

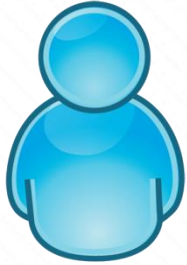


# **Energy Credit & Risk Management**

# Responsibilities

- The Energy Credit & Risk Management Team are responsible for the administration of the provisions of UNC Section X and the Energy Balancing Credit Rules. These obligations include:
  - Security Management
  - Monitoring Indebtedness
  - Cash Management
  - Accounts Receivable
  - Energy Balancing Credit Committee (EBCC)
  - Neutrality

# Calculating Energy Balancing Security For New Customers



New applicant  
Shipper  
completes Customer  
Application Form  
with projected  
annual throughput



Level of security that  
is required is  
calculated in line  
with the Energy  
Balancing Credit  
Rules Section 2.1c

## Acceptable Forms of Security

- Irrevocable Standby Letter of Credit
- Multiple User Irrevocable Letter of Credit
- Non Registerable Deposit Deed

Security placed prior  
to becoming a live  
User on Xoserve  
systems.

# Terminology

Indebtedness

Invoiced, unpaid Energy Balancing charges and accrued Energy Balancing charges for the period which has yet to be invoiced.

Secured Credit Limit

Value of security provided by the User, which in the event of a default may be realised to meet its outstanding Indebtedness.

Cash Call Limit

Is 85% of the Secured Credit Limit and represents a threshold for indebtedness which, when breached, results in a User being issued with a Cash Call Notice.

# Cash Call Limit

## Cash Call Limit

The Cash Call Limit for new Users = 3 Days Non Deliverability at 12 months average System Average Price\* (SAP) to represent 85% of the Secured Credit Limit (based upon an estimate of projected throughput)

e.g.

User projects 80,000,000 kWh annual throughput

$$\begin{aligned} & 80,000,000 \text{ kWh} / 365 \\ & \times 3 \times 12 \text{ month average SAP (1.843p)} = \\ & \text{£12,118.35}^{**} \text{ (Rounded = £13,000)} \end{aligned}$$

\* SAP is published by National Grid NTS at <http://www.nationalgrid.com/uk/Gas/Data/dataitemexplorer>

\*\* The Cash Call Limit is multiplied by a factor of 100/85 to find the **Secured Credit Limit**.



## Financial Institute Ratings

# Rating Amendment

Rating Comparison Table Effective from 7<sup>th</sup> December 2011:

Ratings Comparison		Aggregate Limit (Maximum exposure acceptable for an individual Financial Institution)	Rating Action
Moody's	S&P		
Aaa, Aa1, Aa2, Aa3	AAA, AA+, AA, AA-	£62,000,000	Rating is acceptable provided that the maximum Aggregate Limit is not exceeded.
A1, A2, A3,	A+ A, A-	£25,605,000	Rating is acceptable provided that the maximum Aggregate Limit is not exceeded.
Baa, Baa1, Baa2, Baa3	BBB+ BBB, BBB-	Zero	Rating is not acceptable. In the event of a downgrade below Moody's A3 or equivalent rating, User(s) will be notified to provide alternative Security <a href="#">within 30 days</a> . If alternate Security is not provided within 30 days the User(s) Secured Credit Limit will be set to zero and indebtedness will be managed via the Cash Call process.
Ba1, Ba2, Ba3 or below	BB+ BB, BB- or below	Zero	Rating is not acceptable. In the event of a downgrade to below Moody's Baa3 or equivalent, the User(s) will be notified to provide alternative Security and the User's Secured Credit Limit will be <a href="#">set to zero with immediate effect</a> indebtedness will be managed via the Cash Call process.



