

SCE's
Financial Security Instruments
Requirements and Sample Forms

Submitted August 15, 2018 as Attachment B to SCE's Rule 23 Tariff Amendments
(Advice 3839-E)

FINANCIAL SECURITY INSTRUMENT REQUIREMENTS

SCE accepts the following forms of financial security requirement instruments (“FSR Instruments”): a letter of credit, a surety bond, an escrow agreement, or at CCA’s election, a cash deposit to SCE. A sample of a letter of credit, a surety bond and an escrow agreement are provided in the attached Sample Forms 1 through 3. The terms related to a cash deposit to SCE are provided in Section A.4 below. The requirements associated with each of these FSR Instruments are provided below. FSR Instruments meeting the requirements below and which are substantially in the form of the Sample Forms are deemed acceptable to SCE.

A. Forms of FSR Instruments

1. Letter of Credit

“Letter of Credit” means an irrevocable, nontransferable standby letter of credit, substantially in the form of Sample Form 1 and acceptable to SCE, issued by a U.S. branch of a commercial bank with such bank having total assets of at least ten billion U.S. dollars (US\$10,000,000,000) and a Credit Rating of at least “A-” from S&P or “A3” from Moody’s. If such bank is rated by more than one ratings agency and the ratings are at different levels, the lowest rating shall be the Credit Rating for this purpose.

2. Surety Bond

“Surety Bond” means a surety bond agreement substantially in the form of Sample Form 2 and acceptable to SCE, issued by a surety company listed on the United States Department of Treasury’s most recent and effective listing of approved sureties (Circular 570 or its successor); and, surety is an admitted surety insurer authorized to transact the business of surety in the State of California; and, surety has a credit rating of A- or better by Standard and Poor’s or A3 or better by Moody’s; and if surety is rated by more than one ratings agency and the ratings are at different levels, the lowest rating shall be the Credit Rating for this purpose; provided that the Maximum Bond Amount (as defined in Sample Form 3) is not greater than surety’s underwriting limitation, as set forth in Circular 570 or its successor, or to the extent that any portion of the Maximum Bond Amount is in excess of such underwriting limitation, such excess amount is protected with reinsurance as specified in 31 CFR 223.10-11 or its successor.

3. Escrow Agreement

“Escrow” means an escrow agreement substantially in the form of Sample Form 3 and acceptable to SCE, issued by a U.S. branch of a commercial bank with such bank having total assets of at least ten billion U.S. dollars (US\$10,000,000,000) and a Credit Rating of at least “A-” from S&P or “A3” from Moody’s. If such bank is rated by more than one ratings agency and the ratings are at different levels, the lowest rating shall be the Credit Rating for this purpose.

4. Cash Deposit to SCE

SCE shall calculate and pay to CCA interest on any financial security requirement amount posted in cash to SCE, concurrently with the return of such cash to CCA in accordance with the provisions of Rule 23. Interest shall be calculated as the product of the following three factors: (a) dollar amount on which an interest payment is based; (b) Federal Funds Effective Rate; and (c) the number of days in the calculation period divided by 360. The Federal Funds Effective Rate means, for any given month, the average of the annual interest rates reported for all weekdays in the month opposite the caption "Federal Funds (effective)" as set forth in the H.15 release, or any successor publication, published by the Board of Governors of the Federal Reserve System.

B. General Terms and Conditions

Below, are SCE's general terms and conditions related to the FSR Instruments:

- (i) Each FSR Instrument must be maintained for the benefit of SCE;
- (ii) CCA shall:
 - (a) renew or cause the renewal of each outstanding FSR Instrument no less than sixty (60) calendar days before its expiration;
 - (b) if the issuer of an outstanding FSR Instrument has indicated its intent not to renew such FSR Instrument, provide an alternative FSR Instrument at least twenty (20) Business Days before its expiration; and
 - (c) if the issuer of a FSR Instrument fails to honor SCE's properly documented request to draw on an outstanding FSR Instrument, provide an alternative FSR Instrument within five (5) Business Days after such refusal.
- (iii) Upon the occurrence of a Financial Security Instrument Default (defined below), CCA shall provide to SCE an alternative FSR Instrument on or before the fifth (5th) Business Day after the occurrence thereof.
- (iv) Upon or at any time after the occurrence and continuation of CCA's failure to perform its obligations under Section W of Rule 23, SCE may draw on the entire undrawn portion of any outstanding FSR Instrument. For letters of credit, escrow agreements and surety bonds SCE will submit to the issuer of such FSR Instrument of one or more certificates specifying that a failure under Rule 23 has occurred and is continuing. SCE will have the right to draw on the FSR Instrument for any of the reasons set forth in such FSR Instrument (or its accompanying draw certificate).
- (v) Cash proceeds received by SCE from drawing upon the FSR Instrument shall be used to meet CCA's obligations to SCE.
- (vi) In all cases, all costs associated with a FSR Instrument, including the costs and expenses of establishing, renewing, replenishing, substituting, canceling and changing the amount of an FSR Instrument shall be borne by the CCA.

C. Default Of A Financial Security Instrument

“A Financial Security Instrument Default” means with respect to any FSR Instrument, the occurrence of any of the following events:

- (a) The issuer of a FSR Instrument fails to maintain the issuer requirements as provided in the definition of each FSR Instrument;
- (b) The issuer of the FSR Instrument fails to comply with or perform its obligations under such FSR Instrument;
- (c) The issuer of the FSR Instrument disaffirms, disclaims, repudiates or rejects, in whole or in part, or challenges the validity of, the FSR Instrument;
- (d) Such FSR Instrument expires or terminates, or fails or ceases to be in full force and effect at any time, in any such case without replacement;
- (e) CCA fails to provide an extended or replacement FSR Instrument prior to twenty (20) Business Days before the FSR Instrument expires or terminates; or
- (f) The issuer of the FSR Instrument becomes Bankrupt.