



Arizona Public Service Co.

**Statement of Financial Conditions and
Creditworthiness Qualifications**

**2008 Request for Proposal for
Distributed Energy Resources**

August 14, 2008

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The following information shall be completed as appropriate and will be used to assess the applicant's creditworthiness as described in Attachment 1.

1. Company Information

Type of Business

- Corporation
- Limited Liability Company
- Partnership
- Other (describe)

Applicant Organization

- Legal Corporate Name:
- Street Address:
- City, State, Zip Code:
- Dun & Bradstreet Number:
- Federal Tax ID Number:

Applicant Credit Contact

- Name:
- Title:
- Phone Number:
- Email Address:

For Corporation/Limited Liability Companies

- Date and State of Incorporation/Registration:
- Street Address:
- City, State, Zip Code:

For General Partnerships

- Name of General Partner:
- Address of General Partner/Registered Agent:
- City, State, Zip Code:

2. Guarantor

Parent Guarantor Company

Legal Corporate Name:

Street Address:

City, State, Zip Code:

Dun & Bradstreet Number:

Federal Tax ID Number:

3. Credit Information

The company and/or company's guarantor (if applicable) is required to submit the most recent 2 years of audited financial statements and accompanying notes. Indicate below what statements are being submitted.

- 10K
- 8Ks to the extent they address any information set forth in the 10Ks or 10Qs
- 10Q
- Other (describe)

All submitted information must be in the English language, and financial data denominated in United States currency, and conform to generally accepted accounting principles (GAAP) in the United States. If the offering entity's financial information is consolidated with other entities, then it is the offering entity's responsibility to extract and submit as separate documents all data and information related solely to the offering entity. This must include all financial information, associated notes and all other information that would comprise a full financial report conforming to GAAP.

Has the offering entity or predecessor company declared bankruptcy in the last 5 years?

- Yes
- No

Are there any pending bankruptcies or other similar state or federal proceedings, outstanding judgments or pending claims or lawsuits that could affect the solvency of the offering entity?

- Yes
- No

If the answer is "Yes" to either of the above questions, please provide an addendum to this application describing the situation and how it affects the offering entity's ability to meet or not to meet its credit obligations.

Respondent/Guarantor Credit Rating

Standard & Poor's

Last Rating Date:

Corporate Rating:

Senior Unsecured Long term Debt Rating:

Other:

Moody's

Last Rating Date:

Corporate Rating:

Senior Unsecured Long term Debt Rating:

Other:

Fitch

Last Rating Date:

Corporate Rating:

Senior Unsecured Long term Debt Rating:

Other:

In the event the above information is inadequate or fails to completely meet APS's need for financial security for a given bid, the entity must provide evidence of its capability to provide collateral instruments.

Please detail all credit related issues and concerns that APS should be aware of prior to negotiation of a formal power purchase agreement document:

Bank Reference Information

Bank Name:

Street Address:

City, State, Zip Code:

Contact Name:

Phone Number:

Fax Number:

Account Number:

4. Project-specific Information

For project-specific supply proposals, please provide the following information:

Owners and percentage of ownership in generation unit(s):

Amount and source(s) of equity financing:

Amount and terms of financing, including:

- Amount of loan(s)
- Term of loan(s)
- List of conditions
- Amortization schedule

For proposals involving an aggregate of multiple small projects, please provide the following information:

Ownership structure and fiscal responsibility in generation unit(s):

Amount and source(s) of equity financing:

Amount and terms of financing, including:

- Amount of loan(s)
- Term of loans(s)
- List of conditions
- Amortization schedule

5. Authorization

The Offering Entity hereby represents and warrants that all statements and representations made herein, including any supporting documents, are true to the best of Offering Entity's knowledge and belief. The undersigned authorized official of the Offering Entity warrants that the Offering Entity agrees to be bound by these representations. The Offering Entity authorizes the above listed entities to release data requested by Arizona Public Service

Company necessary to perform a credit check in connection with Offering Entity's interest to bid on this RFP.

Offering Entity's Company Name: _____

Signature of Authorized Official: _____

Name of Authorized Official (print): _____

Title of Authorized Official (print): _____

Date Signed: _____

Attachment 1

RFP Creditworthiness Overview

The proceeding RFP creditworthiness overview outlines the following:

1. The type of information APS is requesting in order to perform a credit analysis on a respondent.
2. The manner in which such information will be utilized.
3. The forms of additional security that may be required of a respondent.

Selected projects have the potential to expose APS and its ratepayers to credit risk in the event a respondent does not fulfill its contractual obligations. Credit risk can result from several factors including the following:

1. Creditworthiness of the respondent.
2. Type of proposed project (i.e. new build, tolling agreement, fixed-price PPA, etc.)
3. Size of proposed project.
4. Duration of proposed project.
5. Start date of proposed project.

1. CREDIT ANALYSIS OVERVIEW

For the purpose of evaluating the financial health of a respondent, APS will conduct a credit analysis as described in section 3. Based on this credit analysis APS will identify the total unsecured credit limit for each respondent.

