by the number of tranches the Applicant wishes to bid on and then subtracting from it any unsecured credit extended to Applicant by Columbia. If the unsecured credit extended by Columbia either equals or exceeds the amount of initial financial security required for the desired number of tranches, then no security will be required. If the unsecured credit falls short of the initial financial security required for the desired number of tranches, then the Applicant will be required to provide security equaling the amount by which the initial financial security requirement for the desired number of tranches exceeds the unsecured credit. Any such security must be provided by Applicant at the same time as the completed Bidder Registration form. For example, if the initial financial security requirement implicit in one tranche is \$2.8 million, and an Applicant indicates that they wish to bid on up to two tranches, then the total initial financial security requirement prior to reduction by any unsecured credit extended by Columbia is \$5.6 million. Furthermore, if Columbia has extended unsecured credit to the Applicant in the amount of \$3.0 million, then the Applicant will be required to post security of \$2.6 million.

**Security: Receipt and Return**

All security must be pre-approved both in form and content by Columbia before execution and delivery to Columbia. Acceptable forms of such security shall include cash, letters of credit and corporate guaranties from approved credit support providers. If needed, approved Columbia templates for letters of credit and guaranties will be available on the Columbia Supplier website. Columbia will return any security provided expressly for the SCO Auction to unsuccessful bidders within 30 days after the PUCO approves the Auction results.

**Default Fee Collateral and Cash Collateral for successful SCO bidders**

The financial security requirement described in this credit process document is to be distinguished from the Default Fee Collateral and the Cash Collateral as defined in the SCO Supplier Agreement. The Default Fee Collateral is a \$0.50/Mcf requirement that winning SCO Bidders are required to post with Columbia in the form of a Letter of Credit as financial security with which to compensate non defaulting SCO Suppliers in the event of a default of the SCO Supplier posting the security. The Cash Collateral is a \$0.06/Mcf cash collateral requirement that winning SCO Bidders are required to provide to Columbia to meet expenses incurred by Columbia in the event of a default of an SCO Supplier.