

# APPENDIX 4

## CUSTOMER FINANCIAL RISK CLASSIFICATION

| Transmission System Code, Appendix 4

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## APPENDIX 4

### CUSTOMER FINANCIAL RISK CLASSIFICATION

This Appendix sets out the manner in which a transmitter shall determine the risk associated with a proposed new or modified connection of a load customer for the purposes of carrying out an economic evaluation under this Code. In accordance with section 6.6.2(b)(iv), the manner in which a load customer's risk classification has been determined must be included in the transmitter's economic evaluation documentation.

The risk associated with a proposed new or modified connection of a load customer shall be classified by a transmitter as falling within one of the following risk categories: high risk, medium-high risk, medium-low risk and low risk. The economic evaluation period for the proposed new or modified connection shall be determined based on that risk classification as follows:

<b>Risk Classification</b>	<b>Economic Evaluation Period</b>
High risk	5 years
Medium-high risk	10 years
Medium-low risk	15 years
Low risk	25 years

In accordance with section 6.5.2(a), the transmitter must include its risk classification methodology in its economic evaluation procedure. That methodology must meet the following criteria: transparency, analytic rigour and relative ease of implementation. It must also meet the requirements set out below and, where applicable, be consistent with the recommendations contained in a report to the Board dated March 30, 2000, prepared by PHB Hagler Bailly and entitled "Risk Assessment Methodology Options" (the "Report"). The report is available from the Board's website at [www.oeb.gov.on.ca](http://www.oeb.gov.on.ca).

The risk classification methodology to be used by the transmitter shall depend on whether the new or modified connection is being financed on a "project finance" basis or is being financed by other means.

#### New or Modified Connections that are not Project Financed

For a new or modified connection that is not being financed by the load customer on a "project financing" basis, the transmitter must use bond ratings applicable to the customer where these are available. The transmitter will determine the risk classification based on the bond ratings in accordance with the Report.

Where no bond ratings are available for the customer, the transmitter shall use either of the two other methodologies set out in the Report; namely, the Altman Z-score Model or

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the Kaplan-Urwitz Model, if the necessary information is available to the transmitter. The transmitter's methodology must indicate the circumstances in which it may choose to use one Model rather than the other. The transmitter will determine the risk classification based on the customer's Altman Z-score or Kaplan-Urtwiz score in accordance with the Report. The transmitter shall ensure that it uses the most recent version of the Model in question, and shall include the most recent version of the Model in its economic evaluation procedure referred to in section 6.5.2. A revision to the transmitter's economic evaluation procedure to update a Model shall not constitute a material amendment to the transmitter's connection procedures for the purposes of section 6.1.5 and therefore does not require the approval of the Board.

Where the transmitter considers that the risk classification that results from the application of the bond rating or Altman Z-score/Kaplan-Urtwiz score methodology produces an anomalous result, the transmitter may with the consent of the customer assign a different risk classification to the new or proposed connection. Where the customer does not consent, the transmitter may apply to the Board for approval to determine the customer's risk classification using an alternate methodology.

Where a load customer has not provided the transmitter with some or all of the information necessary to determine the customer's Altman Z-score or Kaplan-Urwitz score, as applicable, the transmitter may use estimates based on comparable information provided by other similarly-situated customers. Where no such comparable information is available or where the transmitter considers that the customer's circumstances are such as to render comparisons with similarly-situated customers inappropriate, the transmitter may classify the risk associated with the proposed new or modified connection as high risk.

#### New or Modified Connections that are Project Financed

The transmitter shall outline in the risk classification methodology that forms part of its economic evaluation procedure the general approach or guiding principles that the transmitter will use in determining the risk classification for new or modified connections that are being financed by the customer on a "project financing" basis. The transmitter shall determine the risk classification for such new or modified connections based on that general approach or guiding principles, using information that the transmitter considers reasonable in the circumstances. The transmitter shall disclose to the customer in question the methodology and information used to determine the risk classification in such cases.

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