Based on the credit analysis, Respondents may be granted some level of open credit but may be required to post some level of collateral depending on both the credit assessment and the size of the proposed project. Any incremental credit requirement will be based on an assessment of APS's potential credit risk resulting from acceptance of the respondent's proposal. If a corporate guarantee is being utilized to establish credit for an applicant, APS will conduct a credit review on the guarantor in the same way as it would the respondent.

2. FINANCIAL INFORMATION REQUIREMENTS

All respondents will be required to submit financial information in order for APS to complete the credit review by using the application form – Statement of Financial Conditions and Creditworthiness Qualifications. The company and/or company's guarantor (if applicable) is required to submit the most recent 2 years of audited financial statements. Both annual and quarterly data is required. Financial statements should include, as applicable:

1. 10Ks
2. 10Qs
3. 8Ks to the extent that they address any information set forth in the 10Ks or 10Qs

If the company is privately held and unable to provide the aforementioned information, the following information will be required:

1. Report of Independent Accountants for each fiscal year
2. Financial Statements, including:
 - a. Balance Sheet
 - b. Income Statement
 - c. Statement of Cash Flows
 - d. Statement of Stockholder's Equity
3. Notes to Financial Statements
4. Management's Discussion & Analysis (if available)

All submitted information must be in the English language, and financial data denominated in United States currency, and conform to generally accepted accounting principles (GAAP) in the United States. If the offering entity's financial information is consolidated with other entities, then it is the offering entity's responsibility to extract and submit as separate documents all data and information related solely to the offering entity. This must include all financial information, associated notes and all other information that would comprise a full financial report conforming to GAAP.

3. CREDIT SCORING METHODOLOGY

A. Credit Rating Agency Reports

In evaluating credit strength APS will review rating agency reports from Standard & Poor's, Moody's Investor Service and Fitch. Senior Unsecured debt ratings will be the basis for analysis. If Senior Unsecured debt ratings are not available, APS will consider using Issuer Ratings. When the rating agencies provide split ratings on a given applicant, the lower of the two ratings will apply.

B. APS Internal Credit Evaluation

Applicants who do not possess the required public credit ratings will be subject to evaluation under the APS internal credit evaluation model. This model is designed to produce a financial score equivalent to the public debt rating. The score produced by the credit evaluation model will be based purely on financial ratios and metrics derived from an applicant's audited financial statements. The components of the model may include all or some of the following:

a. Liquidity:

- Current Ratio
- EBIT Interest Coverage
- EBITDA Interest Coverage
- Total Debt/EBITDA
- Access to liquidity through external sources

b. Leverage/Capital Structure:

- Long-term debt/Equity
- Total Debt/Total Capitalization
- Tangible Net Worth

c. Profitability:

- Pre-tax Return on Equity
- Pre-tax Return on Assets

4. REQUIREMENTS FOR NON-CREDITWORTHY RESPONDENTS

Respondents who do not qualify for unsecured credit or are required to post additional credit will be subject to the following requirements:

- Upon execution of the agreement, the respondent will provide an acceptable form of financial security to APS. The amount of the security shall be calculated based on the potential credit exposure that APS is subject to based on the type and size of agreement entered into less any amount of unsecured credit that has been granted by APS based on the respondent's financial review. Such calculation will differ depending on the risk levels of the underlying agreement.

5. ACCEPTABLE FORMS OF FINANCIAL SECURITY

Respondents who are required to post collateral will be required to post security in one of the forms outlined below. These security forms may be submitted separately or in combinations to constitute the respondent's collateral requirement. Terms of issuance of financial security are as follows:

A. Irrevocable Letter of Credit

The Irrevocable Letter of Credit shall be in a form reasonably acceptable to APS. The financial institution issuing the Irrevocable Letter of Credit must have a minimum corporate debt rating of "A-" by S&P and A3 by Moody's at all times that the Irrevocable Letter of Credit is outstanding. All costs associated with obtaining an Irrevocable Letter of Credit will be the sole responsibility of the posting party.

An Irrevocable Letter of Credit should remain in effect for a minimum of 30 days beyond term of the agreement or as otherwise specified by APS (the "Required Term"). If the terms of the Irrevocable Letter of Credit allow it to expire prior to the expiration of the Required Term, the respondent must replace the Irrevocable Letter of Credit with another acceptable Irrevocable Letter of Credit or a cash deposit no later than 30 days prior to the stated expiration of the Irrevocable Letter of Credit. Failure to post the required collateral instruments in the required time periods will result in a default by the respondent.

B. Cash Deposit:

A cash deposit in the amount of the collateral requirement may be posted as a means of financial security. Cash means U.S. dollars held by, or on behalf of, a party as performance assurance and which shall be, for purposes of obtaining and perfecting a security interest hereunder, treated as "money" as defined in the UCC. For all purposes hereunder, financial security in the form of cash is a margin payment within the meaning of the Bankruptcy Code, 11 U.S.C. § 101 *et seq.*, including but not limited to sections 101(38), 362(b)(6), 546(e), 548(d), and 556 thereof. Cash deposits will be held in an interest bearing account and all interest will accrue to the respondent.

C. Other

Any form of security specified by APS in its sole discretion.