**£25,605,000 aggregate limit now includes ratings A2, A3 and A, A-**



## **Monitoring Indebtedness**



# Indebtedness

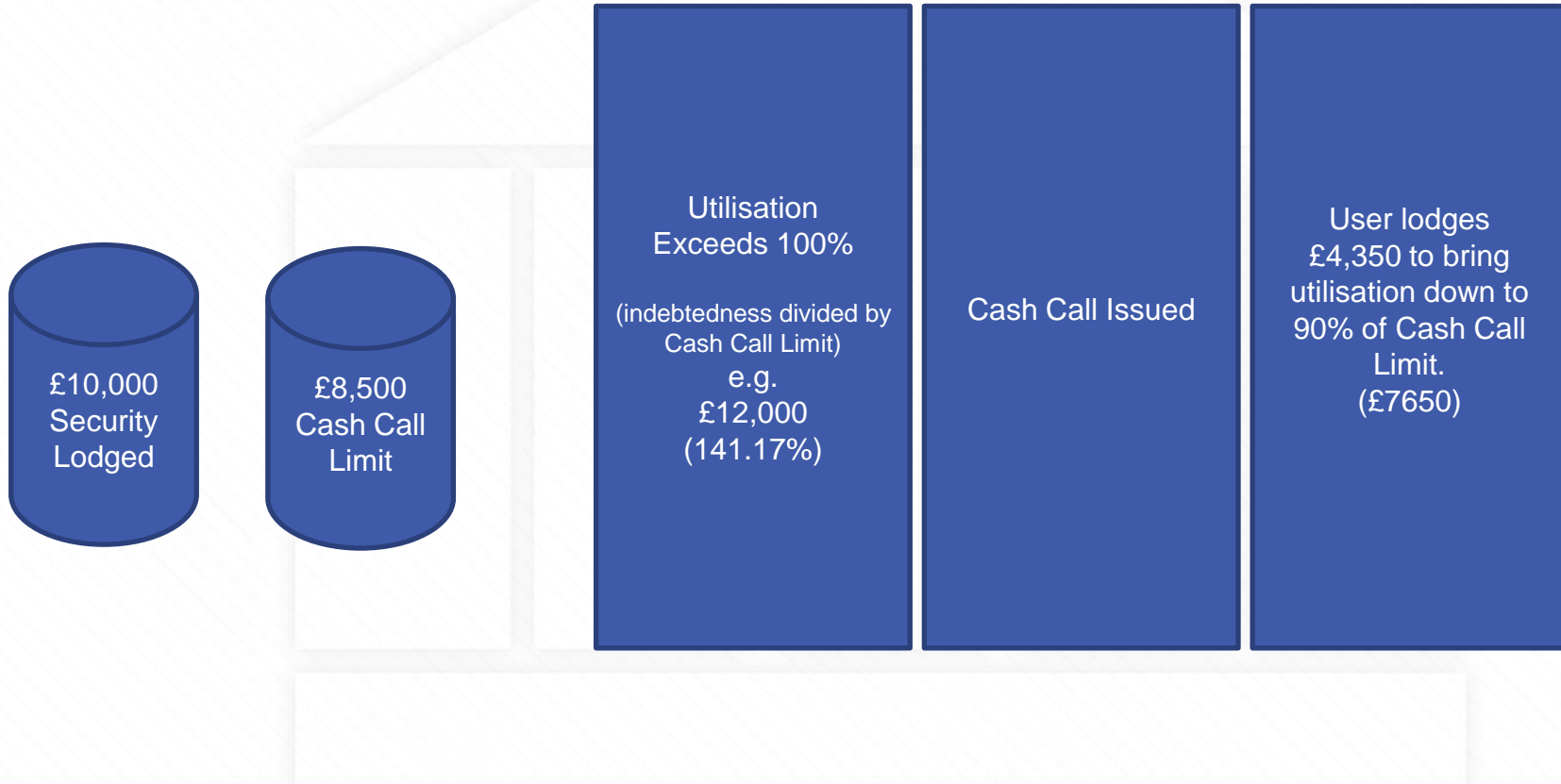
## Indebtedness

Invoiced, unpaid Energy Balancing charges and accrued Energy Balancing charges for the period which has yet to be invoiced.

- Monitored Daily by Xoserve Credit & Risk Management Team.
- The Indebtedness utilisation % is calculated by dividing the net energy balancing indebtedness by the cash call limit\*.
- Where utilisation exceeds 100% then a Cash Call notice is issued by 3pm.
- Cash Call can be appealed by 12 noon following business day or payment required by D+1 of issue of the Cash Call.
- Cash Call will request payment of a prescribed amount of cash in order to reduce indebtedness to 90% of the Cash Call Limit.
- If 2 Cash Calls within 28 day measurement a Further Security Request is issued and additional security must be lodged for a minimum of 90 days.

\* Cash Call Limit is 85% of the secured credit limit

# Monitoring Indebtedness



# Further Security Request Calculation

$$\frac{\text{Peak Indebtedness}}{85} \times 100 = \text{Secured Credit Limit}$$

$$\text{Secured Credit Limit} - \text{Current Security} - \text{Outstanding Further Security Requests} = \text{Further Security Required}^*$$

Example: current security of £10,000 held as Letter of Credit

Peak Indebtedness = £25,000

Outstanding Further Security Request of £2,000

Therefore we get £25,000 divided by 85 x 100 = £29,411

£29,411 - £10,000 - £2,000 = £17,411 = £18,000 Further Security Required

\* Rounded up to nearest £1000



## Cash Management

# Cash Management

- All Energy Invoices must be settled in full on the Payment Due date (PDD) and queried after any adjustments are processed on a future Energy Balancing against the associated adjustment charge type.
- Where a User fails to make a payment on the due date a Failure to Pay Notice (FTPN) is issued on PDD + 1 day and a copy is issued to Ofgem.
- If payment is not received by PDD + 3 days an emergency Energy Balancing Credit Committee (EBCC) meeting will be convened to discuss the next course of action, which may result in a Termination.
- Late payment Interest charges are incurred in accordance with the Late Payment of Commercial Debts (Interest) Act



## **Further Reading: Energy Balancing Credit Rules:**

<https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/EBC%20Rules%20V3.28%20Final.pdf>

## **Section X of Uniform Network Code:**

<https://gasgov-mst-files.s3.eu-west-1.amazonaws.com/s3fs-public/ggf/page/2017-07/TPD%20Section%20X%20-%20Energy%20Balancing%20Credit.pdf>